



Scottish  
Wildlife  
Trust

Written response to the consultation:

# Budget 2021-22: Supporting the COVID-19 Recovery

Scottish Wildlife Trust

8 October 2020

*Budget 2021-22 must deliver the investment in our natural environment, nature-based solutions and green skills that are vital to address the climate, biodiversity, health and economic crises. The Scottish Government's new economic approach of the four capitals must be embedded in fiscal decisions.*

The Scottish Wildlife Trust welcomes the opportunity to provide views on the role of Scotland's devolved taxes and Fiscal Framework in supporting the COVID-19 economic recovery. The Trust would like to highlight that we have also contributed to the written evidence submitted by Scottish Environment LINK and fully support its conclusions.

## Key Points

- Budget 2021-22 must deliver the investment in our natural environment, nature-based solutions and green skills that are vital to address the climate, biodiversity, health and economic crises.
- Fiscal policy should recognise the new economic approach of the four capitals and aim to ensure that investment in all our assets is balanced to achieve a green and transformative recovery. It must embed the four EU Environmental Principles in decisions.
- Damaging subsidies that work to incentivise activities and behaviours that are detrimental to biodiversity and our natural environment should be phased out. There remains an urgent need to change the way subsidies incentivise land use, as highlighted by the Committee on Climate Change in their latest report *Reducing Emissions in Scotland*.
- The fiscal system in the UK and Scotland needs to do more to support our climate ambitions and work towards our goals. Reform is required in several different areas including consumption, carbon pricing and fossil fuel production.
- We need new approaches to address the interconnected issues of health, economic resilience, climate change and biodiversity loss. Budget 2021-22 should include a **Scottish Conservation Finance Fund** to leverage private capital and unlock new money.
- Budget 2021-22 is the ideal time for Ministers to bring forward the necessary regulations to enact the Infrastructure Levy so that it can finance important investment in our green and blue infrastructure, providing nature-based solution to the climate and health crises and underpinning the green recovery.
- Following the 2008 financial crisis a combination of fiscal austerity and Scottish Government decisions led to steep declines in environmental funding in Scotland. These mistakes cannot be repeated in Budget 2021-22 as they would be in direct contradiction to the Scottish Governments objectives "to preserve and grow our natural, human, social, and economic capital".
- Any review of Scotland's Fiscal Framework should ensure that Scotland can issue green bonds in its own right, on a par with other government debt and that investment in our natural capital is treated equally in financial terms as investment in the other forms of capital.
- The Fiscal Framework that applies to Scotland must reflect the move to the four capitals approach and ensure that there is an overriding goal as set out by the Advisory Group on Economic Recovery that "Our approach to natural capital should be founded on the goal that each generation should leave its successor a set of natural assets at least as good as those that they inherited". This should include consideration of a new 'green rule' for public finances and that the public finance decisions necessary to achieve this are guided by a new Scottish Public Finance Manual, the 'Greenest Book'.

## Tax Policy and Fiscal Framework

### How should the Scottish Government use its devolved and local tax powers to support the COVID-19 recovery as part of Budget 2021-22?

Budget 2021-22 must pave the way for the Scottish Government to deliver on its economic priorities for a green and transformative recovery. The Government's economic recovery plan accepts the recommendations of its Advisory Group on Economic Recovery (AGER) in taking a new 'four capitals' approach, viewing the economy through four pillars of economic, natural, human and social capital and "to treat each pillar as equally important". There has also been welcome acknowledgement from the Government that investing in our natural environment, nature-based solutions and green skills are vital to address the twin climate and biodiversity crises.

Fiscal policy – the combination of tax and government spending - is the main instrument available to government to help it achieve these ambitions and therefore must be set with the green recovery and four capitals at its centre. The Government recognises that improving our wellbeing is dependent on our ability to conserve and grow our natural assets and has accepted the advice of the Scottish Infrastructure Commission that natural infrastructure is a key component of the Infrastructure Investment Plan.

