OFFICIAL REPORT
AITHISG OIFIGEIL

Environment, Climate Change and Land Reform Committee

Tuesday 11 September 2018

Session 5

The Scottish Parliament
Pàrlamaid na h-Alba

Tuesday 11 September 2018

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ENVIRONMENT, CLIMATE CHANGE AND LAND REFORM COMMITTEE
24th Meeting 2018, Session 5

CONVENER

*Gillian Martin (Aberdeenshire East) (SNP)

DEPUTY CONVENER

*John Scott (Ayr) (Con)

COMMITTEE MEMBERS

*Claudia Beamish (South Scotland) (Lab)
*Finlay Carson (Galloway and West Dumfries) (Con)
*Richard Lyle (Uddingston and Bellshill) (SNP)
*Angus MacDonald (Falkirk East) (SNP)
Alex Rowley (Mid Scotland and Fife) (Lab)
*Mark Ruskell (Mid Scotland and Fife) (Green)
*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Simon Fuller (Scottish Government)
Dr Sam Gardner (WWF Scotland)
Rachel Gwyon (Scottish Government)
Derek Mackay (Cabinet Secretary for Finance, Economy and Fair Work)
Dr Mark Williams (Scottish Water)

CLERK TO THE COMMITTEE

Lynn Tullis

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Environment, Climate Change and Land Reform Committee

Tuesday 11 September 2018

[The Deputy Convener opened the meeting at 09:34]

Decision on Taking Business in Private

The Deputy Convener (John Scott): I welcome everyone to the 24th meeting in 2018 of the Environment, Climate Change and Land Reform Committee. We have apologies from Alex Rowley. I remind everyone present to switch off their mobile phones, please, as they may affect the broadcasting system.

I take the opportunity to thank the departing members of the committee for their work over the past year, particularly Graeme Dey, who was our previous convener, Alex Neil and Donald Cameron, and I welcome Gillian Martin to the committee.

Under item 1, do members agree to take item 6 in private?

Members *indicated agreement.*

Interests

09:36

The Deputy Convener: Item 2 is to allow our new committee member, Gillian Martin, to declare any interests that are relevant to the work of the committee. Gillian, is there any relevant interest that you would like to declare?

Gillian Martin (Aberdeenshire East) (SNP): No, I have no interests to declare.

Convener

09:36

The Deputy Convener: Item 3 is choice of convener. The Parliament has agreed that only members of the Scottish National Party are eligible for nomination as convener of the committee. I understand that Gillian Martin is the party's nominee for the post.

Richard Lyle (Uddingston and Bellshill) (SNP): I propose Gillian Martin as convener.

The Deputy Convener: Do we agree to choose Gillian Martin as our convener?

Members *indicated agreement.*

The Deputy Convener: That is universally agreed.

Gillian Martin was chosen as convener.

The Deputy Convener: Congratulations, Gillian. Welcome to the post. We will have a brief suspension to allow me to vacate the chair.

09:37

Meeting suspended.

09:38

On resuming—

Pre-budget Scrutiny 2019-20

The Convener (Gillian Martin): Item 4 is pre-budget scrutiny of the Scottish Government's budget for 2019-20. We will take evidence from two panels. I welcome our first panel. Dr Sam Gardner is acting director of WWF Scotland and Dr Mark Williams is head of environmental science and regulation for Scottish Water. We have a number of questions for you. Our first question comes from Richard Lyle.

Richard Lyle: Thank you, convener, and good morning, gentlemen. My question is about Scottish Water. Dr Williams, I notice from your briefing that you continue to support new housing and economic development across Scotland. In the period 2015 to 2018, more than 65,000 new homes and businesses have been connected to your network, and you forecast that support for capacity in relation to those new connections will continue. In relation to future developments, how does climate change play into your capital spending decisions? That question is mainly for Scottish Water.

Dr Mark Williams (Scottish Water): From a Scottish Water perspective, climate change has two dimensions: the carbon implications of spend and the climate resilience of the services that we provide.

In terms of the climate resilience of any flooding or other developments that we are dealing with, we have undertaken a number of studies around the climate change implications for Scotland. We are also working to develop the implications for water resources and drainage planning. Those are factored into the long-term strategic investment planning that we undertake, the intent being that future services remain resilient to climate change.

We measure carbon in two ways. Operational carbon is how we refer to the way in which we record and report externally on Scottish Water's annual contributions to Scotland's carbon footprint. We go through a very consistent year-on-year approach to accounting for carbon in our business. That gives us the overall implications of our use of energy, chemicals and transport, our administration and so on within Scottish Water's footprint.

The longer-term carbon implications of investment have been picked up through a new approach that we are developing around capital carbon and infrastructure assessment, which will involve looking at the types of investment that we are doing. We have created a tool that allows our engineers to look at the carbon implications of all the assets and plant that they use on site when undertaking construction activities. We are trying to adopt an approach that is consistent with the PAS 2080 carbon and infrastructure guidance that is now available from British Standards.

Effectively, that means that we have a tool that allows Scottish Water and its delivery partners to start to account for carbon within the business. We launched the tool last November and have undertaken some training and development with teams to get their engagement with it. We are now assessing its roll-out and implications.

In the longer term, we are seeking to look at how we take carbon into account for longer-term planning. We want to start to understand much earlier in the planning cycle what the carbon implications may be for investments, so that we can start to look at how we factor carbon into the choices that we make relatively early on.

Within that, we need to come to a very simple understanding of the relationship between the investment that we make and the embodied or construction carbon that that would entail. We are still working through that to close off that piece of work, and we are looking at the whole-life carbon implications of our investment through that approach.

Richard Lyle: I welcome your realistic approach and I am very pleased to note that you are looking forward to the future. Water is a very important resource for housing, development and industrial areas. Are you pre-planning with councils or mapping out developments as they take place to see how you can reduce your carbon footprint?

Dr Williams: There are opportunities for looking more strategically at the issues with partners. To date, we have looked internally at Scottish Water's own investment planning. As we go forward, when we start to think about broader urban drainage issues, the opportunity to work with councils and other partners around finding a more sustainable approach is certainly an area that we are keen to explore.

Earlier this year, Scottish Water launched its surface water strategy, which is about working with partners to ensure that we take a more realistic and holistic approach to urban drainage.

John Scott (Ayr) (Con): I was going to ask why you developed your capital carbon accounting tool, but you have explained that and how it works in practice. Do you want to say anything more about that?

Dr Williams: The key point is that, over a number of years, the industry has been engaged in understanding how we need to do that work. Operational carbon is relatively straightforward and easy, and we developed the tools around that quite early on, so we have been able to develop that consistent record.

Capital carbon is much more difficult. It goes to the heart of how we think about, plan and deliver investment and engage contractors. A broader church of people need to be involved in understanding that, and we are finding that a key point is that a continual push on engagement is needed to get it into the process. We are very keen to see how we can build it into decision making in the future, rather than bolting it on.

John Scott: Thank you.

09:45

Mark Ruskell (Mid Scotland and Fife) (Green): I want to explore that in a little bit more detail. Has the carbon accounting tool made any practical difference to your existing capital infrastructure programmes? A related question is how it drives innovation. I am aware that in Stirling, for example, you are trying out some waste water heat recovery. That is clearly not a commercial technology that can be applied across every development at this point, but how does the tool drive that innovative work in a way that can feed into capital programmes at a later date?

Dr Williams: One of the key things that we are looking for is an understanding of where the tool can drive different thinking. By and large, if you spend a pound, you emit carbon. Historically, going for the lowest overall cost solutions will deliver, in general, a lower-carbon outcome. We are interested to understand is the extent to which the tool will drive further and different thinking around what we do.

It is difficult for me to say there has been a direct outcome, in terms of innovative approaches or the difference in relation to carbon that we have made, because of carbon appraisal. Largely, we are at the stage of understanding what we have done in assessing and accounting for the carbon in capital investments. That allows us to start to demonstrate where savings have been made, but I would not pretend that carbon was the driver for that. We are looking to understand the benefits that it gives. We can then look at how we can take that forward in decision making. For example, in some of the schemes that we have delivered around Cowdenbeath, we ended up putting in a more sustainable wetland-type solution. Overall, we saved about 5,000 tonnes of carbon by doing that, and although I note that carbon was a factor when we understood the totality, it was not the driver for that innovation.

