



## **Paying for nature: Options for fiscal reform**

### **A Scottish Environment LINK position paper**

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### Scottish Environment LINK

Scottish Environment LINK is the forum for Scotland's voluntary environment community, with over 40 member bodies representing a broad spectrum of environmental interests with the common goal of contributing to a more environmentally sustainable society. LINK provides a forum for these organisations, enabling informed debate, assisting co-operation within the voluntary sector, and acting as a strong voice for the environment.

### Introduction

The climate and nature crises demand a response. Our natural world has been degraded through human activity. But with its complex ecosystems, ability to sequester carbon, and its capacity to sustain life, restoring nature is key to tackling both the climate crisis and the collapse of biodiversity. And we will need to pay for it.

The question of “*who pays?*” for climate mitigation, adaptation and nature restoration is one of the most politically significant issues we will face this century. Stop Climate Chaos Scotland’s 2022 report *Financing Climate Justice* considers potential measures for funding action across the economy<sup>1</sup>.

This report looks specifically at the issue of how nature restoration can be supported through government policy on taxation and spending (fiscal policy). In particular, this report will consider how fiscal policy can support the land use changes required to reverse the collapse of biodiversity and to naturally drawdown carbon.

#### ***The value of nature***

Our natural environment underpins all economic activity and human life. *The Economics of Biodiversity: The Dasgupta Review* (2021), commissioned by the UK Government, describes nature as “our most precious asset” upon which “our economies, livelihoods and well-being all depend”<sup>2</sup>. The concept of ‘ecosystem services’ has been developed to describe the multiple ways in which a healthy natural environment benefits human wellbeing. Ecosystem services include clean air, flood management, water purification, disease and natural pest control, alongside a host of cultural and economic benefits, including

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<sup>1</sup> [https://www.stopclimatechaos.scot/wp-content/uploads/2022/09/FinancingClimateJustice\\_Report\\_ONLINE.pdf](https://www.stopclimatechaos.scot/wp-content/uploads/2022/09/FinancingClimateJustice_Report_ONLINE.pdf)

<sup>2</sup> [https://assets.publishing.service.gov.uk/media/60182857d3bf7f70c2afe5bb/Dasgupta\\_Review\\_-\\_Headline\\_Messages.pdf](https://assets.publishing.service.gov.uk/media/60182857d3bf7f70c2afe5bb/Dasgupta_Review_-_Headline_Messages.pdf)





supporting agriculture<sup>3</sup>. A 2003 report estimated an annual ecosystem service value in Scotland of £17 billion (worth around £30 billion today)<sup>4</sup>.

The climate crisis and biodiversity loss are mutually reinforcing cases of environmental breakdown: a warming world will cause ecosystem collapse, which in turn will release more emissions. Nature is essential and this will become increasingly apparent over the coming decades as we become more exposed to the impacts of climate change. Investment in nature today has multiple benefits, not least in the mitigation of and adaptation to climate change. Reversing biodiversity loss today can be understood as preventative spending against the loss of future ecosystem services, which would undoubtedly carry significantly greater costs. In 2011 the then Finance Secretary John Swinney argued that “focusing on preventing problems by intervening earlier is not only the right approach to many of the social and other issues facing us in Scotland today; it also secures better value for the taxpayer.”

### ***The finance gap***

In recent years there has been considerable discussion around the role of private funding for nature restoration. Scottish Environment LINK has published a [position paper](#) outlining its position on the role of private finance. It is neither possible nor desirable for nature restoration to be funded entirely by public funding, and private and community landowners, business, philanthropists, and environmental NGOs all have a role.

The Scottish Government and conservation groups both accept that there is a significant gap between current spending on nature and the investment necessary – this ‘finance gap’ was in 2021 estimated to be £20 billion over 10 years by the Green Finance Institute. The scale of the finance gap is disputed but its existence is not, and the continued environmental decline documented in the *State of Nature* report clearly demonstrates that conservation efforts have to date been inadequate<sup>5</sup>. However, policymakers must be cautious not to place a purely monetary value on nature or to assume that market mechanisms, such as offsetting schemes, exist without risk.