Budget 2021-22 therefore needs to provide the fiscal incentives to ensure that we can invest in [nature-based solutions](#) and achieve the green recovery that can address the biodiversity, climate, economic and health crises we face. While the Scottish Government does not have the same fiscal powers as the UK government, this does not absolve it of its responsibility to set the fiscal framework with the right objectives. There are several ways this should be implemented:

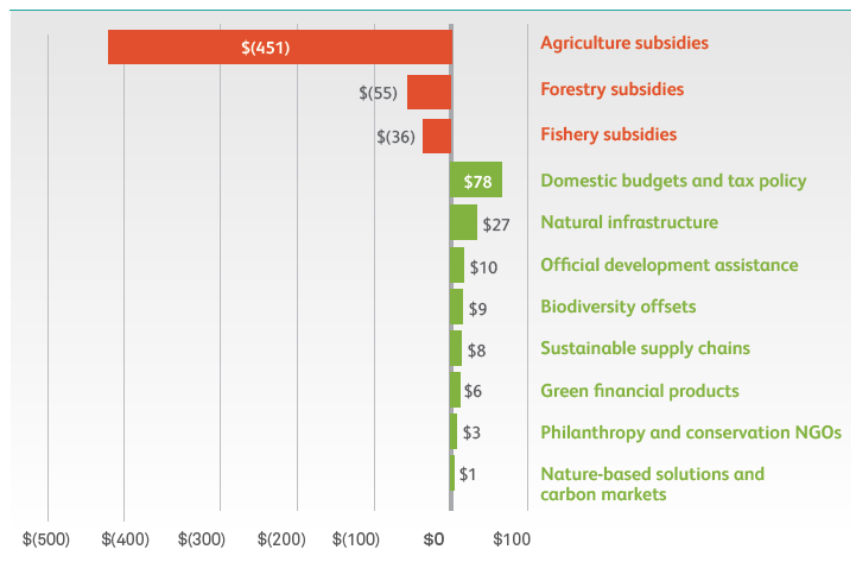
- Fiscal policy should recognise the new economic approach of the four capitals and aim to ensure that investment in all our assets is balanced to achieve a green and transformative recovery. Too often in the past the focus has been short-term and solely on economic capital.
- The four EU environmental principles:
  - i. The precautionary principle
  - ii. The principle of preventative action
  - iii. The principle of rectification at source
  - iv. The polluter pays principle

[which are replicated in the UK Withdrawal from the European Union (Continuity) (Scotland) Bill] should be embedded in fiscal policy and ensure that the combination of tax and spending decisions work together to achieve these principles and they are not treated as an afterthought.

- Damaging subsidies that work to incentivise activities and behaviours that are detrimental to biodiversity and our natural environment should be phased out. The chart below from the [Financing Nature-Closing the Global Biodiversity Financing Gap](#) report by the Paulson Institute, The Nature Conservancy and the Cornell Atkinson Center for Sustainability shows that annual governmental expenditures on activities harmful to biodiversity in the form of agricultural, forestry, and fisheries subsidies in 2019 are two to four times higher than annual capital flows toward biodiversity conservation. This excludes harmful subsidies to fossil fuels.

In Scotland there remains an urgent need to change the way subsidies incentivise land use. This was highlighted by the Committee on Climate Change 2020 Progress Report to Parliament [Reducing emissions in Scotland](#). One of the key recommendations was that by 2021 Scottish Government should set out “new recommendations for Scotland's future rural support policy, and make provisions for Ministers to create new policy or reform existing policy”. The Committee was also clear that policy should aim to also “deliver co-benefits for wider environmental goals” including biodiversity. Given the urgency of this recommendation, Budget 2021-22 must ensure that this recommendation is fully resourced and delivered on time.

**FIGURE 2.** Harmful subsidies and global financial flows towards biodiversity conservation. (upper estimates, in 2019 US\$ billion per year)