Although just looking at cost might mean that you end up with one outcome, we are trying to understand whether factoring carbon in means that there might be something, either in the supply chain or elsewhere, that you would do differently. We are still in the relatively early part of this journey, but that is certainly something that we are looking for.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): I want to explore a little bit with Scottish Water how carbon accounting is done. I am interested in—and I use this as an example—the fact that, in your capital projects, you are a consumer of cement. A lot of carbon is invested in energy to produce cement—grinding stones down and so on. The question is: to whom should that carbon cost be attributed? Is it to the manufacturer of the cement, which I think it probably should be, or is it to you? I want to understand that, but I also want to understand the extent to which you consider the carbon costs that others have incurred—the manufacturer of the cement in my example—in coming to decisions. We are in the very early days of dealing with carbon accounting and I am a bit worried that we face the danger of double counting or missed counting if we do not have a consistent approach to inputs and outputs, such as the approach that we would take to finances. Could you talk us through that a little bit?

Dr Williams: You raise a fundamental point. When we report our operational carbon, we do not report the capital carbon because the capital carbon would draw very much from the carbon that is emitted by other industries in Scotland—and elsewhere, if the materials have been imported.

We are trying to look at the issue from Scottish Water's perspective and ask where we have had an influence. We talk about capital carbon as being part of our broader footprint, but that is not the footprint that we would report as our contribution to Scotland's emissions, because, in my view, that would be double counting.

The carbon accounting tool has drop-down datasets for carbon in whatever we use—concrete, other materials, pipework and so on. We try to capture the main items using that drop-down approach, but we certainly would not claim that that produces Scottish Water's true carbon footprint because those items would have been accounted for elsewhere in the Scottish economy.

We are trying to use the tool to understand the carbon implications of our investment choices and where we might have an influence in the future.

Stewart Stevenson: I hoped that I would hear that. Since you do not employ many brickies, you do not grind many stones down to produce cement, so I am struggling to work out any capital cost that you incur rather than buy in. Can you give me an example or two to help me understand?

Dr Williams: I suppose that the primary examples are around on-site activities where land works are done through a contractor, so there is the diesel and all the other materials that are used and the direct emissions from that activity on site. We bring in material that has been produced elsewhere in the economy. We have a factor for understanding the carbon implication of that investment, but the emissions that are more directly associated with any capital investment come through on-site activities involving either ourselves or our contractors.

The Convener: Do you have another question, Mr Stevenson?

Stewart Stevenson: Yes. I will move on to something that I have been asked to ask and which I think I should ask. To what extent is the tool that you have developed likely to be useful for other parts of the public sector and indeed beyond? You said earlier to John Scott that you work with partners, councils, house builders and so on, so clearly there is a collaborative model in the way you think about things. To what extent is the accounting tool that you have developed going to become part of that collaboration and help others?

Dr Williams: There are two ways of looking at this. One is in terms of the principles of the accounting, which we developed through a project that we did with UK Water Industry Research. That established the overall cradle to grave type of approach to capital investment and embodied carbon emissions. Taking those principles, which are published and available, we then looked at how to build them into a tool for use in Scottish Water. Again, it is a fairly straightforward Excel-based tool—it is nothing earth shattering. It is about having the right boundary settings and reporting in a way that is useful to our engineers. The key thing is that, whatever organisation is undertaking investment, the tool has to fit with its systems. I think that the principles are absolutely fine. There is nothing in the approach that we have taken that is not transferable. We have taken the carbon factors from the broadly available and published data on carbon metrics. We are very happy to talk to anybody and take them through that approach, but the tool is basically an industry tool that is drop-down for the types of investments that we make, so it will not be directly transferable as a tool in its own right. However, we are certainly happy to engage further on sharing the learning.

Stewart Stevenson: Therefore, what is transferable is your approach to developing the tool rather than the detail of the tool, which is very specific to your industry and your company.

Dr Williams: Yes. The key thing for any organisation or company that is doing this is that it has to have something that is aligned with what it does. As an industry, we found that, although we were able to develop a carbon emissions workbook for operational emissions that every company uses—it is a one-stop shop; you go in there and you do the entire inventory of your emissions—for capital investment we could produce only the guidance, because each water company has different ways of doing things and you have to recognise the diversity of how organisations invest.

Claudia Beamish (South Scotland) (Lab): How does carbon accounting work in relation to Scottish Water Business Stream? Can members of the public see that? Is there a website where they can see how that process works?

Dr Williams: One of the areas of our operational footprint that we do not cover is Business Stream, because what I report on is the emissions of our core regulated business. That also includes all the private finance initiative companies that operate some of our assets. The part of the footprint that we look at is the core regulated business. I am afraid that I do not have direct access or input to the Business Stream side of things, but I can find out where that information could be found.

Claudia Beamish: That would be helpful, because I think that it sends a clear message to businesses that are working with you that this is an important issue.

Dr Williams: In our annual carbon footprint report we try to help our customers by letting them know the carbon intensity of each of their water and waste water services. Any customer could get that information from our website.

The Convener: I would like to take some questions for Sam Gardner now. Dr Gardner, I would like to have your view on some of the things that Mark Williams has discussed with a view to information sharing with other sectors. What can they learn from what you have heard today?

Dr Sam Gardner (WWF Scotland): I suspect that there is quite a lot that other sectors can learn. It sounds as if Scottish Water is being particularly progressive and demonstrating some best practice. That is commendable. Transparency and sharing that best practice are to be encouraged.

It became apparent in Mark Williams's answers and in the discussion that issues to do with double counting and the need for bespoke approaches to particular industries highlight the need for a cross-economy approach, which will give confidence that the sum total of all these bits of investment is something that can be confidently described as being consistent with tackling climate change. That is where I think that WWF has certainly had a concern over a number of years. We have not been alone in that respect. This committee has previously highlighted the challenge in being able to scrutinise the budget and having confidence about how that capital investment delivers for climate change, as have other committees for some time.

My answer could get quite long at this point. There is a very welcome endeavour, which was captured in the first climate change bill and which has been pursued with considerable effort on the part of the Scottish Government, to provide a carbon assessment of the budget. It has become apparent over the past nine years that that approach has not afforded committees with the means of understanding whether the budget will deliver for the climate change agenda. Through a combination of the budget review process, the forthcoming climate change bill and the climate change monitoring plan that is coming forward in October and which is required under the proposed climate change bill to be an annual report, the Parliament and the committee have a welcome opportunity to bring those processes together in such a way that there is much greater understanding among the committee and stakeholders as to whether capital investment is aligned with the climate change agenda.

WWF was instrumental in establishing the low-carbon infrastructure task force, which was made up of a broad range of institutions from the Scottish Investment Bank, as it was then, to the Scottish Council for Development and Industry, Ramboll Energy, Pinsent Masons, the University of Edinburgh, Oxfam and others. It looked at how we could have low-carbon investment in our capital spend.

One of the task force's conclusions—which I think is pertinent to the point about how to have oversight as to whether the sum total of our capital investment is fit for purpose—was that there needed to be a low-carbon infrastructure commission in Scotland. Such a commission would not be dissimilar to the national infrastructure commission at the United Kingdom level and would be the means of providing, first, independent scrutiny as to whether the Scottish Government's long-term investment plans are fit for a low or zero-carbon future; and, secondly, advice as to where that infrastructure need is most pressing and where the gaps are. It would say where the infrastructure investment is most required and how that can be aligned with delivering a zero-carbon future.

I think that that idea has an awful lot of merit when we are talking about investment happening today that we will be living with in 2050 and we are trying to ensure that that long-term perspective is applied to our capital investment decisions.

Finlay Carson (Galloway and West Dumfries) (Con): You have touched on the role of the low-carbon infrastructure task force. What was your role in that and what did WWF contribute to it?

Dr Gardner: The idea came from WWF and was borne out of an understanding that our capital investment will determine whether we meet our future long-term climate change targets. We spend money today that will lock in behaviours and technologies that will shape whether we have emissions in 2050.

We sought to build an alliance of representatives from across the infrastructure cycle—for example, from the legal space, from industry, from the finance sector and from the development side—and the endeavour in the first instance was to take stock of the current state of play. We commissioned Green Alliance to do a piece of work that concluded by looking at what proportion of capital investment by the Scottish Government could be attributed to high, medium or low carbon.

It has been welcomed that the Scottish Government took up that approach and the finance secretary has continued to try to apply it in describing what capital investment is at the moment. The figures given by the Scottish Government are that 29 per cent of current capital investment could be described as low carbon, and the rest is a combination of neutral or high carbon. In the post-Paris agreement world those distinctions become a little bit defunct, in that we are moving towards a place for 2050 that is low carbon or no carbon. We cannot have an investment cycle 70 per cent of which is contributing to climate change.

