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## **Environment, Climate Change and Land Reform Committee**

## **Comataidh Atharrachadh Clìomaid is Ath-leasachaidh Fearann**

# **Pre-Budget scrutiny 2021-22: report**



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# Environment, Climate Change and Land Reform Committee

To consider and report on matters falling within the responsibility of the Cabinet Secretary for Environment, Climate Change and Land Reform.



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# Introduction

## A green recovery response to the Covid-19 pandemic

1. The 2021-22 Scottish Budget takes place against the backdrop of the global outbreak of Covid-19. The need for the Scottish Government's expenditure plans to deliver a green, just and resilient recovery to the Covid-19 pandemic in Scotland is the Committee's focus for this year's budget scrutiny.

## The Committee's approach to consideration of the 2021-22 Budget

2. The Committee has completed its inquiry to establish the principles that could underpin a green recovery, to identify key actions for change, immediate priorities, potential barriers to implementation and the governance arrangements needed to deliver this. The Committee has drawn on responses to this inquiry to inform its budget scrutiny.
3. The Committee also took evidence from the Cabinet Secretary for Finance and the Cabinet Secretary for Environment, Climate Change and Land Reform at its meeting on [6 October 2020](#).
4. This pre-Budget report is published in conjunction with the Committee's report on Green Recovery. It is intended that the reports be read in tandem. An effective Budget cannot be delivered without the acknowledgement of the cross-cutting nature of the challenges presented by this unique set of current circumstances.

## Scottish Government/Scottish Parliament Joint working group

5. In its [pre-Budget report 2020-21](#), the Committee said that it was "keen to ensure that the long-term carbon impact of spend is assessed and reported on". The Committee wanted to continue to work with the Scottish Government to ensure the Parliament better understands the carbon impact of Budget decisions. Work on this has begun with the first tranche of work targeted at revisions for the next 2021-22 Budget and further work is planned to realign supporting documentation for the 2022-23 Budget. Given that work is underway the Committee will not comment in detail in this report on the requirements for supporting information in relation to the carbon impact of the Budget.

# Recommendations for the 2021-22 Scottish Budget

6. The Committee's recommendations for the 2021-22 Scottish Government Budget are set out in the following sections.

## Policy and budget coherence

7. Policies and spend across Government have not always aligned (the Committee heard in evidence on its Green Recovery inquiry), leading to a lack of 'coherence' within Scottish policy and budgeting.

The Committee considers spend should be aligned to the delivery of strategic goals on green recovery, climate change and the ecological crisis. This is also critical to achieving resilience.

The Committee believes that—

- all public expenditure should be consistent with addressing the climate and ecological crises, building a wellbeing economy and delivering a green recovery.
- a combination of policy, regulatory and financial tools are required to shift behaviour and assist a just transition.
- commitment to a 'just transition' should be further embedded across government policy and financial decisions at all levels and the 2021-22 Budget should deliver the recommendations of the report by the [Just Transition Commission: advice on a green recovery](#).

The Committee recommends the Scottish Government—

- use the Budget 2021-22 to set a pathway towards a green, just and resilient recovery.
- ensure capital investments that deliver green jobs to support recovery are delivered through both the Budget 2021-22 and multi-year spending plans, such as the Infrastructure Investment Plan and Capital Spending Review.

## Investment

8. There is a critical need for investment certainly and a step change in levels of investment consistent with addressing the climate and ecological crises and building a wellbeing economy.

The Committee believes the level of investment required to finance a green, just and resilient recovery to the Covid-19 pandemic cannot be created solely within the current

fiscal framework. The Committee recommends that, while aligning its own budget with a green recovery, the Scottish Government also works with the UK Government in order to co-ordinate and finance a sufficiently large investment stimulus.

### Capital Spending Review

9. The Scottish Government's Capital Spending Review Framework sets out the spending profile of its commitment to provide an additional £2 billion in low carbon funding over the period 2021-2022 to 2025-2026. According to this profile, £200 million will be allocated in 2021-2022 rising to £600 million in 2025-2026.

The Committee welcomes efforts by the Scottish Government to provide investment certainty in uncertain times. However, the Committee is concerned that the additional £200 million low carbon funding commitment in the Budget 2021-22, while welcome, falls short of the level of investment commensurate with the demands of securing a green recovery.

The Committee recommends the final Capital Spending Review “frontloads” - to the greatest extent possible - the Scottish Government's multiple year low carbon spending commitments in order to support a green recovery and Scotland's net-zero ambitions.

### Scottish National Investment Bank

10. The Scottish National Investment Bank (SNIB) is identified as critical to a green recovery. However, the level of assets available for lending is a central issue.

The Committee recommends that, as part of the Capital Spending Review, the Scottish Government increases the level of assets available to the SNIB for lending as a matter of priority.

### Development of private finance models

11. While capital grants will continue to make up the largest share of the Scottish Government's capital expenditure, the Capital Spending Review Framework suggests an increasing role for private finance in the delivery of the Scottish Government's National Infrastructure Mission.

The Committee requests information from the Scottish Government on how it has built wellbeing, climate and environmental considerations into the development of private finance models. In particular—

- how the Mutual Investment Model will apply to projects where capital costs may be higher because of low carbon requirements (but revenue cost may be lower), for example, public buildings with district heating schemes.
- the development of its Green Growth Accelerator financing model.



