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How to count to net-zero: climate governance of the Scottish Budget

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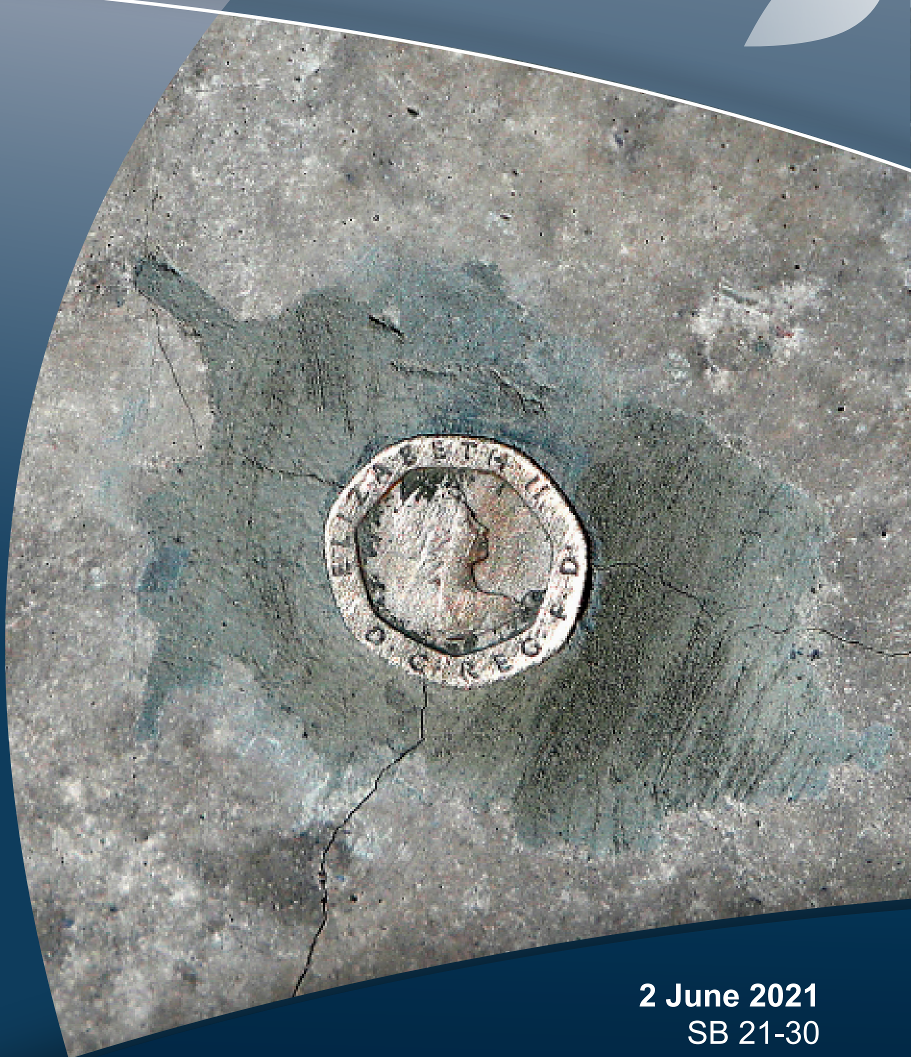
This briefing provides a guide to the tools and approaches available to Members and Committees to scrutinise public expenditure and taxation policy from a climate change perspective. It summarises past examples of climate-focused financial scrutiny in sessions four and five of the Scottish Parliament, including the relevant changes to the Scottish budget process, and international examples and frameworks.



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Summary

This briefing provides a guide to the tools and approaches available to Members and Committees to scrutinise public expenditure and taxation policy from a climate change perspective.

The UK has a target of achieving net zero greenhouse gas emissions by 2050, while Scotland aims to achieve net zero by 2045 (against a 1990 baseline). Both targets have been recommended by independent advisers the Climate Change Committee, and are in line with scientific advice, and international obligations under the United Nations Framework Convention on Climate Change Paris Agreement (the Paris Agreement). The goal of this is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Climate governance refers to the set of processes and institutions created to reduce greenhouse gas emissions and to manage the impacts of climate change. Climate governance can be seen at a global level - for example, the Paris Agreement - down through national governments to the most local level. When considering draft laws, proposed budgets or government action (or inaction) with the potential to affect climate change, the Scottish Parliament can play a key role in climate governance.

This briefing is structured in three parts:

Part A provides a guide to the tools and approaches available to scrutinise Scottish public expenditure plans from a climate change perspective. This section gives a brief overview of the Scottish budget process, and sets out the key information published by the Scottish Government which can support the scrutiny of expenditure plans.

Part B summarises past examples of climate-focused financial scrutiny in sessions four and five of the Scottish Parliament, including the relevant changes to the Scottish budget process.

Part C outlines some international examples and frameworks, as well as relevant developments in the UK and the OECD.

Introduction

What is climate governance?

Climate governance refers to the set of processes and institutions created to reduce greenhouse gas emissions and to manage the impacts of climate change. Climate governance can be seen at a global level - for example, the Paris Agreement - down through national governments to the most local level.

The core aspects of climate governance in Scotland are political, legal and institutional, and include:

- legally-binding emission reduction targets
- statutory plans to reduce greenhouse gas emissions (mitigation) and to manage the impacts of climate change (adaption)
- cabinet-level responsibility and political support for climate action
- institutional knowledge, expertise and access to scientific advice
- public sector duties
- a UK-wide carbon pricing scheme for industry.

The UK has a target of achieving net zero greenhouse gas emissions by 2050, while Scotland aims to achieve net zero by 2045 (both against a 1990 baseline). Both targets have been recommended by independent advisers the Climate Change Committee, and are in line with scientific advice, and international obligations under the United Nations Framework Convention on Climate Change Paris Agreement. The goal of the Paris Agreement is to limit global warming to well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Role of the Scottish Parliament

When considering draft laws, proposed budgets or government action (or inaction) with the potential to affect climate change, the Scottish Parliament can play a key role in climate governance.

This briefing is focused on climate governance as part of the Scottish Parliament's financial scrutiny role:

- Part A provides **a guide** to the tools and approaches available to scrutinise Scottish public expenditure and taxation plans from a climate change perspective.
- Part B summarises **past examples** of climate-focused financial scrutiny in the Scottish Parliament.
- Part C outlines some **international examples and frameworks**.

Part A: Guide to financial scrutiny from a climate perspective

Why do budgets matter?

Public sector budgets influence environmental outcomes because they affect, for example, how carbon reduction policies are funded, what public infrastructure is built and the public sector's capacity to adapt to climate change. Public sector expenditure also has the potential to facilitate the private sector investment needed for any transition to net zero emissions, for example in relation to transport investment or flooding mitigation schemes. The Budget also sets taxation policies which can influence the behavioural change that will be necessary to achieve environmental outcomes, for example the Scottish Landfill Tax.

This guide describes:

- the Scottish Budget process
- current sources of information
- approaches to scrutiny.

Scottish budget process

The make-up of the Scottish budget has substantially changed in recent years as a result of new powers being devolved to the Scottish Parliament. Under the Scotland Act 1998, most of the Scottish budget flowed from a block grant from the UK Government. The Scotland Acts 2012 and 2016 increased this further, and once the Scotland Act 2016 is fully implemented the share of the Scottish budget's discretionary spending power comprised from taxes raised in Scotland will increase to over 50% .

This devolution of new taxation and welfare powers to the Scottish Parliament has added considerable complexity to the Scottish budget. For example in terms of the composition of the initial Scottish budget and how it is subsequently reconciled, and the introduction of new borrowing powers. The operation of these new powers is governed by a Fiscal Framework agreement between the Scottish and UK Governments. Mainly in response to this complexity, a new budget scrutiny process was implemented in 2018.

The new budget process introduced a full year approach where committees have flexibility to incorporate budget scrutiny into their work programme, before any spending proposals are published. The focus is on a continuous cycle of scrutiny which aims to understand the impact of budget decisions over a number of years, rather than a narrow focus following publication of the budget proposals by the Scottish Government.

Committees report the findings of their year round financial scrutiny in **pre-budget reports**. Committees are expected to publish pre-budget reports at least six weeks prior to the publication of the Budget. The Scottish Government should provide detailed responses to the committees within five days of publication of the budget, and the budget document should include a summary of how submissions from the committees have influenced the formulation of the Budget.

To support scrutiny, an idealised "year round" timeline of publications and scrutiny was agreed between the Scottish Government and Scottish Parliament in session five. This included the publication of:

- A new Medium-Term Financial Strategy (MTFS) document, around May, analysing the longer term challenges and pressures that the Scottish Budget is seeking to address.
- A Fiscal Framework Outturn Report, in September, giving a sense of the spending power which may be available.
- The Scottish Budget document, normally no more than three working weeks after the publication of the UK Autumn Budget, and normally prior to Christmas recess. [1]

However, in practice, events such as Brexit and the COVID-19 pandemic have resulted in different timelines and shorter than normal periods for parliamentary scrutiny over recent years.

The Fiscal Framework is due to be reviewed early in Session 6, and it will be informed by an independent report that will be completed before the end of 2021.

Figure 1: The idealised year round Scottish Budget process

SPICe, 2018[1]

Current tools and sources of information

There are several tools and sources of information that can be used to support scrutiny of climate governance and the Scottish Budget:

- Carbon Assessment of the Budget
- Carbon taxonomy of infrastructure investment
- Climate Change Plan Monitoring Reports
- Carbon Account for Transport.