- Climate change is one of the five main drivers of biodiversity loss and if we are to meet our ambitious emissions targets, we must reduce our dependency on fossil fuels and radically cut back on their use. The fiscal system in the UK and Scotland needs to do more to support our climate ambitions and work towards our goals. Reform is required in a number of different areas:
  - **Consumption:** how we tax consumption or change behaviour so that we reduce consumption that has a high carbon footprint and is most damaging to our environment;
  - **Carbon pricing:** raising the costs of emissions (either through carbon taxation or emissions trading) and incentivise their removal;
  - **Fossil fuel production:** reduction in the range of incentives given to fossil fuel production such as investment allowances and zero-rated petroleum revenue tax.
- We need new approaches to address the interconnected issues of health, economic resilience, climate change and biodiversity loss. The [Route Map to £1 Billion](#) published by the Scottish Wildlife Trust and SEPA, sets out a pathway towards new green jobs, a healthier environment and greater resilience for our businesses and communities, whilst showing how we can bridge the dramatic gap in the need for funding to protect and restore our vulnerable ecosystems. To date, much of this money has come from public or philanthropic sources, despite the growing interest from investors in financing the Sustainable Development Goals. Budget 2021-22 should include a

**Scottish Conservation Finance Fund** to support implementation of the Route Map, leverage private capital and unlock new money. The Fund, which could be capitalised by a one-off short-term investment by Government, would kick-start new investment streams and help accelerate private investment, facilitate innovation, promote good governance, support the development of common metrics and scale up knowledge exchange.

In addition, the Scottish Government can at times benefit from [Financial Transactions](#) funding which results from UK Government housing-related equity and loan finance schemes, such as 'Help to Buy'. The Scottish Government receives a proportional share of the UK Government's investment because such issues are devolved to the Scottish Parliament. The funds are restricted and can only be used to support equity or loan schemes out with the public sector and must eventually be repaid to HM Treasury. The Scottish Government has used this funding in a range of areas beyond housing, such as loans to farmers facing delays in Common Agricultural Policy payments, loans to and equity investment in small businesses and energy efficiency home improvements. If Scottish Budgets in 2021-22 or beyond benefit from such funding then full consideration should be given to loan and/or equity schemes that can help address the nature and climate crises together. For example, loans for businesses that invest in nature-based solutions or measures to address their direct impact on biodiversity.

#### **Are there any new tax proposals you would like to see implemented by the Scottish Government?**

The answers to the questions above set out the key themes for further taxation reform if we are to achieve a green recovery and address the climate, biodiversity and health crises.

In addition, the Planning Scotland Act (2019) allows Scottish Ministers to establish and make provision for an infrastructure levy by regulation. The levy will be payable to a local authority, in respect of development and the income from which can be used by local authorities to fund infrastructure projects. The definition of infrastructure in the act includes green and blue infrastructure, in terms of features of the natural and built environments (including water) that provide a range of ecosystem and social benefits.

One of the direct costs to the public from development is the loss of green space and the associated consequences this brings for biodiversity, climate change and ultimately the general health and wellbeing of the population. There can also be indirect effects through additional traffic congestion and pollution. A well-designed infrastructure levy that is backed by a credible and committed approach from the Scottish Government should capture part of the uplift in the value of land that is earmarked for development, making this available for public benefit to offset these costs. There should be little or no impact on house or other property prices and/or distortion of development decisions. This is because the incidence of a well-designed levy would fall on landowners through a reduced uplift in land values and not developers, construction companies or their customers.

Now would be an ideal time for Ministers to bring forward the necessary regulations to enact the Infrastructure Levy so that it could help finance important investment in our green and blue infrastructure, providing nature-based solution to the climate and health crises and underpinning the green recovery. The Scottish Government has accepted the advice of the Infrastructure Commission for

Scotland that natural infrastructure should be included in the definition of infrastructure for the Infrastructure Investment Plan and the levy could help provide vital new funding to achieve this. In addition, [recent research](#) shows that investment in natural infrastructure is one of the top five policy measures highlighted by leading economists to deliver economic and climate impacts. [This article](#) from the World Economic Forum reports that European leaders have called “for green investment to restart growth after the coronavirus pandemic, saying fighting climate change and promoting biodiversity would rebuild stronger economies.”

### **What particular fiscal challenges have been highlighted as a result of the Covid-19 emergency?**

The Institute for Fiscal Studies has [highlighted](#) how the Covid-19 emergency will dramatically reduce economic activity in 2020 and that this in turn will “depress tax receipts and add to government spending, increasing government borrowing and in turn adding to government debt”. In addition, that the government support put in place to “help support public services, households and employers will also have the direct impact of increasing borrowing”.

