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Dear Conveners,

Thank you for your letters of 20 December 2022 welcoming the conclusions of the Joint Budget Review on matters related to Climate Change. We are responding to both Committees collectively in consideration that both letters raised a number of complementary points.

Responses to points raised by the Net Zero, Energy and Transport Committee

As your letter notes, the conclusions of the Joint Budget Review are already providing pragmatic and realistic improvements to budget scrutiny with Strand One of the Review's final reports introducing a new Climate Change Assessment Annex to the 2023-24 Budget documentation. This Annex has provided readers of the budget with headline climate change spending commitments across a broad range of policy sectors to cover commitments identified by officials as being central, in terms of scale of emissions reduction impact, through delivery of our existing package of climate change policies.

The Review's final report notes that Strand One reforms will be complemented in due course by Strands Two and Three, both of which are still currently in development. Your letter also asks for further clarity on the intended scope of the expanded taxonomy. We can confirm this new taxonomy will revisit the methodology currently used for the capital budget, establishing an expanded approach to be applied equally across capital and resource spend. We recognise that all taxonomies have limitations when it comes to illustrating and analysing in detail the direct carbon impact of spending decisions, as highlighted by the Fraser of Allander research. It is proposed, however, that such methodologies are still appropriate for providing readers of budget documentation with an overall level of climate spend and how this level is trending year-on-year, both within portfolios and across the budget as a whole.

It is important to recognise the three strands of work proposed in the Review's final report as being a coherent *package* of scrutiny and transparency tools. In this regard, the macro-level approach provided by an expanded taxonomy in Strand Two will then be complemented by the development of a Scottish Government-wide Net Zero Assessment in Strand Three. This Assessment will complete this scrutiny toolkit by providing impact information at the individual policy level. As requested, we can confirm that the underpinning intention of this strand is to improve the alignment, in relation to emissions reduction, of spend, policy and outcomes.

Responses to points raised by both Committees

The further points you have both raised with regards to the wider functionality of Strands Two and Three are most welcome, including recognition of points highlighted by the Fraser of Allander research that reforms of the scale outlined in these strands will require tailored capacity-building within Scottish Government to upskill and inform officials to support implementation.

We would emphasise that these two strands are only in their initial stages of development, such that the detailed points raised on both functionality and ensuring successful implementation are well-timed for early consideration as development of these workstreams progress. In this regard, we restate the commitments made in the Review's final report that Scottish Government officials will continue to consult with Parliamentary counterparts. Further, we welcome the invitation to keep both Committees informed on progress during future rounds of pre-Budget scrutiny work. In particular, we will look forward to arranging engagement opportunities in May and August 2023 to update the Committees regarding the development of Strands 2 and 3. These updates will include, as requested, illustrative examples of both application of these reforms and how they are supporting development of the forthcoming draft of the next Climate Change Plan.

We welcome the appreciation expressed by both Committees for the work that has taken place over the past two years through the Joint Review process. We are also very grateful for the positive and constructive engagement that the Committees have contributed throughout this process and which will now support meaningful improvements to scrutiny and transparency of budget information related to Climate Change.

Yours sincerely,

JOHN SWINNEY

MICHAEL MATHESON