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Edward Mountain MSP
Convener
Net Zero, Energy and Transport Committee
c/o Clerk to the Committee Room T3.40
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Dear Edward,

SCOTTISH GOVERNMENT BUDGET 2025-26

Thank you for your letter of 5 July.

The Scottish Government is currently considering its approach to the 2025-26 Scottish Budget, and details will be available when the new Scottish Budget is published. The Scottish Government will continue to work closely with the Scottish Parliament to agree a date for the new Scottish Budget following the UK Government's announcement on Monday that confirmed the date of the next UK Budget and multi-year Spending Review as the 30th October.

As you know, the First Minister has made tackling the climate crisis one of his four top priorities for the Government.

Scotland's emissions halved between 1990 and 2022, while our economy grew by 67%, with trailblazing emissions reductions in energy, industry and waste sectors. Overall, this has been the largest reduction in emissions in the UK and we have decarbonised faster than the average of the EU27. The £100 million Ardersier port development investment and Sumitomo's £350 million subsea cable factory at Nigg are significant energy milestones and ScotWind was the world's largest commercial round for floating offshore wind. We are tackling transport emissions by supporting people in Scotland with the cost of living crisis and providing affordable and sustainable transport through our concessionary bus and train travel schemes and public electric vehicle charging network.

Scottish Ministers have an unwavering commitment to a just transition to net zero emissions by 2045, five years ahead of the UK, and still one of the most ambitious targets

in the world. Across Government we will continue to support businesses and people in Scotland so they can share in the enormous economic and job opportunities of the global transition to net zero.

You will recall that in Budget 2024-25 we committed £4.7 billion for activities that will have a positive impact on delivery of our climate change goals. But an almost 9% cut to our capital budget by 2027-28 from the UK Government, a cumulative loss of over £1.3 billion, has added to an already very challenging fiscal environment.

I know you have written to my Cabinet colleagues asking them about their portfolios' support for action on net zero in Budget 2025-26. I am looking forward to delivering our: Climate Change Bill and Climate Change Plan; Energy Strategy and Just Transition Plan; Green Industrial Strategy; Just Transition Plans for Grangemouth, Land Use and Agriculture, Transport and Built Environment and Construction; and Scottish National Adaptation Programme. These policies are being progressed in parallel with our ambitious and wide-ranging programme of legislative reform through our Circular Economy Bill, Agriculture and Rural Communities Bill and Land Reform Bill, while we also continue to consider next steps with our proposed Heat in Buildings Bill following recent consultation.

Our Net Zero Assessment aims to assist Ministers and public sector leaders to make better informed decisions on budgets and policies by providing information on impact on climate targets and signposting areas for enhanced emissions reduction effort. As Màiri McAllan set out in her letter of 18 April to the Committee, in line with the recommendations of the Audit Scotland report on our climate change governance, we will redouble our work to ensure that net zero is fully considered in our workforce, spending, policy development and structures, starting with the roll out of our Net Zero Assessment in the Scottish Government from the end of 2024. The Cabinet Sub-Committee for the Climate Emergency and the Global Climate Emergency Programme Board will have a comprehensive and formal advisory role on the climate impact of proposals. This would be based on the systematic examination of carbon emissions impacts of expenditure being taken forward through the current pilot of the Net Zero Assessment. The intention is, on completion, to roll the pilot out across all significant new expenditure decisions from the end of 2024. We will work with COSLA on how we can assess wider public sector spend against our shared net zero ambitions, through the newly-agreed Climate Delivery Framework.

Detailed answers to the Committee's questions are at Annex A.

Yours sincerely,

GILLIAN MARTIN

REPLIES TO COMMITTEE QUERIES ON THE BUDGET

OUTCOMES OF THE JOINT BUDGET REVIEW PROCESS

Strand 2

1. What are the criteria for a budget line being negative, neutral or positive in the detailed breakdown of the carbon assessment of the budget, and how do you distinguish between high and low impact spend (Annexe J)?

The taxonomy assessment of the budget is intended to aide in the scrutiny of the budget by highlighting budget spending lines which are judged to be most impactful on environmental outcomes.

Level 4 budget spending lines – currently the most granular financial data that is routinely compiled – could contain many disparate individual policies. So, some judgement is required to estimate the climate impact of each spending line.