This section explores these in turn.

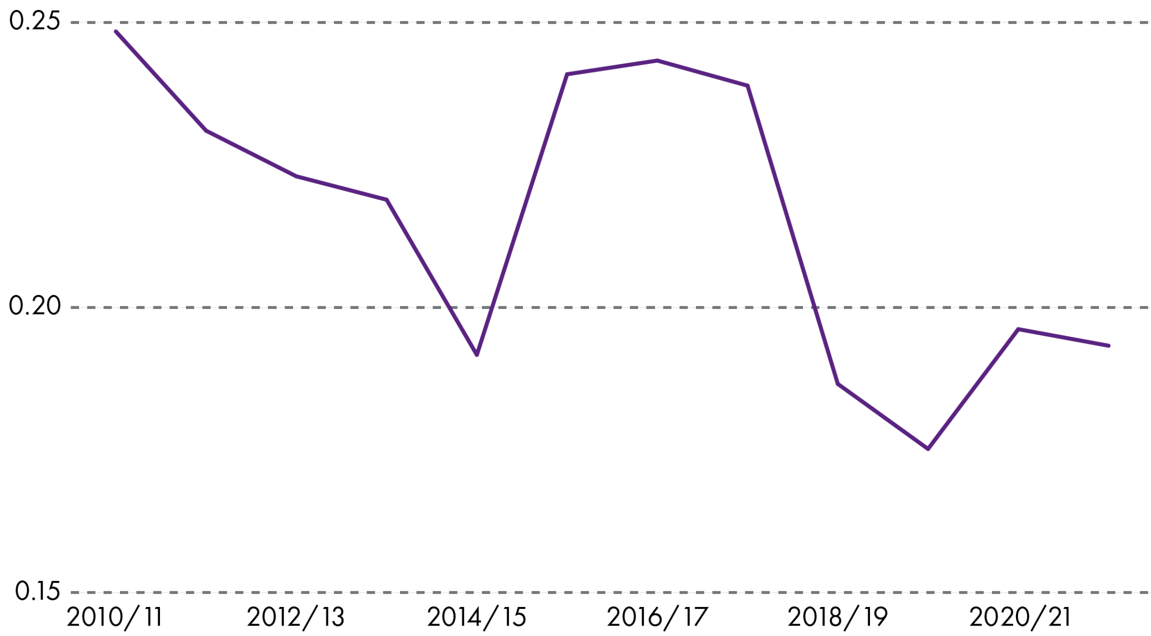
Carbon Assessment of the Budget

The Climate Change (Scotland) Act 2009 requires that the Scottish Government set out the greenhouse gas emissions impacts of its spending decisions(known as the carbon assessment).

Carbon assessment of spend is a complex process and there is no single recognised methodology. Having consulted with experts who considered a number of approaches, the Scottish Government identified an Environmentally-extended Input-Output (EIO) model for these assessments [2] .

Ordinarily used to understand the flow of money through the economy, the environmentally extended version converts financial inputs into expected greenhouse gas outputs by using average “greenhouse gas effect” values for 98 industry sectors. The tool can be used to identify budget lines that are likely to create significant carbon emissions in the near-term, because of the goods or service they buy. The tool can also indicate the carbon intensity of annual spending at portfolio level or above.

Figure 2: Carbon intensity (emissions per pound spend) of the Scottish Budget since 2010-11

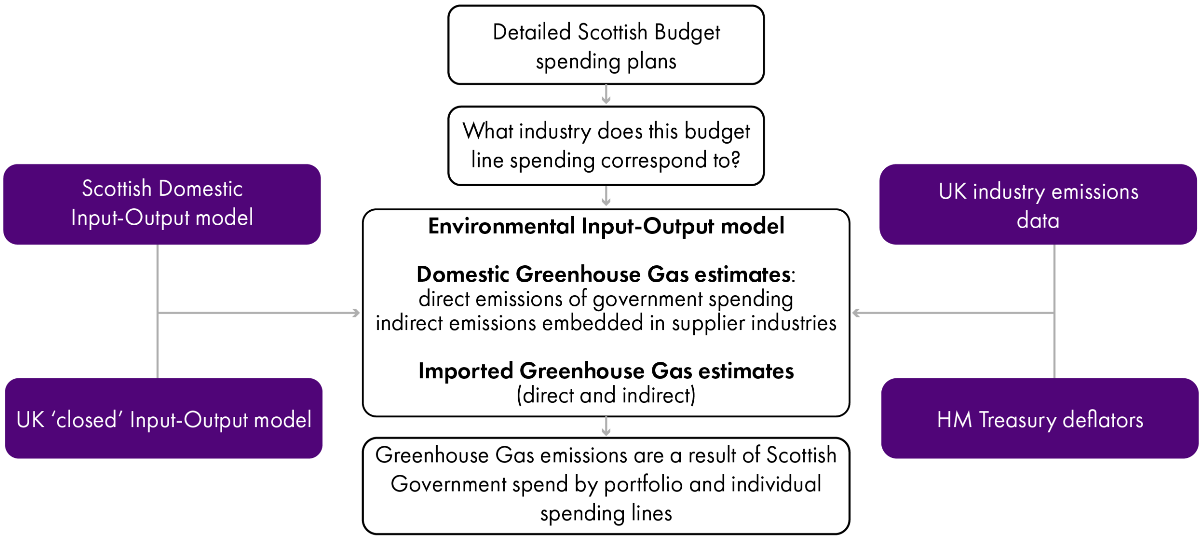


SPICe, from Scottish Government draft budget documents and carbon assessments

The Carbon Assessment tool does not predict the longer-term outcome of spending decisions. For example, the emissions associated with the construction of a new railway line or road are included, but the effect of the eventual opening of the new line on people’s travel choices is not. To do this would require a significant amount of modelling and assumptions.

To date, eleven high level carbon assessments of the budget have been published. The figure below shows a flow diagram for the model:

Figure 3: Environmental Input Output Model



Adapted from https://www.gov.scot/publications/about-supply-use-input-output-tables/pages/environmental-input-output/

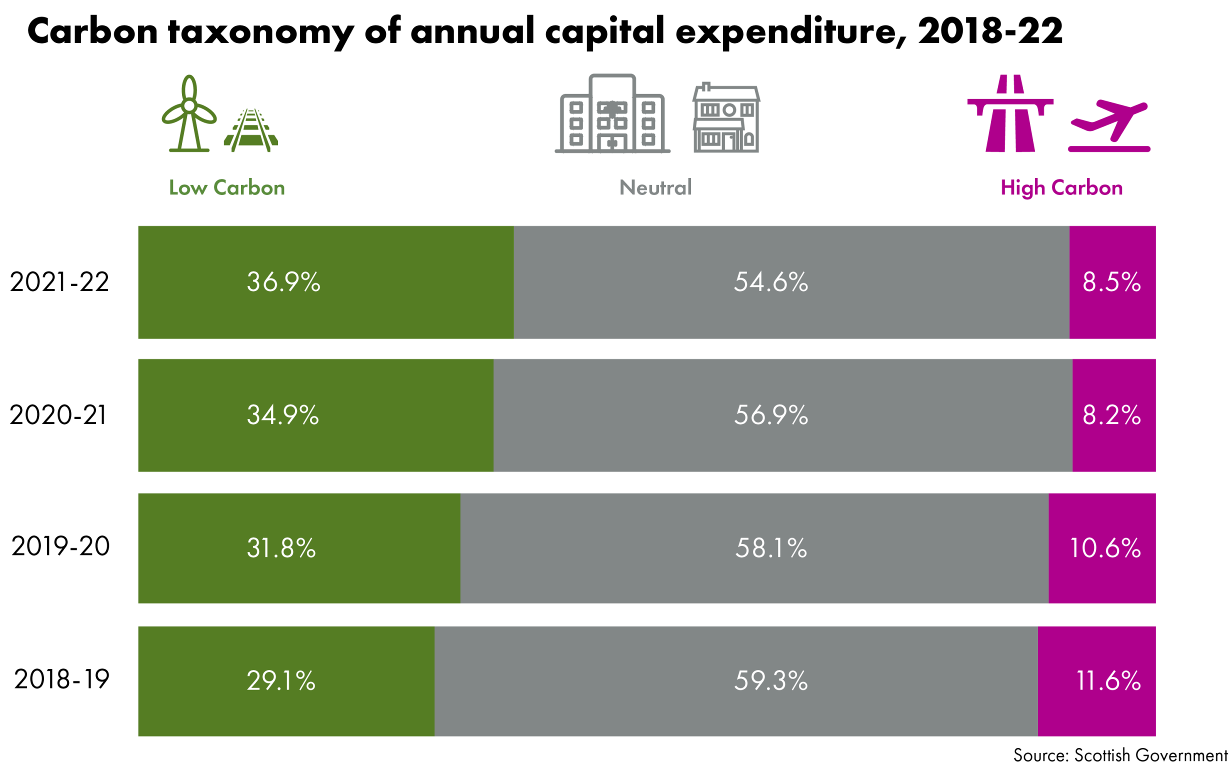
The Scottish Government acknowledges that the current process of carbon assessment has limited impact and value in either allowing meaningful scrutiny of the Budget or in supporting the alignment of spending choices with domestic climate ambitions. This is explored further in the section on Collaborative budget review.

