

A solid orange right-angled triangle pointing downwards and to the right.

Kenneth Gibson MSP
Convener
Finance and Public Administration Committee
The Scottish Parliament
Edinburgh
EH99 1SP

14 March 2024

Dear Convener,

Today the Scottish Fiscal Commission has published a report [Fiscal Sustainability Perspectives: Climate Change](#) exploring how climate change could affect the Scottish Government's fiscal sustainability. In the report we consider the potential effects on Scottish public finances from damage created by climate change; the costs of adapting to a changing environment and taking action to meet Scotland's statutory emissions targets to reach net-zero by 2045.

Unmitigated climate change would have catastrophic impacts on individuals, businesses and the public finances. The OBR's 2021 Fiscal risks report considered a scenario of unmitigated global warming which resulted in the UK's debt-to-GDP ratio reaching 289 per cent by 2100.

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.

We use the Climate Change Committee's balanced pathway scenario to quantify the potential costs of climate change mitigation for the Scottish Government. We estimate 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.

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.

These figures do not include the costs associated with adapting to climate change or damage from climate change. The costs of adaptation are likely to be significant for both the overall

economy and public sector, but are highly uncertain. The scale of uncertainty associated with adaptation costs is a risk in itself. We also note that if more investment is required in devolved areas in Scotland than in England, it could present a risk for Scottish Government finances.

Achieving net zero and dealing with the challenges of adaptation and damage is a shared endeavour that needs to be managed well by both the Scottish and UK Governments. The same is true of the fiscal consequences.

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

I look forward to giving evidence on our report later in March and I am happy to discuss any aspect of our report.

Yours sincerely

A handwritten signature in black ink that reads "Graeme Roy".

Professor Graeme Roy