10:00

We can see what the current balance of effort is and where it is going. The low-carbon infrastructure task force then set about identifying what were the most pressing infrastructure needs that delivered multiple benefits for the Scottish economy and the people of Scotland. We peer reviewed those. We employed Jacobs to do a fairly extensive piece of research interviewing lots of different sectors, including Scottish Water. We then did a public poll, so we engaged with the public to understand where there was a public sense of need. That project concluded that key areas of investment were energy efficiency, which is a topic that this committee and others have given some focus to; transforming our city centres into more liveable spaces that encourage and enable active travel; and supporting district heating networks. In particular, we need to connect what we have at the moment, which is isolated district heating networks. We need to use the investment spend of the Scottish Government to enable networks to be built and connections to be made because, at the moment, they happen increasingly in isolated one-off developments rather than being built strategically through some kind of long-term investment planning.

As I have alluded to, the whole project concluded with recommendations about the value that there would be in a Scottish infrastructure commission and the oversight that it could provide. It described some key areas of low-carbon investment that would go a long way to stimulating innovation and would provide multiple wins for Scotland, and I think that it shone a light on the importance of making sure that our long-term investment spend delivers for the climate.

Finlay Carson: That was a very comprehensive answer that also answered my next question, which was to ask what role you played in developing that. Could you highlight once more the pros and cons of the way in which the Scottish Government went about calculating the low, neutral and high-carbon spend?

Dr Gardner: To be fair, the Scottish Government took the approach that the low-carbon infrastructure task force presented at the time. It is a very high-level division, which seeks to attribute the carbon associated with capital investment to one of those three categories. What is important now is that, particularly as we approach the scrutiny of a new climate change bill, which seeks to raise our carbon and climate change targets, we recognise that we cannot be locking in any carbon investment for the future. We cannot be creating for ourselves the need to return to infrastructure 10 years down the line to expensively retrofit it with new technologies to enable us to meet future carbon targets.

We have to lock in the transition to a zero-carbon future. That requires a substantial shift in the proportion of investment that is spent on infrastructure that does not contribute to climate change. At the moment, well over half of the investment is contributing to climate change and roughly a third could be categorised as low carbon. That definitely has to change if we are to have any confidence that we are not making the job an awful lot harder for us down the line and creating expensive retrofitting challenges. It is typically an awful lot more expensive to retrofit a building then it is to build something in in the first place.

The Convener: Before I bring in Richard Lyle, I want to ask you about some of the things that you were saying about the low-carbon infrastructure projects. Obviously they have a fantastic impact on our emissions and all our climate change targets, but they also have a big economic benefit as well. Do you think that that narrative has to be spoken about more? You talk about things such as active travel and energy efficiency. There is a big saving to be had.

Dr Gardner: Yes, absolutely. Your question illustrates the fact that we still have a job to do to articulate the broader set of benefits. WWF is a member of the Existing Homes Alliance Scotland, which has gone to great lengths to show the job creation figures that are associated with energy efficiency. Somewhere in the region of 9,000 jobs could be created by taking all our homes to an energy performance certificate rating of C by 2025. It has also looked at what the savings would be to the national health service. Similarly, others in the sustainable transport space have invested a lot of time in articulating what the benefits would be to the NHS of improving our air quality and increasing the level of active travel, so absolutely there is a compelling need to broaden the narrative beyond purely the delivery of emissions reductions. These investments typically have multiple benefits associated with them and we need to confidently ascribe those benefits to them.

Richard Lyle: Further to Finlay Carson's question, you said that the Scotland's way ahead project recommended the creation of an independent Scottish infrastructure commission. Most organisations have a regulator. How important do you believe that an independent Scottish infrastructure commission would be, and is that your ask in any future bill?

Dr Gardner: An awful lot would depend on how such a commission was constituted, what its mandate was and what its resources were. If it fulfilled its greatest potential, it could have huge significance in complementing the parliamentary scrutiny process and affording the Scottish Government with independent advice about Scotland's infrastructure needs. It could do that in such a way that there would be confidence that those infrastructure commitments were compatible with delivering on the climate change agenda. At the moment, we do not have that. We have an infrastructure programme that is built up as the sum of its parts, which come from across the Scottish Government and from the outside world—people put their hand up and make a case for things—and it is hard to be confident that the sum total is consistent with tackling climate change.

Until we allow ourselves to take that independent, long-term perspective as to how we are building our future, I think that there remains a risk that we will be making decisions that will contribute to climate change and potentially lock us in. It is not about trying to replace a regulator or anything like that. It is about trying to provide independent, objective analysis of what the infrastructure spend of the Scottish Government is and how it aligns to the climate change targets; and where the most pressing needs are and how they can be addressed in a way that maximises the impact of public spend, creates innovation and creates jobs as well as tackling climate change.

Mark Ruskell: We have a new budget process and there is an opportunity to consider climate change in more detail. Do you have particular views on how the Scottish Government could improve how it monitors and reports on the climate impact of the capital programme?

Dr Gardner: WWF worked with the University of Strathclyde's international public policy institute to look at just that challenge. The first thing that I want to say is that the Scottish Government has attempted, year on year, to present an understanding of the climate impacts of the budget. It is accepted that that goes so far, but it certainly does not provide the committee with the means of understanding whether that spend will contribute to tackling climate change or lock us into high-carbon behaviour.

The forthcoming climate change bill, along with the climate change monitoring framework, provides us with an opportunity to align the two processes that to date have been entirely separate but have then been brought together in a rather artificial and unsatisfactory way, despite everyone's best efforts.

The carbon assessment, as we currently get it, is a snapshot in time of the carbon emissions that are associated with that spend. It does not provide us with a cumulative sense of what the consequences are of the spend. Perhaps most importantly of all, it does not interact with the budget process. It is an after-the-fact description of what the consequences are of those budget decisions, rather than a tool that is used to inform and reflect and integrate with the budget development process.

The opportunity that the new budget scrutiny process affords is for the Scottish Government to present the Scottish Parliament with material in October through the new climate change monitoring plan that will support the climate change plan. It should set out—as this committee has asked for in previous sessions—a description of the high-level expenditure that is associated with the policies, which gives you the raw material to understand, when the budget comes in front of you, whether those two things match up.

What has always been the case up until now is that the committee has been provided with level 4 figures, some time after the budget has been produced, which has really challenged your and the outside world's ability to understand whether the budget will deliver against the climate change plan.

Previous climate change plans—reports on policies and proposals, as they were known—

provided a description of what the total cost was associated with a policy stream. The current climate change plan does not do that, which I think makes it all the more important that the climate change monitoring plan provides a greater level of transparency to afford committee members and others sufficient understanding to know what is required in order to make a policy a success.

Behind every policy in the climate change monitoring plan is a theory of change, and sometimes that theory of change is as simple as saying that the Scottish Government invests X and gets Y. However, if you do not know what X needs to be and Y is not described very clearly or is many steps removed, it will be increasingly hard for the committee to take a view on whether the spend that is attributed in the budget that you get in the new year matches with that policy.

Through the monitoring plan and what comes forward to the committee in October, we have the opportunity to get a level of information that has not previously been afforded and to reflect on that. That in turn can inform the committee's submissions back to the Scottish Government on how the budget should take account of climate change.

Mark Ruskell: Can I just follow up on that? You talked about the assessment being a snapshot. Is there a difficulty there for Governments in that in many ways capital programmes are multiyear and can be quite lumpy—we might have a large degree of high-carbon capital spend one year that then goes down again the next year, once the bridge or whatever has been built? How do we assess the trajectory that the Government is on instead of plucking out a 12-month figure and saying, "That was a great year," or "That was a bad year"?

Dr Gardner: That is what we currently do; the carbon assessment comes out and describes the consequences in that year. The work by the international public policy institute at the University of Strathclyde is an attempt to consider how we could provide a longer-term forecast, rather than the instantaneous impact of a budget spend. It sets out two approaches, which we attached in our evidence. One would be a more top-down approach, which would seek to attribute a carbon consequence to revenue spend, built on research and analysis. It would ask: what is the projected saving associated with this? Such an approach would be refined over time and would not be incredibly accurate but it would give confidence in the direction of travel. For more substantive high-carbon or capital investment projects—particularly transport projects—which have a huge amount of data associated with them, it is much more possible to do a bottom-up analysis of specific projects and say what the carbon implications would be over the lifetime of the project.

While the Climate Change (Scotland) Act 2009 is no doubt challenging, I think that we all recognise that the approach in it has had its limitations. The forthcoming bill provides an opportunity to strengthen that, by requiring future carbon assessments to provide such a forecast. The briefing that we have provided outlines two approaches that would help with that.