Carbon taxonomy of infrastructure investment

As previously noted, the Carbon Assessment does not work out the longer-term effect of spend; whether investment will "lock in" higher or lower carbon behaviour across multiple years. A calculation of this nature would be almost impossible to carry out accurately; the Scottish Government has however made an additional **"taxonomy" analysis of annual capital/infrastructure spend** available for the last three budgets, including this for the first time within the Scottish Budget 2021-22.

The Taxonomy Analysis does not calculate the scale or intensity of any long-term emissions impacts, but simply categorises capital expenditure in the budget as having a broadly positive, negative or neutral effect on future emissions. For example, spending on a rail project is classed as low carbon (i.e. it is expected to reduce greenhouse gas emissions in the long-term), while spending on a motorway project is classed as high carbon (i.e. it is expected to increase greenhouse gas emissions in the long-term). This approach does not quantify the impact of infrastructure investment on emissions, but can give an indication of alignment with climate change goals. The Taxonomy Analysis across all four available years demonstrates an increasing proportion of Scottish Government capital spend classified as low carbon, as set out in the figure below:

Figure 4: Carbon taxonomy of annual capital expenditure 2018 - 22



https://spice-spotlight.scot/2021/03/04/infrastructure-investment-locking-in-a-low-carbon-economy/

In her 2021-22 Budget Statement, the then Cabinet Secretary for Finance noted:

> " Our carbon taxonomy shows that nearly 37 per cent—more than £1.9 billion—of our capital investment is low carbon. As we look to Glasgow hosting the 26th conference of the parties—the COP26 summit—in November, we want to inspire global action and demonstrate that Scotland is a world leader in green and renewable technologies. "

The Carbon Taxonomy and infrastructure investment is explored in more detail in the SPICe Blog: Infrastructure investment: "locking in" a low carbon economy?

Climate Change Plan Monitoring Reports

The Climate Change (Scotland) Act 2009 also requires the Scottish Government to produce a plan setting out proposals and policies for meeting future greenhouse gas emissions reduction targets. Known as the Climate Change Plan (CCP), it is published every five years and generally covers a 15 year timespan. The most recent CCP was published in 2018, and covers the period out to 2032 [3] . A draft update to this, which takes new more stringent emissions reduction targets (75% by 2030; 90% by 2040; net-zero by 2045) into account, was scrutinised by the Parliament at the end of session five [4] .

Whilst understanding funding going into a policy is relevant, the success of that policy is arguably more important. The 2018 CCP therefore includes indicators to allow for **ongoing monitoring of policy progress**. To date, two CCP Monitoring Reports have been published [5] [6] . Due to changes brought about by the Climate Change (Emissions

Reduction Targets) (Scotland) Act 2019, which places the monitoring framework on a statutory footing, requiring individual sector by sector monitoring reports to be published annually, the next set of data will be laid before the Parliament by the end of May 2021.

Whilst the collation and publication of relevant data is a welcome addition to parliamentary scrutiny of emissions reductions policies, there remains a lack of information to adequately understand progress; the most recent report states [6] :

> “ When the first monitoring report was published in 2018 it was too early to make an assessment of the majority of the indicators, and a comprehensive assessment of whether the Plan was fully on track was not therefore possible. While the number of indicators in this position has reduced, it remains the case that it is too early to make an assessment for the majority of the indicators as, in many cases, data is not yet available for the period covered by the indicators.”

The Environment Climate Change and Land Reform Committee, in its 2020-21 Pre-Budget Report states [7] :

> “ The Committee remains convinced that that climate change considerations need to be embedded in the system from the earliest consideration of policies and actions. The Committee is keen to ensure that the approach, funding allocation and information on the carbon impact of the Budget is appropriate and parliamentary committees are enabled to effectively scrutinise progress towards targets.”

Carbon Account for Transport

The final part of the climate scrutiny jigsaw is the **Carbon Account for Transport**. First published in 2009, this collates and presents GHG emissions data for all modes of transport.

Prior to 2019, it also included impact estimates for Transport Scotland's large-scale infrastructure projects. These estimates are generally taken from a project’s environmental statement, resulting from an environmental impact assessment [8] [9] [10] . This is now no longer included, to avoid misinterpretation, due to estimates being produced on a project-by-project basis with differing methodologies. These estimates are published separately by Transport Scotland.

Scrutiny and questioning approaches

This section explores how Members and Committees can plan and approach financial scrutiny and taxation policy from a climate perspective.

Consider low and high carbon dimensions

Addressing both the low carbon and high carbon dimensions of spending proposals is important to undertaking effective financial scrutiny from a climate perspective.

Scrutiny questions in line with this approach would address funding for activities to deliver emission reductions **and** funding for activities that may be inconsistent with a decarbonisation pathway to Scotland's emissions targets. This approach can be referred to as scrutinising the budget's "coherence" with climate change objectives.

- Examples addressing the low carbon dimension:
  - Whether the budget aligns with the Climate Change Plan?
  - Is there investment certainty though multi-annual commitments?
  - Does the proposed expenditure deliver cost-effective emissions reductions?
- Examples addressing the high carbon dimension:
  - What carbon intensive activities are supported by the budget?
  - Are infrastructure investment plans appropriate for a net zero economy?
  - Is any support to business conditional on environmental performance?
  - How are high carbon economic sectors supported to decarbonise?
  - What support is available for people negatively affected by decarbonisation policies?

Sustainable development - climate change is one aspect of the much broader concept of sustainable development. Sustainable development is defined as '*development which meets the needs of the present without compromising the ability of future generations to meet their own needs.*' The Scottish Parliament has developed a tool to help officials and parliamentarians use sustainable development as a lens for scrutiny.

Focus on high impact spending

Some budget proposals will have a greater effect on greenhouse gas emissions compared with other areas of spend.

Members and Committees can approach budget scrutiny by identifying strategic and high impact areas of spend to focus on. For example, the Environment, Climate Change and Land Reform Committee's budget scrutiny in session five included a focus on infrastructure investment because infrastructure can "lock in" a long-term pattern of future greenhouse gas emissions.

A challenge with this approach is the need to identify spending areas within a Committee's remit that will have the greatest material effect on future emissions. Using the current sources of information, linking budget scrutiny to the Climate Change Plan or focusing on enabling policies and actions may assist with this.

Focus on enabling actions

An approach to climate governance of expenditure could be to focus on spending within a Committee's remit that "enables" an effective response to climate change (rather than reducing emissions directly).

For example, investment in land-use planning will not reduce emissions directly but has the potential to aid the successful deployment of renewables and low carbon transport systems while minimising costs. [11]

This approach should not only be confined to spending. Taxation policy can encourage the necessary behavioural change which supports a reduction in emissions or other environmental goals. The Scottish Landfill Tax is one example of this, which is a source of revenue for the Scottish Government but is designed to disincentivise the use of landfill, which will ultimately reduce public revenues. The 2020 Climate Change Plan update includes a proposed ban on the disposal of household waste at landfill, with the Scottish Landfill Tax aiming to encourage behavioural change ahead of the 2025 implementation of the ban.

Understand trends and multi-annual spend

It is difficult to know if spending plans in an annual Budget are consistent with meeting climate targets in future years. Understanding the trend in previous years' expenditure can help to put annual spending proposals in context.

Some future multi-annual spending commitments are made to create certainty. This can help people, businesses or public bodies to invest and manage change. For example, the Scottish Government's multi-annual commitments to supporting energy-efficiency in buildings are designed to support supply chains and new jobs. [12]

A budget scrutiny approach which focuses on spending trends - or includes scrutiny of multi-annual expenditure plans - can help to assess whether Scotland’s pattern of public spending is consistent with a pathway to net zero emissions in 2045.

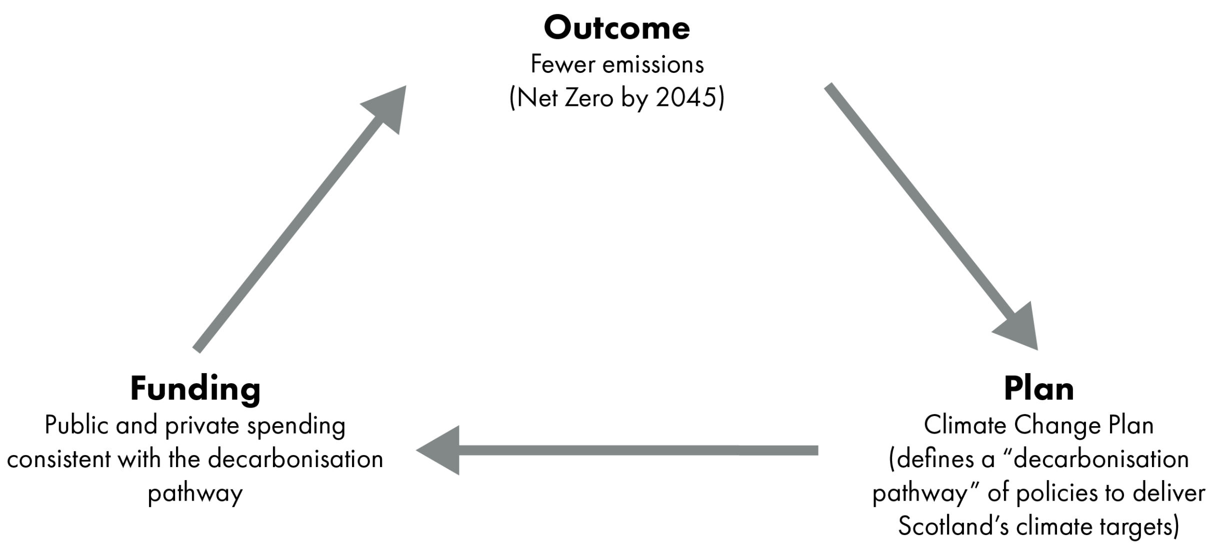
Link to the Climate Change Plan

Every five years the Scottish Government must produce a plan - known as the Climate Change Plan (CCP) - intended to define an economy-wide, practical and least-cost decarbonisation pathway to meeting Scotland's climate targets.