The current taxonomy has three stages to its assessment:

- Officials, using their judgement, identify the main outcomes of each spending line and its likely area of impact.
 - As an example *“Critical Safety, Maintenance, and Infrastructure” under the “Motorway and Trunk road” spending is identified as primarily supporting routine, cyclical and winter maintenance of roads alongside strengthening of the truck road network. Some smaller proportion of this spend also provides funding for low emissions zones, audit services, as well as other demands from the operation of the trunk road network.*
- The spending line is determined to be either positive, neutral, or negative based on a comparison to a counterfactual scenario where the spend did not occur.
 - If the outcome of the spend relative to the counterfactual was determined to decrease emissions or support adaptation outcomes, then it was rated as positive.
 - If the outcome of the spend relative to the counterfactual increased emissions, or reduced adaptation outcomes then the spend line was negative.
 - If the outcome of the spend relative to the counterfactual did not change or resulted in minimal changes to either emissions or adaptations outcomes, then the spend line was evaluated as neutral.
- Continuing the previous example, if the Scottish Government were to discontinue that roads spending, roads would fall into disrepair and road traffic use would decline. As a result of road traffic emissions would also decline (albeit as a potentially unintended consequence of the deterioration of roads). In this case the spending line was rated as being negative. While some funding goes to low emission zones this would not offset the large impact from reductions in road traffic.

- To assess the magnitude of the impact of lines with a positive or negative rating officials assessed the relative scale of the impact and the importance to achieving net zero. This assessment was made on the basis of the size of emissions within scope, the potential scope of the spending impact, and the relative difficulty of decarbonising the sources of emissions within scope. As there is no systematic mapping of spending lines to individual policies, it is not possible to set a quantified criteria between low and high impact.

When assessing our example, we know that around 8.8Mt (or around a fifth) of Scottish emissions was generated from road traffic. This would see significant reductions if roads quality were to deteriorate. However, a significant portion of road traffic is expected to decarbonise in the 2030s as EVs increasingly replace petrol and diesel vehicles. Given the magnitude of the emissions within scope, and the degree to which they are directly supported by this spend, this puts the magnitude of this area as “High”.

2. Following the inclusion of this assessment in the Budget for 2024/25, what updates and improvements are being considered for the 2025/26 budget year?

As part of the review of the improved budget taxonomy’s introduction there are a number of improvements that are being implemented for the 2025-26 budget year:

- the taxonomy for the 2025-26 will provide separate ratings for adaptation and mitigation allowing Parliament to better understand how spending is believed to be supporting the separate activities;
- stronger quality assurance processes are being implemented to reduce the risk of errors in publications, building on lessons learnt from the last budget and the subsequent review; and
- with the process for the improved taxonomy now implemented, there is greater ability to bring in a wider range of official insight into recurring budget lines improving confidence in the assessment of budget lines.

Strand 3

1. Please can you provide an update on the implementation of a net zero assessment in Scottish Government policy making, including the results of the pilot run in Quarter 4 of 2023?

Our intention is that, following completion of the current pilot of the Net Zero Assessment within Scottish Government, which is currently underway and will conclude in October 2024, the Assessment will be rolled out across all Scottish Government new, significant expenditure decisions from the beginning of 2025.

The Assessment will support an enhanced formal advisory role for the Global Climate Emergency Programme Board and the Cabinet Sub-Committee for the Climate Emergency on the climate impact of future Scottish Government proposals. Given the current status of the pilot though, the Assessment would not be possible to inform the 2025-26 Budget; this will continue to be assessed on the basis of the existing taxonomy approach outlined above.

As we further expand the Assessment, we will work with COSLA on how we can assess local authority spend against our shared net zero ambitions, through our joint Climate Delivery Framework.

Net Zero Assessment is part of a wider policy assessment landscape that includes: impact assessments such as Strategic Environmental Assessment (SEA); business cases; climate specific assessments like the carbon assessment guidance for City Region and Growth Deals; and standards external to government such as PAS 2080 guidance on cutting carbon emissions in buildings and infrastructure construction. The pilot is looking at how the Assessment would link with the range of impact assessments, notably the Strategic Environmental Assessment as well as business cases, to ensure consideration of emissions exists at all stages of policy development. Guidance on Ministerial submissions and Cabinet Papers will also be revised.

In developing the methodology for the pilot, we have looked at a variety of existing approaches in other countries; including New Zealand, Wales, Northern Ireland, and Sweden. The Net Zero Assessment pilot is based on HM UK Treasury Green Book methodology. The pilot has highlighted the importance of the precise level at which a *de-minimis* emissions screening threshold is set, in terms of capturing policies for more detailed assessment – the pilot threshold has been set at policies resulting in emissions of 0.1Mt CO₂e in any one year or a cumulative 1Mt impact. Affordability is being considered as part of the current pilot, to inform the roll of the Assessment across the Scottish Government and wider.

2. In December 2023, you said this—

a. Was being tested with a broad sample of new policies and applying the net zero assessment. Please could you provide details of what these were, how they began and what changes were made to the policies as a result of the net zero assessment?