The Convener: We have some supplementary questions from other members of the committee.

Stewart Stevenson: Would it be fair to say that if the Government's carbon expenditure rose that would be a good thing if, in consequence, it displaced expenditure elsewhere in the system? In other words, just to go back to my cement example in an earlier question to Scottish Water, if we found a way of using a new material that had a lower carbon footprint but not zero, and the Government itself went and dug out the mud that we were using instead of cement—I am stretching the bounds of probability here—we would no longer be incurring the cement cost in the overall system although we would increase the carbon cost in the Government system. The generality of what I am saying is: is not one of the difficulties in understanding what "good outcomes" are the fact that the outcomes are outcomes not simply for the Government but for the whole system?

10:15

Dr Gardner: Your point is a good one and it illustrates the challenge in knowing where to draw the boundary around the implications of expenditure. In light of the challenges that we have all experienced in trying to understand the current situation, I would encourage the Scottish Government in any future carbon assessments that it provides to draw the net wider and to attribute the carbon consequences of spend for the whole of Scotland. What happens as a consequence of capital investment spend in terms of shifting behaviours? If we dualled the railway line north of Perth, for instance, would that encourage a displacement of road traffic on to rail? What would the carbon consequences be? It might be a high-carbon investment at the point when we are laying the steel, but over its lifecycle, it ought to support a shift in transport behaviour. Similarly, if we invested in a greater network of cycle paths, obviously there would be a carbon investment—tarmac would have to be laid and suchlike—but a lifecycle assessment should show that it encourages active travel. Therefore, I think that it is necessary to throw the net quite wide to capture the implications of the Scottish Government's capital investment spend. Capital investment has a purpose; it is public policy and it needs to be seen in the round. If we did that, we could capture the longer-term benefits that are ascribed to such expenditure.

The Convener: I think that all the questions from the committee have been answered. Thank you very much for joining us today.

10:16

Meeting suspended.

10:20

On resuming—

The Convener: We resume our evidence taking on the Scottish Government's budget. I now welcome Derek Mackay, the Cabinet Secretary for Finance, Economy and Fair Work, who is joined by his officials from the Scottish Government: Dr Simon Fuller, deputy director, economic analysis; Rachel Gwyon, deputy director, infrastructure and investment; and Clare Hamilton, deputy director, decarbonisation division. I welcome everyone. We have some questions from members, first from John Scott.

John Scott: Good morning and welcome. Cabinet secretary, what role do you have in making the Scottish Government's capital budget proposals work together with climate and environmental targets, particularly given the new year-round budget cycle?

The Cabinet Secretary for Finance, Economy and Fair Work (Derek Mackay): Thank you for the question and good morning to the committee. My role is as part of the overall Government corporate organisation, delivering on our targets, both statutory and those we have set out by way of policy. We have published a national performance framework as well, which sets out the objectives for the country and our purpose, and within all of that I work with cabinet secretaries and ministers to deliver on our commitments and ambitions, not least on our carbon commitments in the climate change plan. Therefore, principally, my role is in understanding the policy objective and then working with cabinet secretaries to ensure that there is necessary investment. There is a collective approach, with individual cabinet secretaries, and I bring together the Government's fiscal function, naturally.

The Convener: Would you give us more detail on how you work with other cabinet secretaries when allocating the capital budget? If you are thinking about decarbonisation or emissions, for example, what role do the Cabinet Secretary for Environment, Climate Change and Land Reform and the Cabinet Secretary for Transport, Infrastructure and Connectivity play in the process?

Derek Mackay: We look at capital, in particular, and infrastructure, so I work very closely with the infrastructure secretary. Clearly, that role has changed and Michael Matheson now holds it. The infrastructure secretary—whether Keith Brown or now Michael Matheson—and I would work more closely on the capital plan, recognising the infrastructure secretary's role in infrastructure spend, but all cabinet secretaries have an interest in respect of their portfolio in the allocation that they get in terms of capital spend.

On the specific question about the environment or rural economy secretaries, there would be bilateral meetings and there would be engagement through the budget process, working towards the budget to deliver their specific objectives. One committee that I have found very useful in relation to this committee's particular agenda is the Cabinet sub-committee, which has met to focus specifically on climate change and emissions and, of course, has fed into the climate change plan. That is separate from the annual budget round; it is specifically on that plan.

Therefore, annually, for the budget, I would engage with all cabinet secretaries and specifically with those in relation to climate change; and, as I say, the infrastructure secretary has a role in the allocation of capital spending as well.

I suppose the purpose of inviting me here today is to explore what in this new budget process is different from before. Whether or not there is no change within Government to the process for the budget, what the budget process review group has tried to do is to give the Parliament deeper engagement in the pre-budget period. I suppose that that is where the dialogue is useful and I am as happy to explore that as you are.

Stewart Stevenson: Could you give us an example of a change to a plan that derives from what the carbon impact of a proposal might have been?

Derek Mackay: You would have to take that back to policy: what are we trying to achieve as a Government and how does that feed into actual spend? I suppose that a substantial area would be the transport network. We know that we have electrification of the trains as a policy. We know that we have an aspiration for more sustainable forms of travel, so there has been substantial investment specifically in rail. Therefore, understanding the impact of vehicles on the roads, we make a policy choice: we want to continue investing in rail. That then manifests in massive spend on both railways generally and the electrification of rail. So that is a huge example.

There would be many examples from areas of spend within the Government estate. For example, we are trying to make buildings more energy efficient. That is about understanding the emissions coming from estate buildings and how we take that forward.

So it goes from massive policy to just getting better practice from existing resource.

Stewart Stevenson: Therefore, the success of the carbon approach that the Government is taking lies in it becoming part of the assessment at the earliest possible stage of any decision, so that by the time they reach a minister for a decision those issues have been dealt with—they are coming forward in that way. Really you are saying that the whole carbon assessment is embedded in the system right from the very first time that a matter is considered.

Derek Mackay: I would say so. It is in the very thinking of ministers—from Government policy right through to individual decisions on actual spend, we would think about the impacts of the policies that we are making. As I say, that is now driven by the climate change plan, which sets out our ambitions for the country.

Claudia Beamish: Good morning, cabinet secretary. Could we turn our discussion to the infrastructure investment plan? The Scottish Government's response to the ECCLR Committee's last budget report committed to the next infrastructure investment plan taking Scotland's climate targets into account. Are there plans for a refreshed IIP, and how will it take the proposed stronger climate targets into account?

Derek Mackay: The current thinking around infrastructure investment is quite clearly influenced by the high-level commitments that we have around climate change, not least the commitment that was secured at the last budget in terms of capital spend and the proportion of low-carbon spend there. There are on-going decisions around that infrastructure investment. The IIP is a high-level document and considering some of the recent announcements around infrastructure spend, as outlined in the programme for government, I think that there will be a need to look at further iterations of that. Of course, it was last published in 2015.

I also need to be careful: I should not make unilateral decisions today at committee because the infrastructure secretary, who has lead responsibility for the plan, might have something to say about that—of course, I would set out the finances and the considerations therein. It is fair to say that, having published the document—there have been iterations throughout, because of the nature of infrastructure spend—we will be looking at a revision; we will turn our mind to that. When we do that—to answer the question—quite clearly the ambitions in the climate change plan and the direction of travel towards that low-carbon economy will have to feature in that revision.

Mark Ruskell: You made a welcome commitment as part of this year's budget process to increase the amount of low-carbon capital spend throughout the Parliament's lifetime. Is that consistent with what is in the IIP? According to some analysis that we have seen, the proportion of low-carbon spend might increase in the short term from year to year, but it has also been suggested that, if we take the IIP in the round, it might decrease over time. What is your response to that?

10:30

Derek Mackay: I was watching some of the earlier evidence from WWF and Scottish Water, so I witnessed the point about the difficulty in taking what happens year to year and comparing it to what happens overall. I think that you yourself made the point that you might have a good year or a bad year, but the direction of travel is really important.

Of course, my commitment was for the annual budget, but it was not just a one-off. This is the direction of travel that we want to continue on. With regard to infrastructure, we want to continue with that direction of travel and ensure that we keep to it in the longer term. Our commitment with regard to the proportion of low-carbon spend in the budget year on year will be made from here on in as best we can. We will be able to look at the totality when we have the next full infrastructure plan, but if we are doing this year on year, it is important that the long-term trend reflects the right direction of travel.

Mark Ruskell: To be clear, are you saying that your commitment as part of the budget process is completely consistent with the IIP or that the IIP will need to be reviewed?