If the policies in the CCP are not adequately funded, they are unlikely to be delivered, or will be delivered more slowly than required to meet Scotland's climate targets. For this reason, successive parliamentary committees have approached financial scrutiny by seeking information on the alignment of the Scottish Budget and Climate Change Plans. There are, of course, reasons other than a lack of funding that may lead to a policy objective not be delivered, such as poor design or implementation, public unacceptability or competing priorities.

From May 2021, annual CCP monitoring reports will be published. These reports will assess the progress of CCP policies. Members and Committees may be able to use the monitoring information to inform and focus their budget scrutiny.

Figure 5: Circular connections between funding, planning and outcome



In theory, a Scottish Budget could fund the CCP's decarbonisation policies, but at the same time support the continuation of activities elsewhere which are inconsistent with a pathway to meeting Scotland's climate targets. An approach to budget scrutiny that covers both low carbon and high carbon dimensions can address this.

Seek better information

Members and Committees can approach budget scrutiny with the aim of developing better tools or information to understand the connection between spending and climate objectives. This approach should be informed by previous efforts and could link to internationally-developed frameworks (see box below).

The previous efforts of Committees across sessions four and five included changes to the **Scottish Parliament's ways of working** (e.g. efforts to mainstream climate into scrutiny) and changing **Scottish Government practice** (e.g. new analyses and timing of progress reports).

When looking for better information, the following considerations may be helpful:

- It is tempting to seek a more precise or detailed carbon assessment of budget lines: but this is unlikely to aid scrutiny. The most important connection (at the level of parliamentary scrutiny) is not necessarily between government spending proposals and their precise effect on greenhouse gas emissions. The more practical connection is between spending proposals and the "decarbonisation pathway" of societal changes and economic investments that Scotland must make to achieve the climate targets set out in legislation. The Scottish Government's envisaged decarbonisation pathway is defined by the policies and proposals in its Climate Change Plan. Is there a way to understand the difference between the investment required by a defined decarbonisation pathway and current spending patterns, and about the role and priorities for public expenditure vs private investment?

- There is a balance to strike between analyses that are rough-but-simple and accurate-but-complex. Detailed carbon assessments are often not possible in the early stages when scrutiny can be most influential. There can also be value in easy to understand methodologies with low administration costs.

- Tools and information can be designed to inform decisions or to evaluate/scrutinise policies after the event and it is important to be clear about the purpose sought. For example: Strategic Environmental Assessments are intended to be *ex ante* and carried out as part of the policy development processes; the Carbon Assessment of the Budget is carried out *ex post* and does not inform the budget formulation stage.

Over 2021, a collaborative Scottish Government and Scottish Parliament officials review of budget information on climate change will continue with the aim of adding to the information available in the 2022-23 Budget. This is an iterative process, seeking "significant improvements" to subsequent rounds.

International framework example: OECD Green Budgeting Framework

The OECD Green Budgeting Framework describes four building blocks to using the tools of budgetary policy-making to help achieve environmental and climate goals. [13] The "building blocks" are:

- clear public policy objectives for environment and climate
- tools to evidence budget measures' impact on environmental and climate objectives
- reporting which facilitates scrutiny
- a modern budgetary framework.

How does Scotland perform against this framework?

Clear objectives - Scotland's public policy on climate change is generally well-defined. Precise targets for greenhouse gas emission reductions are set out in law. Every five years the Scottish Government must produce a plan - known as the Climate Change Plan (CCP) - intended to define a decarbonisation pathway to meeting those targets. The Scottish Government's action on climate change sits within an overarching environmental strategy and commitments to a Just Transition.

Tools to evidence budget measures' impact on climate objectives - *Ex ante* environmental assessments are used when developing public policy and large infrastructure proposals likely to have a significant environmental effects. Research commissioned by the Scottish Government in 2020 reviews how greenhouse gas (GHG) emissions are qualified in Strategic Environmental Assessments (SEA) of policy and quantified in Environmental Impact Assessments (EIA) of large developments. [14]

The Scottish Budget will fund policies and infrastructure which have been subject to an SEA or EIA; but the budget as a whole (nor its individual measures) is not subject to an *ex ante* environmental assessment.

The treatment of multi-year expenditure plans has varied – for example, the Scottish Government's Infrastructure Investment Plan published in 2021 was developed with an SEA, but previous plans (2008, 2011 and 2015) were not. Research commissioned in 2020 explores options to assess and report on the alignment between future Infrastructure Investment Plans and Scotland's climate targets. [15]

Reporting and accountability – reporting to Parliament on how budgets support climate objectives is currently *ad hoc* or in development.

- Budget statements from Ministers (and the political narrative within budget documents) tend to provide some justification or information, and it is open to Members and Committees to question Ministers further.
- Scottish Budgets are required to include an assessment of their impact on greenhouse gas emissions; but the government has recognised the current assessment is of limited use in financial scrutiny.

- A document identifying ("tagging") budget lines which fund climate change mitigation measures was published between 2012 and 2017. A simple taxonomy analysis of capital expenditure has been available since 2018.
- The Capital Spending Review set out the 'Low Carbon Fund spend profile' covering £2 billion in planned green spending.
- A collaborative review is being conducted over 2021 aims to improve budget information on climate change.

Modern budgetary framework – Scotland’s budget framework was updated in 2018 following a joint Scottish Government/Scottish Parliament review in 2016-17. We assess how the new Scottish budget process compares to the OECD Green Budgeting Framework in the 'seek better information' section of this briefing.

Part B: Previous climate-focused financial scrutiny

Part B of this briefing summarises the key developments in session four (2011-16) and session five (2016-2021) of the Scottish Parliament.

Session Four (2011-2016)

Session three of the Scottish Parliament saw the passage of the Climate Change (Scotland) Act 2009. This law set statutory targets for the reduction of greenhouse gas emissions and required Scottish Government to publish a plan for achieving those targets. This plan was first published in March 2011 [16] - it was then called the Report on Policies and Proposals (RPP), but subsequent versions are referred to as the Climate Change Plan (CCP).

Elections to the fourth session of the Scottish Parliament were held on 5 May 2011. In its first round of budget scrutiny in session four, the Rural Affairs, Climate Change and Environment (RACCE) Committee considered the 2012-13 budget, Spending Review 2011 and a draft of the first RRP, all of which were published together. Supported by the Finance Committee, RACCE Committee concluded that:

- Scottish Government needed to improve *read across* from the Scottish Budget to its published plans to meet Scotland’s greenhouse gas emission reduction targets.
- Climate change issues should be *mainstreamed* though all Committees' financial scrutiny.

2012-13 Budget recommendations, RACCE Committee [17]

Given that spending on climate change affects virtually every aspect of Government spending, the Committee recommends several improvements that could assist committees in future, in scrutinising climate change spend—

- All committees need to consider climate change issues when scrutinising their own relevant Scottish Government portfolios, and need to discuss how to work together more effectively to hold the Scottish Government to account across all relevant areas of climate change spend;

- The Scottish Government needs to improve the presentation of both its proposals and policies documents (the RPP), and its budget documents, to make clearer who is responsible for delivering which proposals and policies, and to enable a clearer read-across between the documents. Tracking Scottish Government spending on climate change policies needs to be made clearer and more transparent.

The Committee urges the Scottish Government to ensure that all proposals and policies in the RPP [Now known as the Climate Change Plan (CCP)], and any future revisions of the RPP, are fully funded, in order to meet the targets set out in the Climate Change (Scotland) Act 2009.

2012-13 Budget recommendations, Finance Committee [18]

The Committee agrees with the RACCE Committee that there is a need for all subject committees to consider climate change issues as part of their budget scrutiny and the need for a clear read-across between relevant documents to ensure effective scrutiny. The Committee also agrees that for this scrutiny to be effective there is a need for a clear read across between the Scottish Government's Report on Proposals and Policies in meeting its emissions reductions targets and the draft budget.

Budget "read across"

In response to the RACCE Committee and Finance Committee's recommendation on "read across" from the budget to the Climate Change Plan, the Scottish Government has published six "budget summary" documents since 2012. [19] These documents identified lines of the Scottish Budget which fund climate change mitigation measures and organised them into relevant sectors such as electricity, transport and waste.

This approach by the Scottish Government helped "read across" by summarising how low-carbon actions, such as energy efficiency, are funded by the Scottish Budget. On the downside, it focused scrutiny on relatively small-value budget lines explicitly related to climate mitigation, as opposed to enhancing the mainstreaming of climate action across portfolio budgets.

Another limitation of the budget summary documents published was that they did not identify spending that might be *inconsistent* with the emission reduction targets – i.e. spending on high-carbon activities.