These fiscal pressures will need to be addressed in the long-term and ultimately society as a whole will have to pay for them. However, we should do so in a way that is consistent with a [Just Transition](#) and avoid the mistakes of the period after the global financial crisis where the policy choice was one of austerity. The Trust has previously [highlighted](#) how the combination of austerity and Scottish Government decisions led to steep declines in environmental funding in Scotland. Repetition of these mistakes would be in direct contradiction to the Scottish Governments objectives set out in the [Economic Recovery Implementation Plan](#) “to preserve and grow our natural, human, social, and economic capital in a way that delivers sustainable outcomes for the wellbeing of our future generations” and the recognition that improving our wellbeing is dependent on our ability to conserve and grow our natural assets.

The key challenge that the Covid-19 emergency has clearly exacerbated is the need to invest in our natural environment at a time when public finances will be under massive pressure. It will be necessary to make the best possible use of existing funding. Natural Infrastructure will need to get its fair share of the funding allocated for the Infrastructure Investment Plan and we need to consider how to reprioritise to make better use of existing funding across the Scottish Budget. The Scottish National Investment Bank also has a key role to play given its objectives to invest to promote environmental wellbeing and biodiversity. We will also need new innovative ways to finance investment and this reiterates the points made above about the new funding pathways set out in the ‘Route Map to £1bn’.

### **What changes, if any, should be made to the scope of devolved fiscal powers under the Fiscal Framework?**

There are two aspects that need to be reviewed to maximise Scotland’s potential to finance and deliver a green and transformative recovery:

- **Green bonds:** There has been a [rapid rise](#) in green bonds issuance over the last 5 years and the European Commission is reportedly considering issuing green bonds for the first time, as part of its €750bn borrowing to fund Europe’s economic recovery from Covid-19. The review of the Fiscal Framework should ensure that Scotland has the flexibility to raise the necessary finance for a

green and transformative recovery and this should include the ability to issue green bonds, on a par with other forms of public debt. Green bonds have tended to relate to investment in renewable energy but Scotland can lead the way by also including nature-based green bonds.

- **Natural capital investment:** It is also important that investment in our natural capital is treated equally in financial terms as investment in the other forms of capital. This is necessary for implementation of the four capitals approach highlighted above and in keeping with the desire to treat them equally. In particular, borrowing to invest in our natural capital should not be subject to any more constraints than is the case for borrowing to invest in other forms of capital.

### What fiscal rules should the Scottish Government follow?

The Fiscal Framework that applies to Scotland must reflect the move to the four capitals approach and ensure that there is an overriding goal as set out by the Advisory Group on Economic Recovery:

*Our approach to natural capital should be founded on the goal that each generation should leave its successor a set of natural assets at least as good as those that they inherited, so that future generations can choose how to live their lives and the economy has natural infrastructure to support it. The degradation of our environment and the overuse and misuse of the natural world has contributed to climate change and a loss of biodiversity. This has caused multiple harms which diminish our wellbeing, reduce the opportunities of future generations and constrain our economic capacity and productivity over the long run.*

This goal should not be overridden by other more simplistic rules that simply look at whether the financial flows to and from government are in balance at any point in time or over any period. Similarly, borrowing should not be justified by the level of investment in capital, unless it includes investment in all four capitals and in particular our natural assets. A new 'green rule' for public finances is required that will help achieve a green recovery and put us on a path to addressing the biodiversity, climate, economic and health crises. It has been [argued](#) that the public debt burden incurred as a consequence of the coronavirus could be spread across several generations, taking advantage of low interest rates and the ability to issue long-term debt. The same principles could be applied to the climate and biodiversity crises and rules put in place that ensure that the financial and environmental costs we face are spread equally across generations and that we cannot burden the next generation with both types of costs that result from our actions. To ensure we make the correct public finance decisions to achieve this the Scottish Government should review its [Scottish Public Finance Manual](#) and make it consistent with the four capitals approach so that the impact on all capitals is treated equally and it is the 'Greenest Book'.

### Further information

We look forward to engaging with the process for Budget 2021-22 and would be happy to submit any further information that may be helpful.

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