Derek Mackay: The IIP gives the headlines of commitments, while the budget sets out exactly what we fund from year to year and therefore what the exact capital commitments are. We want to deliver what is in the IIP but, of course, we will need to revise it in the light of financial commitments and other developments. I want to keep within the ambitions for the low-carbon economy, but—and this is important—I will try to achieve our commitment through the annual spend on capital each year, because that is the most meaningful place where I can do that. I hope that that is clearer.

Claudia Beamish: Can you give more detail about how the IIP relates to the infrastructure investment board? Do you expect the board to give you advice that allows climate change to be taken into account in the IIP—or indeed, as Dr

Gardner and my colleague Mark Ruskell have highlighted, in the budget process as we go forward?

Derek Mackay: Again, I will say that, although we have a team approach in the Scottish Government, I have to be careful that I am not encroaching on or making decisions on behalf of other cabinet secretaries directly. I know that some committee members are eager for me to do so.

Claudia Beamish: It is just about facilitating the possibilities.

Derek Mackay: Absolutely. However, I would make the point that I do not lead that process, and I do not want to mislead the committee in that regard. I was specifically asked about the advice that I would get. Given that the Scottish Government's infrastructure investment board looks at a range of issues, including the strategic approach, the finances, the contribution to sustainable economic growth and so on, my answer to your question would be: yes, I would expect the board to take all environmental issues into account in advising on the delivery of infrastructure commitments and the options going forward.

Again, I make it clear that, with regard to all the major commitments around infrastructure spend, we will need to look again at the long-term commitments. All of the thinking that has been done over a number of years will have to feature in those spending decisions, but they have not been set out yet. For my part, when it comes to the annual budget, we will absolutely look at the environmental contribution of every spending decision that we make with regard to that carbon and capital profile.

Claudia Beamish: Will the monitoring commitment made by the Cabinet Secretary for Environment, Climate Change and Land Reform, Roseanna Cunningham, help with the budget process? I think that that will come in October. Our concern, which has been highlighted by Mark Ruskell, is that there should be an on-going assessment that fits in with the budget. In the past, the committee has found it very difficult to analyse the budget; things have appeared simultaneously, and we have found ourselves looking at the level 4 figures and thinking, "Well, what can we do now?" It is important for the assessment to happen beforehand, perhaps, and to be on-going.

Derek Mackay: The issue here is timescales. Of course, the point is this: the timescales for the Scottish budget have to follow those for the UK Government's budget for a range of reasons to do with the decisions that are taken as part of the fiscal framework and their impact on the Scottish budget. I cannot produce the budget any earlier than that.

What I have been trying to do is deliver a Scottish budget within three weeks of the UK budget. Interestingly, I have also been advised by the Treasury that I will get 10 weeks' notice of the UK budget's timescale—not the content, just the timescale. I get a courtesy call the night before, telling me some of the content headlines.

That is indeed very interesting, given that right now the clock is ticking on that 10-week timescale—if it holds. If we had monitoring information any earlier, it might well be possible to inform the committee—and, yes, ministers—about progress. However—and this is the point of interest with regard to process—I will still not present any draft budget any earlier than its first presentation on Scottish budget day.

As far as the committee is concerned, there is a slight mismatch between the monitoring information that you receive and influencing a budget that you have not seen. The fact is that I cannot publish the budget any earlier, for the reasons that I have given—I cannot publish a draft draft budget. That is why we are trying to explore with you a process in which we look at the kinds of things that you would want us to consider in advance of the Scottish Government determining the budget instead of your simply scrutinising our proposals. I am afraid that that process is in your hands, not mine. I totally appreciate the point about monitoring and information, but the fact is that I cannot present the budget any earlier than I do. It would just not be credible, given that its timescales follow on from the UK budget timescales.

As for your question whether that information would help us, I would say yes, I think so.

Claudia Beamish: Without pre-empting what the committee might say, I note the comment made this morning about 29 per cent of the current infrastructure projects being low carbon. I wonder whether, if we are not going to be locked in—to use Dr Gardner's phrase—to having to retrofit projects, more overarching assessments can be made in the lead-up to the budget.

Derek Mackay: That is a helpful suggestion. It is the sort of thing that can help and inform, but your concern was about the timescales for reviewing everything.

Claudia Beamish: Indeed.

Derek Mackay: The assessments come out at the same time as the budget because they inform what we think the budget achieves at that point. At that point, it is a settled budget. I am sure that all committee members will appreciate that concluding the Scottish budget in three weeks, having taken into account what the Scottish Fiscal Commission has said and everything else, is a heroic effort in itself. However, it means that all the assessments have to come at the same time. Once we have determined and cemented the budget, we then present the carbon assessments.

Claudia Beamish: It is a heroic task for everybody.

Finally, thinking about the national performance framework, I note that the infrastructure investment board proposes to measure its effectiveness through

“relevant National Outcomes and ... related indicators”.

Do you see the “Reduce Scotland’s carbon footprint” indicator as one of the relevant indicators of success? What involvement do you have in that process?

Derek Mackay: In essence, yes, I do see that. The national performance framework should guide everything that is done by the Government, agencies, partners and, as was the aspiration, wider society. The purpose, the objectives and the monitoring within all that should influence all those considerations and the recommendations that come forward. All of that should be taken into account.

As I have overall responsibility for refreshing and delivering the national performance framework, I have a keen interest in making sure that it is resourced and delivered adequately. Of course, the Cabinet and the First Minister launched and signed it off, too, but every part of Government should be contributing to its objectives and ensuring that we meet them. As a result, it should feature, as Claudia Beamish has described, in the considerations of all parts of Government, including right through the civil service.

Claudia Beamish: Do you, in your role as cabinet secretary with responsibility for finance, have the opportunity—or, indeed, the obligation—to look at whether those outcomes and indicators are being honoured? What would happen if you thought that that was not happening? That is a real concern, because it might make it possible to shift the figure for low-carbon projects from 29 per cent to something a lot higher.

Derek Mackay: There is collective responsibility, which means that all of the Cabinet and all ministers should be thinking about contributing to this. If there are areas where that is not being achieved, there is collective engagement to resolve that.

As well as the national performance framework, we have the statutory duties under the climate change plan. Every part of the Cabinet is expected to make a contribution, given that we arrived at the plan as a result of Cabinet discussion through the Cabinet sub-committee and bilaterals.

The Convener: Before I turn to other members, I want to ask you the same question that I asked Sam Gardner. When you are looking at low-carbon initiatives, infrastructure and preventative spend, how much of a long-term view do you take regarding the savings that could result from projects that would allow us to have more money at our disposal?

Derek Mackay: I think that it is wise to invest now. My ministerial career has involved local government, planning, transport, finance and the economy, so I have had a lot of exposure to the issues that really matter in that regard. I am sure that you do not want me to reel off the areas in which we have spent very conscientiously, not just for the immediate benefits but for the benefits to future generations, such as the environment or transport, which have seen the doubling of the active travel budget and spend on forestry, energy efficiency and the decarbonisation of transport. However, we know that we have more to do around land use and agriculture, to pick a couple of examples.

It is clear through a lot of the decisions that we have taken that there are long-term benefits of such spend. I listened to the examples given earlier of initiatives that, although they might have a carbon output initially, are worth it for the long-term, generational benefits. We are absolutely committed to this direction of travel and that is why we have been increasing areas of spend such as active travel and sustainable transport, which includes the electrification agenda and more charging points.

There are community elements. The climate challenge fund, for example, has distributed more than £100 million. There are many beneficiaries of those projects. It is as much about raising awareness and behaviour change as it is about physical spend on the capital infrastructure of our country.

It is not always captured, but everything that we do—such as on higher standards in building and how materials are used—is showing an environmental awareness that maybe was not there years ago but is absolutely mainstreamed in policy spend and standards now. Does that help?

The Convener: It does, thank you.

Finlay Carson: The climate change delivery board, formerly known as the emissions reduction programme board, oversees the meeting of statutory emissions targets. In your role, have you received any advice from the climate change delivery board?

Derek Mackay: I will not have done. My information has come more recently through the Cabinet sub-committee on climate change, which looked at all the detail, what portfolios were expected to do and all the commitments and policies within that. The advice that I have been receiving and contributing to has come from there. I should add that the work building up to the climate change plan has meant that there is a requirement to establish a new governance body for the delivery of that plan. Again, in terms of cabinet secretaries, it is more for my environment colleagues to look at how that is structured. My work has come through the cabinet sub-committee. That is where my briefings have come from and what I have been contributing to.