In practice, RACCE Committee experience was that the document was consistently published too late during session four for meaningful scrutiny. The committee's 2016 Legacy Report said:

> “ As a result of an early recommendation by the Committee, the Scottish Government started to produce a document which showed spending on climate change issues across all portfolios more clearly. This was a welcome development and the Committee very much hopes it will continue in the next session. However, despite repeated calls for the information to be produced in time for committees to be able to make meaningful use of it, the Government continued to publish the document considerably after the publication of the budget and its associated documents. Hopefully, this can be improved in the next session to ensure appropriate rigorous scrutiny of a very important issue.”

RACCE's successor in session five, the Environment, Climate Change and land Reform Committee, welcomed improved timeliness of the summary document in 2016.

Publication of these summary documents stopped after 2018. No document was published for the 2019-20 Scottish Budget, coinciding with the first year of the new budget process.

Climate mainstreaming

Following its recommendation in 2011 that climate change issues should be mainstreamed through all committees' financial scrutiny, RACCE Committee and Finance Committee attempted to facilitate this throughout session four.

From 2012, the RACCE Committee took the approach of writing to relevant Scottish Parliament committees at the beginning of the budget scrutiny cycle asking them to scrutinise climate change aspects of the Draft Budget within their respective portfolios. In 2013, this letter included an effort to coordinate areas of scrutiny and triage key questions to nine Committees, backed by SPICe support on climate change mainstreaming. In 2014, the Committee recognised that individual subject committees have multiple cross-sectoral demands on their work programmes, reviewed the effectiveness of the mainstreaming process and explored ways of improving the it:

> The Committee... intends to pursue the following improvements to the mainstreaming process:
>
> - To ask the Finance Committee to include guidance on climate change mainstreaming in the guidance it provides for all committees ahead of the budget process each year, and to also ask the Finance Committee to include a briefing on climate issues in the seminars it runs, led by its adviser, for MSPs and officials;
> - To organise a specific meeting for MSPs and officials to examine climate change spending issues as they impact across the Scottish Government's budget;
> - To supplement the support it makes available to other committees by offering earlier meetings with clerking and SPICe colleagues in a bid to discuss issues of relevance to committees' work programmes and priorities;
> - To host a discussion ahead of the budget process with all relevant subject committee Conveners, to consider a cross-cutting approach to climate change spending scrutiny, possible areas of interest, and options for pursuing scrutiny; and
> - To explore the appetite for each relevant committee to appoint a climate change reporter, mirroring the current appointment of EU reporters, to support the mainstreaming in the budget process, and also other climate issues relevant to each committees remit and work programme.

In 2016, the Committee's Legacy Report noted success in some areas of cross-committee working - for example joint scrutiny of the Scottish Government's draft Climate Change Plan - but, whilst recognising "heavy workloads and multiple competing priorities (particularly during the short time available for budget scrutiny)", was also disappointed that engagement had not been more widespread:

> The failure of some relevant committees in the Parliament to meaningfully engage with climate change issues in the budget process was one of the more disappointing aspects of the session. The Committee does not regret initiating and championing the mainstreaming and hopes that a successor committee continues with it. However, there is clearly work to be done to get the message of the importance of the work across to other committees and members and to stimulate a step-change across the Parliament in the next session.

In session five, this approach to climate change mainstreaming efforts evolved:

- The Finance and Constitution Committee continued to identify climate change as a scrutiny topic for all committees during the first three budget rounds; but not in the final two rounds of the session.
- RACCE's successor in session five, the Environment, Climate Change and Land Reform (ECCLR) Committee, continued to support mainstreaming efforts at the start of the session. In later years, the Committee focused on:
  - Aligning the budget and Climate Change Plan

- Conducting strategic cross-portfolio budget scrutiny itself such as scrutiny of government-wide capital expenditure
- Facilitating a parliament-wide response to the climate emergency and to embedding climate considerations in parliamentary scrutiny, [20] including continued cross-committee working on scrutiny of draft Climate Change Plans (in 2017 and 2020-21).

Session Five (2016-2021)

New budget process

Devolution of tax and welfare powers to the Scottish Parliament (by the Scotland Acts 2012 and 2016) has added considerable complexity to the Scottish budget. In 2016, a Budget Process Review Group was established by the Finance and Constitution Committee and the Scottish Government to carry out a review. The Group made recommendations in 2017 and this resulted in a new budget process being followed from 2018 onwards. [21]

Central to these recommendations is a budget process with the following four core objectives:

- to have a greater influence on the formulation of the budget
- to improve transparency and raise public understanding and awareness of the budget
- to respond effectively to new fiscal and wider policy challenges
- to lead to better outputs and outcomes as measured against benchmarks and stated objectives.

The new process sees budget scrutiny as a continuous cycle. It envisages a scrutiny focus on outcomes, fiscal responsibility and the "interdependent nature of many of the policies which the budget is seeking to deliver". This final focus is particularly relevant to climate governance and to deliver it the Group made the following recommendation:

Recommendation 31: The Group recommends that the Finance and Constitution Committee continues to identify a small number of interdependent policy challenges and objectives in its annual Budget guidance to the subject committees.

The Finance Committee had identified climate change as a cross-cutting issue for scrutiny in every year of session four. In session five, the Finance and Constitution Committee identified climate change (alongside other policy issues) for the first three budget rounds in session five. No cross-cutting policy issues were identified in the fourth budget round. Equalities was identified for the fifth budget round.

The Budget Process Review Group made no specific recommendations on climate-focused scrutiny, but it did provide the following observations on the potential role of Climate Change Plan monitoring and progress reports:

Budget Process Review Group commentary on climate change [21]

...the Group is aware that following the publication of the Climate Change Plan in early 2018, the Scottish Government will start to report on the Climate Change Plan monitoring and evaluation framework later that year. It is not clear at this stage whether the annual reporting against the framework could form a useful additional element to the pre-legislative phase of the budget scrutiny process, but the Group believes that this should be considered by the Scottish Government as it develops its climate change reporting approach.

This roughly followed the ECCLR Committee's input into the Budget Process Review Group's consultation where it expressed hope that a "more joined-up approach" between the CCP's progress reports and the budget could help "dovetail" scrutiny. [22] The ECCLR Committee repeated this call in its subsequent reports on the 2018-19 and 2019-20 budgets. [23] [24]

Budget and climate plan alignment

The Climate Change (Scotland) Act 2009 requires the Scottish Government to publish a plan for achieving Scotland greenhouse gas emissions reduction targets every five years. A draft of the third Climate Change Plan (CCP) was published in 2017 and included plans for a monitoring framework and annual progress report. [25]

After scrutiny of the draft third CCP, the ECCLR Committee concluded in its 2017 report [26] that "*it would be helpful if the final Climate Change Plan and future budgets were aligned*" and highlighted the need for:

- Information on delivery costs for each policy and proposal in the CCP.
- CCP progress reports to be timed in relation to budget scrutiny.

These recommendations built on similar ones made in session three [27] and session four [28] . The ECCLR Committee continued to emphasise the need for budgeting and CCP to be integrated in its report on the draft CCP update published in December 2020, stating:

> “ The Committee emphasises the importance of having costed policy measures and plans, updated on an annual basis and ensuring that future Climate Change Plans and the process of annual budgeting are integrated.”
>
> Environment, Climate Change and Land Reform Committee, 2021[29]

On delivery costs: the Committee recommended that - for each policy and proposal in the CCP - the document included "*Associated costs or level of funding suggested and associated budget lines*", and that the annual progress reports include updated cost information. The issue of costing CCP policies was developed by the Committee in 2019 when it reported on the Climate Change (Emissions Reduction Targets) (Scotland) Bill. [30] During the passage of this Bill, a statutory requirement for future CCP's to set out an “*estimate of the costs and benefits associated with the policies set out in the plan*” was agreed.[i]

On timing CCP progress reports: the requirement for annual progress reports to be published was put into law by the Climate Change (Emissions Reduction Targets) (Scotland) Act 2019. In its Stage 1 report on the Bill, the Committee expressed concerns that the proposed date for progress report publication (by 31 October) would be too late to inform committee's pre-Budget scrutiny under the new budget process. [30] During the passage of the Bill, the date was changed to 31 May.

In tandem with the specific recommendations described above, ECCLR repeated general calls for policy coherence, alignment or "joined-up approach" between the Scottish Budget and the CCP, CCP progress reports or climate objectives more generally across session five.

Collaborative budget review

In October 2018, a collaborative review - similar to the Budget Process Review Group but focused on understanding the impact of Scotland's budget on Scotland's greenhouse gas emissions - was recommended by the ECCLR Committee. [24] The Scottish Government responded to this recommendation in December 2018, stating it:

> " ...would welcome opportunities to discuss issues relating to the reporting of cross-portfolio budget information relevant to emissions reductions commitments. We are of the view that any such work should build on the comprehensive review of the wider Scottish budget process recently undertaken by the Budget Process Review Group."
>
> Scottish Government, 2018[31]

In further correspondence in January 2019, the ECCLR Committee stated its desire for a collaborative review to "ensure we can align Scotland's budget with Scotland's Climate Change Plan and deliver on wider environmental outcomes". [32] The Scottish Government responded that it was "open to constructive discussion on process improvements" but that it considered it too soon following the Budget Process Review Group to "to determine what further changes may be required". [33]

However, in June 2019, the Scottish Government did commit to a collaborative review. During Stage 2 of the Climate Change (Emissions Reduction Targets) (Scotland) Bill, the Cabinet Secretary for Environment, Climate Change and Land Reform said:

i See Climate Change (Scotland) Act 2009, section 35(21).

