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Lack of clarity on UK and Scottish climate change spending plans presents fiscal risk to the Scottish Government

The Scottish Fiscal Commission has analysed the implications for the Scottish public finances of meeting Scotland's statutory emissions target to reach net zero by 2045, adapting to climate change and handling the damage it will cause.

Unmitigated climate change would have catastrophic impacts on individuals, businesses and the public finances. In line with the Paris Agreement, both the Scottish and UK Governments are committed to help limit global warming through their own emissions targets. These actions impose costs on the public sector, as will the need to adapt to and deal with damage from climate change.

Based on the balanced pathway scenario set out by the Climate Change Committee, the Scottish Fiscal Commission estimates that the Scottish Government would need to spend an average of £1.1 billion pounds a year to meet net zero, around 18 per cent of its capital budget. These figures do not include the spending required on adaptation and damage from climate change.

The challenge of achieving net zero is shared between the Scottish and UK Governments. The Scottish Government's funding largely depends on UK Government policy decisions, including how the costs of the transition are split between the private and public sectors. However, the fiscal burden of reaching the UK's net zero target may fall disproportionately on the Scottish Government because a greater share of the UK reduction in emissions relating to forestry and land use needs to take place in Scotland.

The Commission's Chair, Professor Graeme Roy, said:

“What matters for the Scottish budget are the differences between Scotland and the UK. It is clear that one major difference is the greater contribution of forestry and land use in Scotland.

“To better assess the fiscal risks facing the Scottish Government, we need more information from both governments about their plans for tackling all aspects of the climate change challenge.

“Handling not just the achievement of net zero and the future adaptation challenges, but also their fiscal consequences is a shared endeavour that needs to be managed well by both Scottish and UK Governments.”

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Notes for Editors

1.The Commission's paper, [Fiscal Sustainability Perspectives: Climate Change](#) is available now. Accompanying spreadsheets contain the data for tables and charts.

2.The current Scottish Government Climate Change Plan was published in December 2020. This does not contain sufficient information on the costs of the policies and proposals, so our analysis on the additional capital investment to reach net zero is based on Scottish data published by the Committee on Climate Change relating to the UK's Sixth Carbon Budget. Our report recommends that the Scottish Government's draft Climate Change Plan due later this year includes detailed abatement and cost estimates for individual policies and proposals.

3.The Climate Change Committee's [Sixth Climate Budget](#) provided estimates of the additional capital investment required each year in Scotland to reach the UK Government's target of net zero by 2050. Using this data the Commission estimate that an average of £1,136 million a year (in 2024 prices) will be required in additional capital investment from the Scottish Government to reach net zero over the period 2020 to 2050. This is equivalent to 18 per cent of the Scottish Government's 2024-25 capital budget of £6,193 million. These figures do not include the costs associated with adapting to climate change or damage from climate change. The Commission's [December 2023 forecast report](#)

highlighted how the capital budget is expected to fall 20 per cent in real terms between 2023-24 and 2028-29.

4.The Office for Budget Responsibility considered the effect of unmitigated global warming on the UK public finances in its 2021 [Fiscal risks report](#). The OBR assumed an average temperature increase of 4°C in the UK by the end of the century, associated with increased spending on adaptation of 0.3 per cent of GDP per year with each degree of warming, and the size and frequency of shocks progressively increases with rising temperatures, doubling relative to historic trends by the end of the century. Under this scenario the UK's debt-to-GDP ratio would reach 289 per cent by 2100.

5.The Commission's expertise in the fiscal framework and the Scottish Budget places it in a unique position to consider the ways in which climate change and the response by the UK and Scottish Governments could affect the future fiscal sustainability of the Scottish Government. This report is the first in the series looking at fiscal sustainability with a focus on a specific area. However, it does not provide projections of the Scottish Government's long-term spending and funding. We intend to publish these reports with a specific focus every two years.

6.The Commission published its first [Fiscal Sustainability Report](#) in March 2023. That report included projections of the Scottish Government's long-term spending and funding. The Commission's next full fiscal sustainability report with updated projections will be published in 2025.

7. The Scottish Fiscal Commission is the independent fiscal institution for Scotland, established by the Scottish Fiscal Commission (2016) Act. Our paper represents the collective view of the Scottish Fiscal Commission, comprising the Commissioners: Professor Francis Breedon, Professor Domenico Lombardi, Professor David Ulph, and the Chair, Professor Graeme Roy.