Finlay Carson: As we know, Scotland has one of the most unique and fragile environments. As a result, strategic environmental assessments are undertaken when plans are likely to have significant environmental impact, but financial plans are excluded from the requirement to carry out those assessments. There is no requirement to have a strategic environment assessment of the infrastructure investment plan. Would you see value in taking a voluntary approach to carrying out strategic environmental assessments of any new infrastructure plans?

10:45

Derek Mackay: Overall, it makes more sense to carry them out project by project, because then you know what you are dealing with. You know what the project is and what the spend is, and you know the geography, so it is a far more credible process. If we start to require them for plans, it would become a bit more nebulous and a bit more difficult to make judgments and quantify things properly.

Regarding the whole IIP, one would not necessarily have all the information at hand, such as the detail on timescales and geography. It would be a very bureaucratic and expensive exercise if we were doing it properly and it still might not give you the information that one would want. Carrying out assessments project by project gives a more robust set of figures.

You should not just take my word for it. If you would like, an economist in the Government could explain how nebulous it would be. The advice is not always absolutely clear to me, but if you want further advice from an official on why project-by-project assessment is more meaningful than assessing overarching plans, I am sure that Simon Fuller could give you that.

Simon Fuller (Scottish Government): The challenge of assessing the infrastructure investment plan as a whole is the sheer scale of it. What you have to look at in order to do an environmental assessment rigorously will vary hugely depending on what type of infrastructure is being considered, the geography in which infrastructure is being invested in and so on. There is a risk that by trying to do the strategic environment assessment of the plan as a whole, you would almost inevitably have a higher level of aggregation—although it would not quite be superficial—than you would get from looking at plans and programmes on the ground, which would arguably give you a much more robust and meaningful assessment of the impact of individual projects.

John Scott: Notwithstanding what you say, there is a need for a high-level appreciation of the direction of travel of your overall investment. I understand what you are saying about the aggregation, but nonetheless the aggregation of the total must ultimately lead to an overall picture of the direction of travel, which we will come to in further questions. That committee is concerned about a high-carbon investment future. Other members will come on to that, but I wanted to get that out. Will you comment on that?

Derek Mackay: I share the view that we need that understanding, but I the question that I was asked was whether we should adopt a strategic environmental assessment of the plan. We do not think that that is the best tool. Do we need a national understanding of the direction of travel on emissions and input and proportion of spend? Yes, but that is a slightly different question. I share that objective. That is a slightly different question from one about the specific process of a strategic environmental assessment of an overall plan, which is quite a different tool. I agree with your ambition, but the tool, as we have tried to explain, is not the right one.

The Convener: We will move on to the programme for government. Mark Ruskell has some questions.

Mark Ruskell: The programme for government, which was published last week, announced higher capital spend. There was a focus in the headlines on low-carbon spend. Will that impact on the balance between high and low-carbon capital? How will that influence the IIP? Will the programme for government effectively force a revision of the IIP?

Derek Mackay: It is a fair question: does the £7 billion headline figure that we have committed to fit within our aspirations? We have set out that headline commitment, recognising the proportion of gross domestic product that is spent on infrastructure. As I am sure that we said, Mr Matheson has made a commitment to return to Parliament within a few months.

Clearly, I will have an interest regarding the budget. As I tried to touch on in my earlier answer, further iterations of the infrastructure investment plan will be required. Our policy direction, the climate change plan and the commitments around proportion of spend will all have to be taken into account. The £7 billion commitment is at a very early stage, and it is important to set out the ambition—the mission—that we are trying to deliver. Of course, it will fit within our ambitions for a transition to a low-carbon economy. The detail will come in due course.

Mark Ruskell: The programme for government obviously covers one year, and this year's announcement, with its increase in capital, was very ambitious. How do you take account of the need for change over multiple years? This perhaps relates to the IIP again.

I would like to focus on one example that came up in the budget this year, which is rail reinstatement projects. A number of communities have bid into the local rail development fund and their applications for money to do feasibility work on rail reinstatement have been successful. If those projects are successful and good business cases are made for capital projects, obviously that will place a demand on the Government to see the projects through to completion and to reopen railroads and stations across Scotland.

How do you factor that into the pipeline? We have a policy that is raising expectation and doing good feasibility work around Scotland to bring communities back on to the rail network, but we are still some way away from realising that low-carbon capital investment. How does that work in relation to the IIP and individual annual budgets? Is it about an annual negotiation within this Parliament on capital spend or can the Government make a more embedded commitment to those longer-term infrastructure changes over time?

Derek Mackay: Again, without trying to step on the infrastructure secretary's toes, from my point of view as finance secretary I see that there are many areas where there are multiyear commitments now. That includes transport, housing and digital, so naturally there will have to be a long-term approach. I should say that an overarching objective of the new infrastructure investment will be sustainable economic growth and there will be an emphasis on that throughout. We will of course look at the weighting and the assessment of what projects feature, but we will do that with that policy objective of low carbon.

Rail is a good example, because we know that it is a success story. It contributes positively to the economy, the environment, connectivity and infrastructure. It can also tackle exclusion, either individually or geographically. The Government has a strong, proud record on rail investment and we want that to continue. For me, that has been about maximising resources from the UK Government and ensuring that we get our fair share of rail resources. That has been a battle over the past year. To continue that investment with our own spend will be critical, so we will take a long-term approach.

I am trying to express that with the massive headline commitment to infrastructure spend there will have to be further iterations of the IIP. In policy terms, we have moved on with regard to what it features. In last year's budget process, we made a substantial commitment on the direction of travel and the trajectory of capital spend around low carbon, and we want to continue that.

The Convener: The long-term vision is important when it comes to those infrastructure projects, particularly rail, but sometimes the way that they are assessed looks at the current population and passenger numbers, rather than taking a long-term look at repopulating or expanding an area. Do you look into such things when you are considering such projects?

Derek Mackay: Appraisals made under STAG—Scottish transport appraisal guidance—and various other appraisals can show the difference that one form of transport can make compared to another, the investment that is required for it and what the return would be. Such appraisals look at the potential of how a project could unlock economic opportunities. The benefits of the Borders railway, for example, have been profound. It is incredibly popular and it has surpassed our targets. That is a good example of a project that has made our geography more accessible and has delivered economic benefits in its own right. All those things can be part of the considerations.

A consideration in some instances might just be that a place has other forms of transport but not rail, and rail could allow a shift from one form of transport to a more environmentally friendly one.

The Convener: We will move on to talk about local authorities with some questions from Richard Lyle.

Richard Lyle: Good morning, cabinet secretary. In the Scottish Parliament information centre analysis of local authority capital expenditure plans categorised by climate impact, the top six local authority areas are Falkirk, North Lanarkshire, Glasgow, Perth and Kinross, East Dunbartonshire and—somewhere that you know—Renfrewshire. They have the highest proportions of investment categorised as representing high carbon. In all cases, that is the result of proportionately high levels of investment being categorised as road or airport investment.

Using the Scottish Government's methodology, how does it engage with local authorities to discuss their approaches to the climate impacts of their capital budgets?

Derek Mackay: That is a curious question from a former councillor, Mr Lyle. Incidentally, I know the other places as well as Renfrewshire. I do get out a bit.

In essence, we do not have a monitoring regime over and above local government's monitoring of its capital spend in relation to emissions. It is not the nature of the relationship. We do not instruct local authorities on how to spend, so we do not have our own processes to hold them to account for their emissions as part of their capital grant from the Scottish Government. If the committee feels that we should do something different, that would be a departure from what Parliament usually asks us for in relation to the fiscal freedom of local authorities. We do not pursue them in the fashion that was suggested in the question.

Richard Lyle: On a subject that you touched on earlier—it also transcends into another area—what do you ask councils to do to reduce the climate impacts of projects? Could you ask them—I have been pushing this in Parliament for a number of months, and I welcome the Government's movement on it—to install electric car-charging points where there is new house building? We now have solar panels on roofs. When we are building new houses from now on, why do we not insist that everyone—private and public house builders—installs car-charging points? We cannot just install them in the street, because not all the cars in the street can plug in at the same time. Why do we not have facilities for people to plug in in their homes?

Derek Mackay: I appreciate the point. There are many areas where we do compel local government to meet certain standards. Planning is a good example. We have national planning policy, the national planning framework as a spatial strategy, and building standards. There is regulatory compliance and there are environmental standards.

There is a onus on the leadership of local government as well. Parliament has debated the principle of how closely we should hold local government to account for emissions. There is an expectation that local authorities will show leadership and compliance with all the standards that have been set out, and that has been progressing. However, in relation to the fiscal point about the capital resource that local authorities get from the Scottish Government, we do not compel them to spend any amount for a specific purpose.