> “ Amendments 120, 121 and 123 all seek to improve upon the requirements of section 94 of the current 2009 act. Again, I am sympathetic to the desire to improve that section. The carbon assessment of the budget is produced every year but, to the best of my understanding, is not used by the Parliament in its scrutiny process. The reason for that relates to amendments that were made to the bill in 2008 that were without a sufficient understanding of what information exists in relation to both budgets and emission projections—I guess that that is a cautionary tale. It is quite simply not possible to produce a carbon assessment of the budget that would achieve all the aims that are sought here, and the proposed amendments would not change that fact. Endeavouring to produce the documents that the amendments would require would pose a wholly disproportionate administrative burden on the Scottish Government, and it is extremely unlikely that the resulting documents would be of value. Therefore, I strongly urge Mark Ruskell and Claudia Beamish not to press the amendments.”
>
> “ Should that be agreeable to the committee, the Scottish Government would be willing to commit to working with the Parliament and stakeholders to review the current processes and outputs around budget information as it relates to climate change. Such a review would aim to identify feasible steps to deliver meaningful improvements in cross-portfolio processes and transparency. The review would also need to cover the role of the climate change plan monitoring reports. Should the committee wish to pursue that course, I would also ask that Mark Ruskell not press amendment 147 when it arises in a later group. To be clear, I am offering a review of the current processes and outputs, which has also been discussed with the finance minister.”
>
> Official Report, 18 June 2019, column 53-54

A final remit for a joint working group of Scottish Government and Scottish Parliament officials to progress this review was not finalised until 2 November 2020. [34] The aim of the review, as summarised in the Scottish Budget 2021-22 documents, is:

> Where feasible and proportionate within the anticipated timescales, to improve budget information on climate change – to understand and reduce spend that will ‘lock in’ future greenhouse gas emissions and increase alignment between the budget and climate change plans. [35]

At the same time as finalising the remit, a Programme of Work for a Joint Review of Budget as it relates to climate change (JRB) was published. This reflected the preparatory work by officials on both sides in place of a formalised remit. The Programme of Work described:

- short-term plans for the Scottish Budget 2021-22
- a longer-term programme of work "to deliver significant improvements for the 2022-23 Budget and subsequent rounds."

The short-term changes made to the Scottish Budget 2021-22 document (as a result of the JRB) were restricted to the inclusion of a taxonomy assessment of capital expenditure in the Budget document. In previous years, the taxonomy analysis of capital spend had been made available to Committees after Budget publication.

The JRB's aim in 2021 is to:

> “ conduct a substantial programme of work commencing in January 2021 to deliver significant improvements for the 2022-23 Budget and subsequent rounds.”

The Scottish Government has also linked the JRB to two climate-related statutory duties created in session five by the Climate Change (Emissions Reduction Targets) (Scotland) Act 2019. These statutory duties are:

- To set out the costs and benefits of polices in future Climate Change Plans (CCP). In its 2021 response to the ECCLR Committee's Green Recovery inquiry, the Scottish Government stating that the JRB will "provide the mechanism to meet this requirement". [36]
- For infrastructure investment plan’s to assess how they contribute to meeting Scotland’s climate targets. The Infrastructure Investment Plan for Scotland 2021-22 to 2025-26 states that it will respond to this new requirement "in conjunction with" the JRB.

An interim report from the JRB is expected in 2021.

Infrastructure investment scrutiny

From 2018, the ECCLR Committee's budget scrutiny focus has included capital expenditure and how infrastructure investment can "lock in" a long-term pattern of future greenhouse gas emissions. This represented a shift from efforts to mainstream climate scrutiny towards the Committee conducting strategic cross-portfolio budget scrutiny itself.

In its January 2018 report on the 2018-19 budget, the ECCLR Committee: [23]

- Encouraged the Cabinet Secretary to "actively engage with colleagues in the Cabinet on the capital infrastructure programme to ensure that this does not lock Scotland in to higher than necessary carbon emissions."
- Recommended that annual budgets include additional information on the carbon impact of infrastructure spend "including, for example the balance of infrastructure spending directed to low vs high carbon investments" to enable comparison between budgets.

The ECCLR Committee developed this scrutiny focus across 2018 and 2019 to include recommendations on the Scottish Government's existing pipeline of infrastructure investments, the forthcoming Infrastructure Investment Plan (IIP) and the need for external advice on low carbon investment. [24] [37] In 2020, the ECCLR Committee's budget focus was linked to its inquiry on a Green Recovery from the COVID-19 pandemic, including the potential for low carbon capital investments to create green jobs. [38]

In 2019, a statutory requirement was created by the Scottish Parliament by amendment to the Climate Change (Emissions Reduction Targets) (Scotland) Bill, for future IIPs to assess their contribution to meeting Scotland’s climate targets.

Across the same period, the Scottish Government:

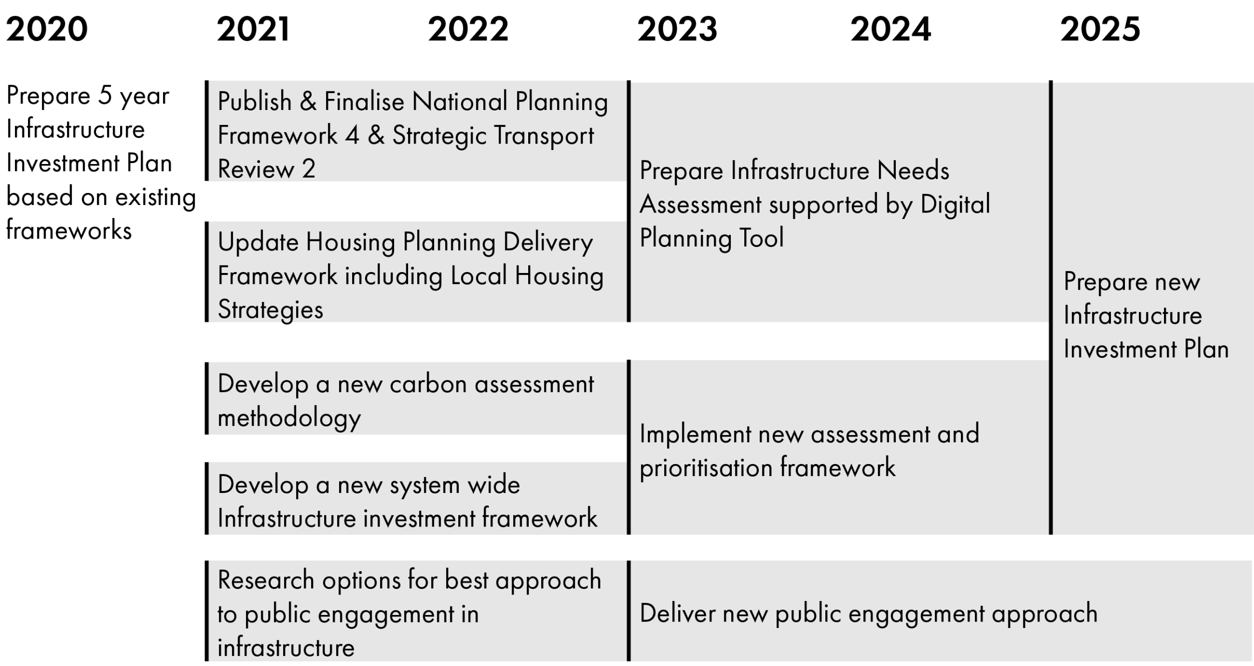
- Began publishing "taxonomy assessments" of annual capital expenditure in all its budgets, categorising spend as broadly high carbon, neutral or low carbon. This was associated with a political commitment to increase the proportion of low carbon capital spend in each year of session five.

- Established an Infrastructure Commission for Scotland to provide it with independent advice on infrastructure needs and delivery. The Commission reported in 2020 with significant recommendations on low carbon investment. [39] [40]

- Published a five-year Infrastructure Investment Plan for Scotland 2021-22 to 2025-26 in February 2021 with three "key themes" including one on Net Zero and Environmental Sustainability.

- Committed to developing a decision-making framework for the next IIP which includes a new carbon assessment methodology, in conjunction with the Joint Review of Budget.

Figure 6: Developing an infrastructure investment decision-making framework



Scottish Government, 2021[41]

Part C: Example tools and frameworks for climate governance of public expenditure

Part C of this briefing sets the wider context and some approaches and tools being developed in the UK and internationally.

HM Treasury Net Zero Review

In November 2019, HM Treasury accepted a recommendation from independent advisers, the Climate Change Committee [42] , to undertake a review considering how the costs of achieving net zero will be distributed across the full range of policy levers. HM Treasury published an interim report on 17 December 2020 [43] , with the final report expected in Spring 2021.

The Institute for Government noted that the Net Zero Review marks a significant departure from the Treasury's approach to climate change. Previously HM Treasury had adopted an approach of maximising economic growth in order to ensure that the UK was better able to afford the costs of offsetting climate change, but the Net Zero Interim Reviews states that:

> “ net zero is the long-term pro-growth strategy.”