Over the course of the pilot period we have been looking at assessment of policy development initially, with the potential to extend the pilot to include procurement and infrastructure. Around 20 policies were considered as part of the pilot but were either not at a suitable stage of development or were screened out by the *de-minimis* threshold so did not proceed to the full assessment stage. These included: increase in primary care funding; national treatment centres and single-use vapes; extensions to the Scottish Child Payment; the Minimum Income Guarantee; new Winter Heating payment; the Cladding Remediation Bill; the cash-first plan for food banks; universal free school meals; Keeping the Promise; the fostering programme; supported living for 16-17 year olds; secure care; and Net Zero Catering for Change and Food for Life Programme.

3. In your recent climate change action policy package announcement, you stated that climate impact of proposals for both the budget and the Programme for Government will be based on the current pilot of Net Zero Assessment. Do you have an ambition as to how much of the policy within the 2024-25 Programme for Government, and the 2025-26 Scottish Budget, will be in scope of the net zero assessment?

Our intention is to roll out Net Zero Assessment to all Scottish Government new significant expenditure from the start of 2025. The pilot has highlighted the importance of the precise level at which a *de-minimis* emissions screening threshold is set, in terms of capturing

policies for more detailed assessment – the pilot threshold has been set at policies resulting in emissions of 0.1Mt CO2e in any one year or a cumulative 1Mt impact.

4. Can you provide the committee with any information as to how the results on net zero tests will be shared with Parliament?

We will update the Committee in correspondence on progress.

Government structures

5. In the recent climate policy package announcement you also stated that the Global Climate Emergency Programme Board and the Cabinet Sub-Committee for the Climate Emergency will have a formal advisory role on the climate impact of proposals.

a. What is the membership of these groups?

The Cabinet Sub-Committee on the Climate Emergency membership is:

- Cabinet Secretary for Net Zero and Energy (Chair)
- Deputy First Minister and Cabinet Secretary for Economy and Gaelic
- Cabinet Secretary for Finance and Local Government
- Cabinet Secretary for Rural Affairs, Land Reform and Islands
- Cabinet Secretary for Transport
- Minister for Climate Action
- Minister for Public Finance

The Global Climate Emergency Programme Board membership is:

Current post-holder	Role	Position
Roy Brannen	Chair	Director-General Net Zero
Kersti Berge	Programme SRO and Accountable Member*	Director Energy and Climate Change
Phil Raines	Programme Director	Joint Deputy Director Domestic Climate Change
Catriona Laing	Member	Joint Deputy Director Domestic Climate Change
Jemima Gordon-Duff	Member	Deputy Director International Climate Change
Susie Townend	Member	Deputy Director Energy Industries
Sue Kearns	Member	Deputy Director Consumer and Low Carbon
Richard Rollison	Member	Director International Trade and Investment

George Burgess	Member	Director Agriculture and Rural Economy
Dave Signorini	Member	Director Environment and Forestry
Alison Irvine	Member	Chief Executive Transport Scotland
Annabel Turpie	Member	Director Marine Scotland
Scott Wightman	Member	Director External Affairs
Alison Cumming	Member	Director Budget and Public Spending
Sean Neill	Member	Director Local Government and Communities
Mathew Williams	Advisory Member	Chief Scientific Advisor Environment, Natural Resources and Agriculture
Andrew Bruce	Advisory Member	Director Communications and Ministerial Support
David Fleetwood	Advisory Member	Head of First Minister's Policy and Delivery Unit
Sasha Maguire	Advisory Member	Senior Economic Advisor, OCEA
Fiona Ross	Member	Non-Executive Director
Jim Robertson	Member	Non-Executive Director

b. How will they also support cross-government collaboration? Please provide examples.

The Climate Change Programme currently comprises over 310 policies, driven by more than 13 government sectors. The Programme ensures a concentrated effort and provides enhanced focus, support and assurance for climate change initiatives across the government.

The governance structure includes the Cabinet Sub-Committee on the Climate Emergency (CSC-CE), chaired by the Cabinet Secretary for Net Zero and Energy, and the Global Climate Emergency (GCE) Programme Board, chaired by Director-General Net Zero.

Each month, structured reporting and risk management discussions are held, facilitating cross-sector engagement among Directors. This year, the GCE Programme Board has tackled critical topics such as a Climate Change Plan sectoral deep dive, final clearance of Scottish National Adaptation Programme, the final 20% car km Route Map, the Agricultural Transformation Programme and Bill, and climate change in the Scottish Budget, highlighting the Board's role in fostering collaboration across the Government. While this list is not exhaustive, it exemplifies how the Board supports cross-government collaboration by bringing senior leaders together to tackle critical climate issues, share insights, and drive unified action towards achieving net zero goals.

Looking ahead, the GCE Programme Board will play a crucial role in shaping future Scottish Budgets, providing net zero perspectives advice to CSC-CE members on budgetary issues. This enhanced role underscores the Board's commitment to integrating climate considerations into financial planning and decision-making.