Where there is investment in housing, which represents substantial investment from the Scottish Government to local authorities, all current standards must be met. That speaks to the point that Mr Lyle makes about expectations on policy, but that is set through standards rather than through holding local government to account for its individual capital spend. That spend is a matter for local authorities and their democratic systems and audit, rather than the Government holding them to account. That is not what we have insisted upon.

Maybe I am not being clear. Policy change can be delivered through national policy, but I am answering for the finances.

Richard Lyle: I am not suggesting that we stick it to councils. As you suggested, I was a councillor, and I would abhor that. However, should we not be having a discussion on how they can reduce their carbon footprints?

Derek Mackay: Yes. Those discussions happen. I am sure that the Minister for Housing, Local Government and Planning and the Cabinet Secretary for Environment, Climate Change and Land Reform would speak to that. There are many bilaterals. There is much engagement with the Convention of Scottish Local Authorities and local authorities on their actions to reduce emissions. I am just speaking for the financial element and the capital spend, which I understood to be the theme of the day.

I am just being clear about the distinction. I am not objecting to using policy to make progress, but we do not hold local government to account for the specific capital investment that it makes by way of instructing it on how it should spend that money.

11:00

The Convener: To bring it back to the Scottish budget, Angus MacDonald has some questions.

Angus MacDonald (Falkirk East) (SNP): I will briefly touch on options to improve future Scottish budget information and climate assessments. The Scottish Government's response to the committee's previous budget report committed to providing the committee with annual information on the proportion of the overall capital budget that is allocated to low-carbon projects and programmes. Can you give us a bit more clarity on when in the budget cycle you expect that information to be available?

Derek Mackay: It will be as soon after the budget as I can possibly provide it. That will be the budget close, incidentally, not the draft budget. As Parliament is well aware, minority government requires negotiation, and I engage with other parties, so there can be changes between the start of the budget and the end. The conclusion of the budget is when I will be able to publish that high-level information. I appreciate that it is a high-level exercise that we undertake, and I am interested in the committee's views on the detail of that and what would be helpful. However, the timescale for the publication of that information will be as soon as possible after the budget is agreed. Naturally, I will be trying to understand those figures as we work our way through the budget, in order to keep to the commitment that has been given.

Angus MacDonald: Thank you. Clearly, we will look forward to receiving that information as soon as you can share it.

Last year was the first time that the Government had published information categorising its in-year capital spend as low, neutral or high carbon. Are you open to improvements in the methodology, for example to break down the larger areas of spend such as housing, roads, rail and health in order to provide more detailed information?

Derek Mackay: Yes. I would be quite a foolish cabinet secretary to come to committee and say that I was not open to improvements. Of course I am. I know what the committee will be driving at here and I am open to improvements in that regard. The process was agreed to try to understand the level of spend and the direction of travel. I think that it helpfully achieved that purpose, but I am open to improvements. I would welcome improvements to the methodology.

John Scott: Cabinet secretary, do you have any concerns about the effects on jobs of endeavouring to move to a low-carbon economy? Have you made any assessment of that?

Derek Mackay: That would be considered in relation to the climate change plan. Of course, jobs can also be created in the transition to a low-carbon economy. The direction of travel is a necessity, but we have to understand the impacts and mitigate where possible as well. However, in a lot of the areas of spend that I have been able to identify, whether in transport, forestry or energy efficiency, jobs can be created by doing the right thing by the environment in that transition. Digital and renewables are other examples. Those are areas of growth, so the transition does not necessarily threaten job losses.

Other colleagues would be better placed to debate the subject in terms of the detail as they understand it. If decisions were taken that might have an impact on jobs, we would want to understand that. It would be very negative if we did not take the right decisions around that. That is why, in the transition to a low-carbon economy, we think about all the impacts, but I want the positives to be on the table as well. There are positives to come from the journey—in addition to the environmental positives—because of the leadership role that it can give Scotland, the innovation and the jobs that can come from more sustainable futures.

However, if a Parliament or Government took a decision that we would have no more activity in certain types of industry, the people in those industries might have something to say about it, naturally, which I suspect is what Mr Scott is driving at.

John Scott: I am just asking whether you consider that, on balance, the effect of the transition on jobs is likely to be positive or negative, from the limited assessments that you have undertaken thus far.

Derek Mackay: Ministers will always consider the full impact of decisions as they go forward. Sustainable economic growth considers people as well as infrastructure. I just make the point that there are choices here and it is important to remember and keep in mind the impacts of all those choices.

Stewart Stevenson: Last year's low-to-high analysis of the capital budget appears to have covered only 88 per cent of the expenditure. What steps are being undertaken to get the last 12 per cent in? What difficulties are there in doing that?

Derek Mackay: Part of that difficulty relates to the local government budget that I discussed with Mr Lyle. That is why that bit does not feature in it. Financial transactions is the other area.

Rachel Gwyon (Scottish Government): It covers the capital departmental expenditure limit budget only, and not the financial transactions.

Derek Mackay: Financial transactions are not part of it, but all CDEL is, with the exception of local government.

Rachel Gwyon: Yes.

Stewart Stevenson: I want to make sure that I understand what is being said about financial transactions. Is it suggested that there are financial transactions that have a measurable carbon impact?

Derek Mackay: There probably will be, but it is hard to assess them, I suppose, because financial transactions largely involve loans or equity schemes that come from the UK Government, as I am sure the member knows, so we can only use them within the private sector for specific purposes.

There will be a range, and they can be very micro. There is capital spend on projects, and some of the financial transactions can be to individuals, so it might be difficult to judge whether the carbon impact is high, medium or low. I think that the complexity of the individual transactions is the reason why they were not captured. If we wanted an analysis of them, how would we get it?

Stewart Stevenson: To be clear, then, the transactions involve third parties and they just flow through the Government's books untouched. Is that what I am hearing?

Derek Mackay: I would not in any shape or form describe them in that particular way in front of the Treasury. We use them to support particular policy objectives. Mr Stevenson asked whether we can try to get them in the overall capital spend. They are just quite different from the traditional capital spend. Ultimately, we know what is being invested in through the capital programme and the capital spend. I have addressed the local government point, but financial transactions come down to specific projects and individuals, and I think there will be a variety of levels on the scale of carbon impact.

It might be worth while for us to do some further work on that and respond to the committee if it wants to look at financial transactions, but I think their nature is more complex than that of the traditional capital spend that you are judging the profile by.

Stewart Stevenson: I understand that many of the financial transactions involve money coming from the UK Government that is essentially ring-fenced for a particular purpose but, nonetheless, the policy decision as to the detail of how it is spent is a matter for the Scottish Government. Is that a correct playback of what I have just heard?

Derek Mackay: Yes—absolutely.

Stewart Stevenson: Therefore, I suggest to the cabinet secretary that it would be proper for the committee and other committees to explore that further. We would probably welcome a better understanding, because I suspect that the label "financial transactions" is one that the accountants use, but which is misleading for us in considering policy issues.

Derek Mackay: That is helpful. I am very clear on what financial transactions are, what they are used for, what I spend and what I allocate. I just think it is quite complex to try to get them to fit in to the process. However, I am happy to explore the matter and return to the committee so that you have a deeper understanding of the carbon impacts of financial transactions, because it is complex.

Financial transactions have a variety of uses including help-to-buy schemes to get people into better accommodation, which might lead to lower emissions from properties. Agricultural payments is another example, and they have been used for loans. They do not fit within this because the specific commitment in the budget process last year was for capital spend, and financial transactions are a different thing.

If the committee wants to understand the carbon outputs from financial transactions, I am happy to explore that and see whether the committee wants to take it further. It is just more complex and not as close to the spirit of the commitment around the capital budget as I think the committee thinks it is.

Stewart Stevenson: Clearly, I am speaking only for myself, because the committee as a whole has not discussed the matter, but I am pretty confident that colleagues would welcome some increased understanding of what is going on there, while recognising that it will not be possible to pin down every CO_2 and other molecule.

Derek Mackay: I am happy to do more work on that for the purposes of the committee.

Richard Lyle: Good luck!

Mark Ruskell: I agree with Mr Stevenson. It would be good to understand the nature of the opportunities. We have had information presented to us about what local authorities have been doing, such as investing in low-energy street lighting. Loan funding obviously can bring about substantial change. You mentioned agricultural subsidy, which can also bring change if there is cross-compliance with climate issues. The area has perhaps been overlooked, so it would be useful to get some analysis on it.