The report highlights that in order to transition to a net zero economy the UK will have to go much further than the progress already made towards decarbonisation. This will have a significant impact on public finances; £36bn in tax revenues are currently derived from fossil fuels will have to be offset or replaced. HM Treasury is considering a higher carbon price as part of the response, but this alone will not be adequate. The Interim Report notes that:

> “ although emissions pricing is likely to be an important component of any policy package, it will not on its own be sufficient to achieve net zero given the presence of other non-price market failures which can act as a barrier to private investment.”

The report notes that the net impact of the transition to net zero on economic growth is likely to be relatively small, and could be slightly positive or slightly negative. This is because of the potential for new opportunities coming from the necessary structural change to the economy partly or fully offsetting the costs of innovation. However, the amount of investment necessary to reach net zero are difficult to estimate.

Much of the finance necessary for the shift to net zero is expected to come from the private sector, but the Government needs to provide well designed policy which will reduce costs and risk for investors and support the development and deployment of new technologies. The policy framework can help to address uncertainty, and should allow for direct support where required.

The report found little evidence so far of 'carbon leakage' - attempts to get round aims to decarbonise the UK economy. However, as the UK takes further action, the risk of carbon leakage could increase. The UK Government intends to use the hosting of COP26 in Glasgow this year and the G7 presidency to encourage ambitious international climate action which can help prevent this risk from crystallising.

London School of Economics note that the Net Zero Interim review has the potential to:

> “ Embed a coordinated approach across government under a shared objective: making the transition to net zero *just*.”
>
> The Treasury’s Net Zero Review: bedrock of a just transition?London School of Economics, 2021[44]

The final Net Zero Report is expected to be published in Spring 2021, building on feedback to the interim report and further analysis.

Climate Change Committee investment estimates

The Climate Change Committee (CCC) is the key climate advisor to all governments in the UK. Its December 2020 advice on the UK's sixth carbon budget - described as a "blueprint for a fully decarbonised UK" - concludes that:

> “ Meeting our recommended [carbon] budget will require a major nationwide investment programme, led by Government, but largely funded and delivered by private companies and individuals.”
>
> Climate Change Committee, 2020[45]

The CCC estimate low carbon investment must increase to around £50 billion annually by 2030 (compared to current total investment of nearly £400 billion, so the low carbon investment must increase to around 12.5%), with the largest increases for low-carbon power capacity, retrofit of buildings and the added costs of batteries and infrastructure for electric vehicles. The CCC say this figure is "well within the range" of historical changes in UK total investment and estimate the annualised resource cost to be less than 1% of GDP through to 2050, with the potential for investment stimulus and fuel efficiency to increase GDP. 'Annualised resource cost' in this context measures the net additional cost each year to deliver the same services with lower emissions. The CCC finds that the balance of annualised resource costs across Scotland, Wales and Northern Ireland is broadly in line with their shares of emissions. The costs of inaction on climate change are not quantified by the CCC in these calculations. The CCC state:

> “ The use of Government policy to de-risk private sector investment is likely to be more important than direct public investment in most areas, and can be used to leverage many multiples of any Government spend.”
>
> Climate Change Committee, 2020[45]

However, the CCC also illustrate a package of UK public funding to fund the transition to Net Zero that doubles in value over the 2020s.

The CCC point to a role for governments where the costs and benefits of the transition to Net Zero are likely to fall unevenly:

> “ While costs are small overall, they could be large for particular people, sectors or areas. The risk of localised impacts should be a key focus for the Government.”
>
> Climate Change Committee, 2020[45]

OECD Green Budgeting Framework

The Paris Collaborative on Green Budgeting aims to develop:

> " concrete and practical guidance to help governments at all levels embed consideration of climate and environmental goals within their budget frameworks."
>
> OECD, 2020[13]

The Paris Collaborative is convened by the Organisation for Economic Co-operation and Development (OECD). It works in partnership with governments and experts to develop tools and methodologies for green budgeting.

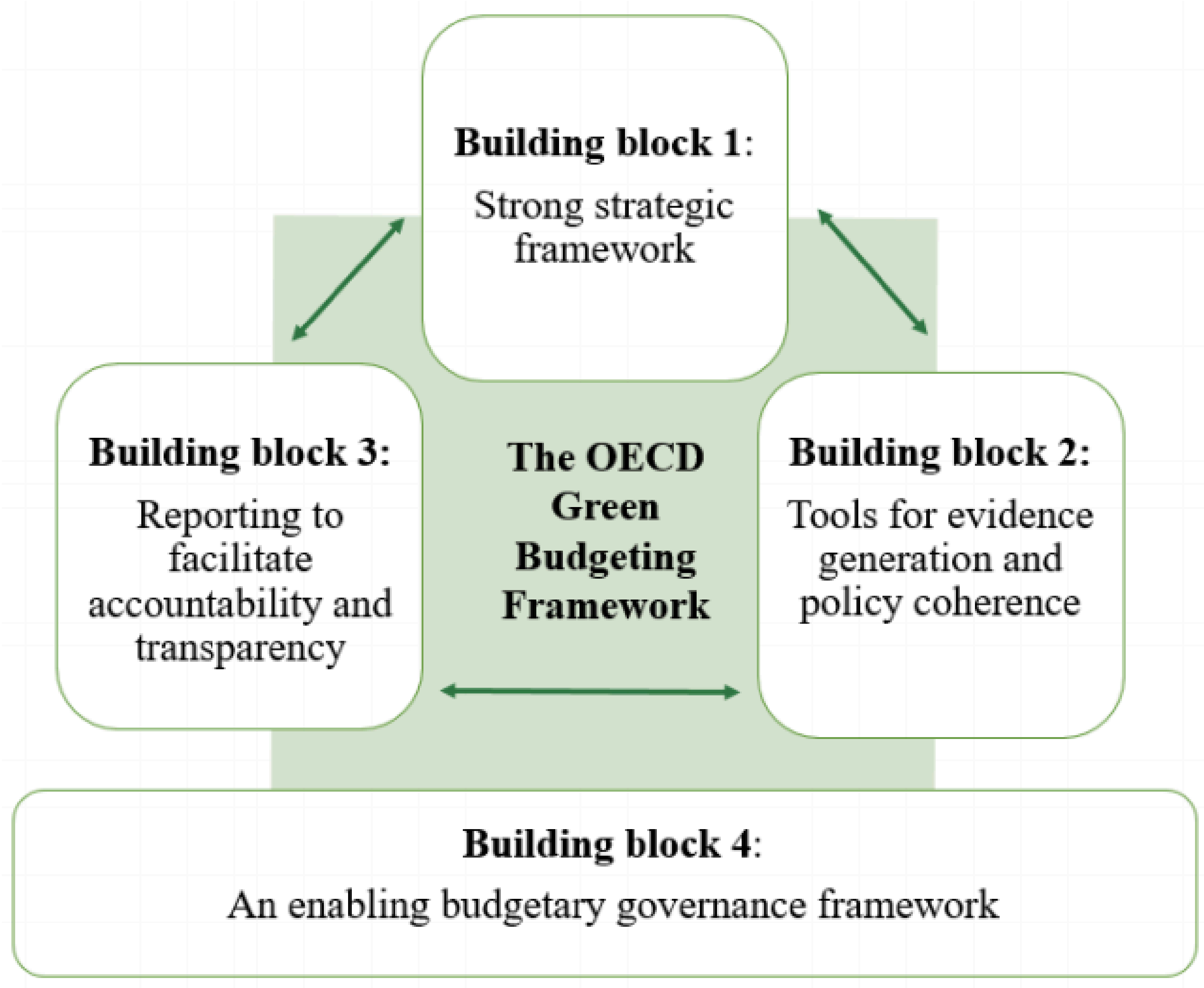
The OECD Green Budgeting Framework was published in 2020. This describes four building blocks to an effective approach to using the tools of budgetary policy-making to help achieve environmental and climate goals: [13]

1. **Strong strategic framework**. In other words, clear policy objectives for environment and climate.
2. **Tools**. Evidence of how budget measures impact environmental and climate objectives are needed, and any tools to gather this should build on existing budget processes.
3. **Accountability and transparency**. For example, reporting which facilitates parliamentary scrutiny of the quality and the impact of green budgeting.
4. **Budgetary governance**. A modern budgetary framework provides a strong enabling environment for green budgeting. This includes a budgetary framework where there are links between strategic planning and budgeting, multi-annual budget envelopes, outcome and evidence-based budget processes, along with close engagement with parliaments and civil society.

An OECD and European Commission survey in 2020 found that there is no "set" model of green budgeting across OECD countries and that countries tend to employ more than one tool or method in their implementation [46] .

Scotland's performance against the OECD Green Budgeting Framework's four building blocks has been assessed in the Better information section of this briefing.

Figure 7: OECD Green Budgeting Framework



OECD, 2020[13]

The Paris Collaborative work is also linked to an initiative called the Coalition of Finance Ministers for Climate Action launched in 2019. The Coalition's country members - including the UK - have created and committed to support a set of six principles called the Helsinki Principles. These principles are designed to promote national climate action, especially through fiscal policy and the use of public finance, and include:

- Principle 4: Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices.

Further explanation is available from the Coalition's secretariat. [47]

Examples of tools

Appraisal: UK Government green book

The green book is technical guidance used by government officials to help advise Ministers how best to achieve a policy objective by providing a consistent approach to public sector investment decision-making. It includes an approach to weighing the costs and benefits of the proposal, and identifying the key issues, uncertainties, and risks. The green book approaches do not set policy objectives, and Ministers are not bound by recommendations arising from their use.