## Infrastructure Investment Plan

12. The Scottish Government published its draft Infrastructure Investment Plan for Scotland 2021-2022 to 2025-2026 on [24 September 2020](#). This document covers £24 billion of major projects and programmes and states that around 36% of the projects and programmes in the draft Plan are categorised as low carbon. The document also outlined the Scottish Government's plans to develop an “investment decision framework” and was accompanied by a Strategic Environmental Assessment and a consultation on some aspects of investment policy

The Committee is concerned that the percentage of low carbon projects and programmes presented in the draft IIP (cited as 36%) is significantly too low. The Committee asks the Scottish Government to—

- provide a full breakdown of this analysis so that it can more fully understand the proportion and nature of projects in the other categories.
- set out how projects in the IIP will help to deliver progress towards the 2030 greenhouse gas emissions target.

The Committee recommends—

- the final IIP avoids infrastructure that will lock-in high carbon activities and fully implements the Infrastructure Commission for Scotland's recommendation that projects in the IIP “should be prioritised against available inclusive net zero carbon economy outcomes.” The Committee reiterates the recommendations expressed in the ‘Long-term effects of infrastructure’ chapter of its [Pre-Budget Report 2020-21](#);
- the Scottish Government set out how it has prioritised projects that deliver green jobs to support recovery when the next Major Capital Project pipeline update is published.

## Nature-based solutions to recovery

13. There are considerable opportunities for nature-based solutions (such as woodland creation, peatland restoration, management of invasive non-native species, deer management, etc.) to form part of a green recovery package.

The Committee recommends the Scottish Government's economic recovery plans explicitly include support nature-based solutions to recovery from the Covid-19 pandemic.

The 2021-22 Budget is the second to fund the full value of Pillar 1 agricultural payments, expected to be worth around £500 million. The Committee considers there is a significant opportunity in redesigning these payments to be consistent with the objectives of supporting a green, just and resilient recovery, and reward existing good practice.

The Committee supports the inclusion of natural assets and natural capital in the Scottish Government's definition of infrastructure. The Committee believes this should lead to a fundamental rethink of how decisions are made on capital allocation and

encourages the Scottish Government to fully incorporate natural capital and an understanding of natural assets into the “investment decision framework” being developed in advance of 2025.

### Funding for public services

14. The Scottish Government, in its Scottish Budget 2020-2021, published [6 February 2020](#), said—

” Our priority for the year ahead is to respond to the global climate emergency and biodiversity loss. This will require a cross-government effort, with all portfolios tackling these twin challenges and to capturing the opportunities of transitioning our economy and protecting and enhancing our natural capital.”

Public services need to be sufficiently resourced to deliver on public objectives. The public organisations within the Environment, Climate Change and Land Reform remit and the Scottish Government's research programmes have a vital role to play in driving the cross-government effort needed to tackle biodiversity loss and meet climate targets.

The Committee recommends—

- the revenue budgets of public organisations considered key to responding to the global climate emergency and biodiversity loss are protected in real terms.
- the Scottish Government engages with the UK Government to ensure that the UK Shared Prosperity Fund – intended to replace EU structural funds – is delivered from the end of the transition period and is designed to further environmental objectives.

### Funding the actions in the Climate Change Plan

15. The climate change plan update is expected to be published at the same time as the draft 2021-22 Scottish Budget.

In order to meet Scotland's climate targets, the Committee consider the policies and actions set out in the Climate Change Plan must be fully costed and details of how they are to be funded must be set out. The Committee continues to recommend the Scottish Government works to improve how it demonstrates that annual budget allocations will deliver Scotland's climate targets in the longer term

### Funding for energy efficiency

16. Early action on energy efficiency measures in the housing stock is critical.

The Committee recommends the Scottish Government fund a comprehensive programme to bring Scotland's existing housing stock up to an improved and

sustainable level of energy efficiency in line with the recommendations of the Climate Change Committee (CCC).

### **Funding for communities**

17. Enabling communities to deliver local solutions as part of a green recovery is critical.

The Committee recommends the Scottish Government—

- prioritise the delivery of skills development for a green recovery in communities that lack capacity and resources, establish a development fund to facilitate and support the mobilisation of communities with further and sustained investment.

### **Funding a circular economy**

18. There are opportunities to accelerate action and to get businesses to move toward circular economy products and services.

The Committee recommends the Scottish Government expand the Zero Waste Scotland Circular Economy Investment Fund and support investment in circular economy skills and training.

### **Funding for research, innovation and skills**

19. Research, technology transfer and skills development will underpin the green recovery.

The Committee recommends the Scottish Government—

- reverse cuts to the Strategic Research Programme, which will become even more vital at the end of the transition period from the European Union.
- establish an enterprise fund to provide financial support, including grants and low-cost loans to support business models to transition from lockdown innovations to commercial models that will continue to be competitive once the economy reaches a post-pandemic state.

### **Conclusion**

20. A green, just and resilient recovery is not a given. It will require substantial effort on behalf of all sectors of the Scottish economy and society, and clear leadership from the Scottish Government.
21. The Committee believes this leadership must start with the Budget under consideration and must be maintained by the multi-year expenditure plans under

development. Scotland's public financial planning now must set a pathway towards a green, just and resilient recovery.