Derek Mackay: Again, to be clear with the committee, I am answering the questions as accurately as I can. A question was asked about the commitment as it relates to the capital budget, and we then talked about a different system of finance. I am trying to give full answers about that, in the spirit of the question. I think that you will welcome some of the information on financial transactions, which will show how those have been targeted at low-carbon purposes, for example through investment by higher or further education. We have tried to target the money at the low-carbon agenda, but it does not fit neatly within the commitment that we were discussing.

Richard Lyle: You have covered the factor of local government data in any future reporting. Are you open to applying the same high-to-low analysis to any new infrastructure investment plan and to including the analysis in the six-monthly updates that you already publish?

Derek Mackay: I have partly covered that. That is not the spirit of our concordat with local government or our agreement on the financial arrangements. I understand that the committee may wish to recommend that approach, but the Government does not have that relationship with local authorities in relation to how they spend their capital allocation and whether they should follow the same monitoring or evaluation regime as we do.

If the committee wishes to raise the matter with local government, that is up to you, but ah hae ma doots as to whether local authorities want a national monitoring regime. I think that they are committed to the agenda, but I am not sure that they would want the Government to oversee a monitoring regime for their capital spend, so I am not particularly keen to pursue that. If that becomes a committee recommendation, I would of course have to consider that, but I have no plans so to do.

John Scott: Should there be a policy target for the proportion of low-carbon capital in the infrastructure pipeline or a ceiling for the proportion of high-carbon capital expenditure?

Derek Mackay: I am not particularly attracted to that, because I think that it would become quite formulaic. We set out a climate change plan that sets out how we deliver on very ambitious targets, and we are expected to work towards that. Separate to that, although aligned, is the commitment on a direction of travel of low-carbon spend. Those good principles and all our other understandings will help to inform what we are doing, but I am not particularly attracted to a further formula that might bind our inputs.

We have been discussing how even some immediate spend might bring long-term benefits, but it might bind our hands in doing that if we set an artificial cap or formula and said that whatever we do on capital spend must fit within that. If all the other policy commitments, statutory obligations and other commitments that we have made are being followed, that is a welcome direction of travel that the committee would support, so I am not attracted to an additional formula or cap in that regard.

John Scott: I can well see why you want to retain as much flexibility as possible.

The annual carbon assessment of the draft budget does not present emissions associated with the capital budget separately from those that are associated with revenue, but the Scottish Government's letter to the committee helpfully does that for the five-year financial strategy. Will you consider that change in presentation for future reports?

Derek Mackay: Yes, we can give that further thought.

The Convener: We have time in hand, so Richard Lyle can come back in.

Richard Lyle: Sorry, cabinet secretary—you always wonder what I am going to ask you. You said that you were watching the earlier witnesses on television. A point was made on the Scotland's way ahead project, which recommended the creation of an independent Scottish infrastructure commission, and I said that most organisations have a regulator. How important is it to have an independent Scottish infrastructure commission? Are you in favour of that, against it or neutral?

11:15

Derek Mackay: I now regret that you have time in hand, convener. Incidentally, that does not mean that you have to detain me any longer.

It is a fair question. I would be stepping into other colleagues' areas of responsibility and going beyond Cabinet approval if I was to make a unilateral decision about whether we should have an independent process. However, I can say that the National Infrastructure Commission, which looks at UK-wide issues, has briefed Michael Matheson and me on its views and recommendations. It certainly serves a purpose. It is UK wide rather than Scotland specific, but it spoke to very pertinent messages on energy, digital and infrastructure. I would have to defer to the infrastructure secretary to answer the question.

Do we appreciate independent advice to influence Government decisions? Of course we do. Do we like a deeper understanding of how our decisions are impacting on the environment and the economy? Of course we do. However, I would not like to say whether we need an independent infrastructure commission to do that. It would go beyond my brief in an unfair way to speak to colleagues' interests.

Richard Lyle: Will you discuss it with them?

Derek Mackay: Yes. If the committee makes that recommendation, the Government would of course consider that.

The Convener: Thank you very much. That brings the session to a close.

Mark Ruskell: Convener, can I come back in?

The Convener: I was going to close but, if you make it very brief, I will let you in.

Mark Ruskell: Thank you for your indulgence, convener.

I have been thinking about the uncertainty around climate change. In a few weeks, we will get the recommendations from the Intergovernmental Panel on Climate Change, which may well revise the science and our understanding of what we need to do. Obviously, the assessments come every couple of years. How do you deal with that kind of uncertainty? It seems that we need to build in to our action on climate change a certain amount of innovation and a focus on going beyond our current carbon reduction targets. How do you respond to that? You have a capital programme, the IIP, which is pretty clear and fixed, but the science and understanding of what is happening in the climate is changing. How do you work with that uncertainty?

Derek Mackay: Again, the Cabinet has to be alert and alive to that prospect. At least in the Scottish Government, you have a Government that listens to experts, takes this international challenge seriously and wants to be a world leader, and we have a Parliament that feels the same. Therefore, we have to be quite adept and agile in responding to whatever policies or international commitments emerge and to the technologies to help us deliver that. From my exposure to the issue, I am mindful that the assessments, evaluations and statistics have all changed over a period of time internationally, and we have had to respond to that and understand our baseline and our contribution through the policies that we are trying to achieve.

We have done so much as a country—bear in mind that we are on track and have met our targets, which I argue are the most ambitious in the world—but that has to be resourced, and the policy changes have to follow. That has been happening on energy, transport, land use and in all the other interventions that we make. We know that we have much more to do, which is why we have a plan and it has to be resourced, but we have to be quite agile and adept to do that. Ultimately, we will be advised by the Cabinet sub-committee if and when required, but it is now about getting on and delivering the plan but being agile.

Budgets are of course set annually but, where I can, I will try to set multiyear budgets, because we can get greater value and certainty from multiyear budgets. However, without getting into the debate about real-terms reductions, I am beholden to a UK budget cycle that does not help me with long-term planning. That said, there have been multiyear commitments on infrastructure, housing, digital and utilities and we want to do more of that.

Specific investments show that we are alive to the issue. For example, on decarbonisation of transport, there are the investments in charging points, rail and green buses and even elements in the recent programme for government. Incidentally, we are on track to spend £0.5 billion on energy efficiency over the current session of Parliament, which is surely to be welcomed. It is about keeping a focus on the issue but being agile.

We are absolutely committed to the agenda, which is why we have tried to preserve the funds that finance it and expand them where appropriate. On a smaller but substantial scale, doubling the active travel budget was a substantial commitment in a period of financial challenge. We want to ensure that the resources are aligned with the politics and the policies, but it is true that the international understanding may change again. At least in Scotland we have a consensus that we will do our bit and play our part rather than ignore the challenges of climate change, as some have chosen to do.

The Convener: I thank the cabinet secretary and his officials for coming. I suspend the meeting briefly to allow the panel to leave.

11:21

Meeting suspended.

11:22

On resuming—

Subordinate Legislation

CRC Energy Efficiency Scheme (Revocation and Savings) Order 2018 (SI 2018/841)

The Convener: Agenda item 5 is subordinate legislation. More details on the negative instrument can be found in paper 4. Do members have any comments on it?

Claudia Beamish: I have a quick comment. Any simplification, which I understand is what the order does, is to be welcomed. People and organisations are more likely to support something if they can understand it more easily.

Mark Ruskell: I have a question about how the order impacts on the climate change levy. If the carbon reduction commitment goes—I welcome the fact that it will go, as that will lead to greater simplification—and is transferred into the CCL and the rates increase, what will be the impact of that? Will Scotland get Barnett consequentials as a result? Will the climate change levy, at the increased level after incorporating the CRC, result in more spend coming back to Scotland?

I also have a point for the record about why the climate change levy does not allow an exemption for renewables, given that renewable energy is part of the solution to climate change. In my opinion, renewable energy should not be taxed on its climate impact, because it does not have a climate impact.

The Convener: The committee can write to the Government on those questions.

Mark Ruskell: That would be good, unless there is an obvious answer that I have missed somewhere.

The Convener: We will look into that and, if there is not an obvious answer, we will ask for one.

Does the committee agree that it does not want to make any recommendations in relation to the instrument?

Members *indicated agreement.*

The Convener: Our next meeting is on 18 September, when the committee will consider the Scottish Crown Estate Bill at stage 2. I remind members that the final deadline for submission of amendments is today, at 12 noon.

As agreed earlier, the committee will now move into private session. I request that the public gallery be vacated, as the public part of the meeting is now closed.

11:25

Meeting continued in private until 11:49.

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