In 2020, HM Treasury completed a review of the green book [48] . This review identified issues in the methodology which meant that the green book approach did not fully support the Government's objectives in areas like "levelling up" in the regions and reaching net zero. The review found that the previous methodology was too heavily focused on the benefit-to-cost ratio (BCR), partly due to a lack of quality in strategic cases. This focus on the benefit-cost-ratio meant that interventions in areas of the country where the economy was already relatively strong tended to score more highly. A recent briefing from the House of Lords Library [49] notes that this has been termed a '*methodological bias*' which held back regional economic performance.

One of the key changes introduced in the new version of the green book is that all strategic cases will now need to be set out at the start of a proposal, and must fit to a four-tier hierarchy; the individual project, the programme it supports, the strategic portfolio it sits within and finally the strategic objective. The BCR stage of the analysis will come afterwards – so those policy interventions with a strong strategic case would not depend to the same extent on the finding of the BCR analysis. The review noted that:

> " Reviewers... should reject any business case that does not include a clear set of objectives for the intervention and an objectively based logical process of change setting out how these objectives will be delivered. Conversely, reviewers should be open to a business cases for projects with a low BCR if, compared to options that have been appraised, that option is the best value for money way of delivering an intervention that is necessary for the achievement of the intervention's objectives."
>
> HMT Green Book Review 2020: Findings and response (p11)HM Treasury, 2020[48]

The new edition of the green book contains new guidance on place-based analysis, specifically that if an intervention is located primarily in one area, then the benefits of that intervention should by default be to that area, with analysis for the UK as a whole presented separately. The new edition also highlights and clarifies some of the tools used for environmental impact assessment. All projects will now have to consider the impact on carbon emissions, even if they are not directly related to the net zero objective. The UK Government has also developed guidance on accounting for the value of the environment (for people and the economy) and climate change, the natural capital approach [50] .

Budget tagging: France

In February 2021, the OECD's published guidance for governments implementing "green budget tagging" tools. The OECD explains:

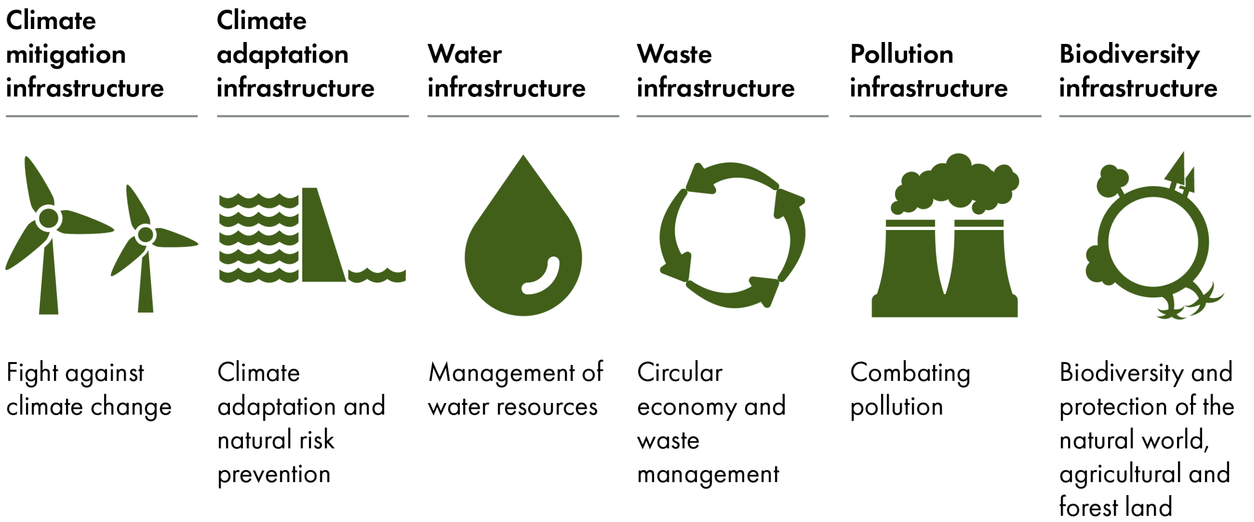
> " One of the central green budgeting tools in many countries is green budgeting tagging. This tool involves assessing each individual budget measure and giving it a "tag" according to whether it is helpful or harmful to green objectives."
>
> OECD, 2021[51]

The French Government's use of green budget tagging has been described as the most comprehensive in the world to date. [52] Its first "Green Budget" was published in 2020 as an annex to the 2021 Finance Bill. [53] The methodology used has four defining characteristics, it:

1. Provides assessment of the “green” impact of all State budget expenditures.
2. Covers tax expenditure.
3. Reflects not only climate change, but other environmental issues such as biodiversity and the fight against pollution.
4. Rates all expenditure, not only that favourable to the environment.

All expenditure is rated as either favourable, unfavourable, mixed or neutral. This is a similar approach to that used by the Scottish Government in the taxonomy of capital spend in the budget, but is more comprehensive as it is applied to all public spending. It also considers a wide definition of the impact on six environmental objectives including protection of biodiversity, reducing pollution, water resource management and the promotion of a circular economy, as well adaptation to and prevention of climate change. These six objectives match those defined by the EU Taxonomy Regulation.

Figure 8: Six environmental objectvies of France's green budgeting tool



Gouvernement de la République française, 2020[53]

This approach has also been applied to the French Government's commitment to a green recovery from COVID-19: one third of its €100 billion recovery package is assessed as being targeted at greening the economy and transitioning to a low carbon future. Analysis from the OECD suggests that over half of countries plan to use some form of green budgeting tools to inform their COVID-19 recovery package, but France's was the first to document both the positive and negative impact of policy on the environment [54] .

Climate mainstreaming in EU budgets

The European Union has set targets for the percentage of its total expenditure that should support its climate objectives. The EU's budgets are managed under a multi-year agreement called the Multi-annual Financial Framework (MFF).

- Under the MFF for 2014-2020, the EU agreed that least 20% of its expenditure should finance climate action objectives. [55]
- Under the MFF for 2021-2027, the EU agreed that at least 30% of the total EU budget and COVID-19 recovery expenditure should support climate objectives. [56]

Under the MFF for 2014-2020, expenditure on climate action was tracked using EU climate markers. These were adapted from the ‘Rio markers’ developed by the OECD to track international aid spending. The EU climate markers assign a weighting to funded activities based on their contribution towards climate objectives: significant (100%), moderate (40%) or insignificant (0%). While spending on activities with negative climate impacts are not tracked, an exclusion list of projects that cannot be financed was maintained. The European Commission's tracking methodology has been described as a relatively advanced system with a low level of administrative burden. However, in a number of areas - particularly agriculture programmes - the approach has been criticised for being over-generous in its assessment of climate impacts. [57]

For 2021-2027, the same broad approach has been taken, with some significant refinements:

- The top-level 30% target is broken down into specific expenditure targets set in the legal bases of many EU programmes.
- Proposed expenditure will be assessed at the outset for its compliance with the ‘do no significant harm’ principle (as defined by the EU's Taxonomy Regulation).
- An adjustment mechanism has been created to safeguard the achievement of the overall target. [58]

The European Commission is also developing tracking of other policy priorities such as biodiversity, gender and clean air. [58]

The Paris Agreement and COP 26

In December 2015 the Paris Agreement was adopted under the United Nations Framework Convention on Climate Change (UNFCCC). The key provisions of the agreement are:

- Global temperature rises should be limited to “well below” 2°C and to “pursue efforts” to limit temperature increase to 1.5°C above pre industrial levels.
- To make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."
- Parties to the agreement are to aim to “reach global peaking of greenhouse gas emissions as soon as possible” and are to take action to “preserve and enhance” carbon sinks.

- To conduct a “Global Stocktake” every five years, starting in 2023.
- Developed countries to provide financial support for developing countries to mitigate climate change.
- Creates a goal of “enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change”.

The 26th United Nations Conference of the Parties (COP 26), to be held in Glasgow in November 2021, is the largest international negotiation ever to be held in the UK. This summit, chaired by the UK Government and held in partnership with Italy, aims to bring heads of state, climate experts and campaigners together to "accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change."

Originally scheduled for November 2020, this is considered to be one of the most important climate conferences ever. Based on the Paris Agreement, 2020 was when all nations would accelerate their emissions reduction ambitions (known as Nationally Determined Contributions - NDCs). For many countries, this has been delayed, especially due to the failures of COP 25. When COP 26 is finally held, it could be the final determination of whether the world can achieve the goals of limiting warming to 1.5°C or even 2°C. [59] [60] [61]

Previously, Scotland and the UK were part of a joint European Union (EU) NDC, which set an EU-wide emissions target. As a result of leaving the EU, the UK Government formally submitted an individual NDC in December 2020; this commits to reducing GHG emissions by at least 68% by 2030, compared to 1990 levels. [62] As part of the UK, Scotland does not need to calculate or submit an NDC, however the Scottish Government has undertaken to publish an indicative NDC in the spirit of the Paris Agreement as:

> “ a clear indication of Scotland’s commitment to joining and leading the international effort on tackling climate change and ensuring a more sustainable future for our planet.”
>
> Scottish Government, 2020[63]

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