### ***Why public funding?***

It is wrong to assume that private finance can and should fill the finance gap in its entirety. Government has a central role in tackling the nature and climate emergencies. The Scottish Government has set itself legal targets to reduce emissions and has committed to

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<sup>3</sup> <https://www.nature.scot/scotlands-biodiversity/scottish-biodiversity-strategy-and-cop15/ecosystem-approach/ecosystem-services-natures-benefits>

<sup>4</sup>

<https://www.researchgate.net/publication/247951993> The value of Scotland's ecosystem services and natural capital

<sup>5</sup> <https://www.gov.scot/publications/scottish-spending-review-2011-draft-budget-2012-13/>





introducing similar targets to restore nature – the state has a legal, as well as a moral, duty to act.

Land and sea use is shaped in large part by the Scottish Government. The government acts as a regulator, a policymaker, an advisor, and as a significant landowner itself. It also subsidises significant parts of the land-based economy through agricultural and forestry funding, which gives the government significant influence over practices within these sectors. There are opportunities, through policy measures including tax powers, for the Scottish Government to develop a fairer and healthier society which is nature-rich and better connected with nature.

Government is also uniquely placed to act at scale and in the public interest. Individuals or groups can take positive action for nature, but only public policy can ensure that such action is undertaken nationally and with strategic coherence. This is particularly relevant due to the importance of ecological connectivity: one farmer can restore a habitat, but only wider policy and funding can replicate this across the landscape. An individual landowner can attempt to combat invasive species or destructive levels of deer numbers but will find their efforts undermined by failure to act on neighbouring land.

The capacity of the government to act underpins the ability of others to contribute to nature restoration. Environmental monitoring, conducted by public agencies, is essential in allowing us to understand the condition of the natural environment. The wider public sector, too, has an impact – for example, the planning systems are central to outcomes on land and sea but the capacity of planning departments has been eroded through austerity<sup>6</sup>.

There are two established market-based mechanisms to direct private finance into nature restoration, the Woodland Carbon Code and Peatland Code, both of which are carbon-credit models utilising nature-based solutions. Effective nature restoration requires a significantly broader range of activities than expanding woodlands and restoring degraded peatland, as important as both of these activities are. The draft Scottish Biodiversity Strategy identifies a wide range of necessary actions including surveillance, prevention and control of Invasive Non-Native Species; substantial reductions in deer densities; water management measures; improved grouse moor management; changes to National Parks, National Nature Reserves, and the use of Nature Networks; and the implementation of the National Planning Framework 4<sup>7</sup>. It is evident that the success of this Strategy will depend on higher public investment – we cannot expect the public sector to do more and with better outcomes unless we improve resourcing.

The marine environment is lagging behind the terrestrial environment when it comes to available data and mechanisms to direct finance. A valuable use of public funding would be

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<sup>6</sup> <https://cieem.net/survey-of-scottish-local-planning-authority-capacity-highlights-risk-to-delivery-of-npf4/>

<sup>7</sup> <https://consult.gov.scot/environment-forestry/tackling-the-nature-emergency/>





to establish an appropriate baseline of marine natural capital to guide planning decisions and inform development of marine natural capital markets.

### ***Purpose of this paper***

This paper outlines high level principles that should underpin fiscal policy relating to nature restoration. The paper also outlines some specific mechanisms which could be used to raise revenue, or to encourage behaviour change, relating to the natural environment. These options are presented for consideration, and do not necessarily represent the fixed view of members of Scottish Environment LINK. The scale of the finance gap related to nature restoration is disputed, though clearly significant, and this paper does not make estimations of the revenue raised by any particular mechanism.

This paper focuses on public spending. This should be read alongside [LINK's position paper on private finance](#).

## **Environmental justice and fiscal reform**

*Financing Climate Justice* makes several recommendations as to the design of tax policy, namely:

- The choice and design of fiscal measures should be strongly influenced by considerations of equity and the 'polluter pays' principle, to reflect climate justice.
- Funding to tackle the climate emergency should come from progressive forms of general taxation.
- Complementary specific environmental taxes should be supported where they bring about behaviour change which reduces emissions.
- Revenues raised from specific environmental taxes should generally be hypothecated to be spent on relevant environmental improvements.

Following these recommendations, a fair tax policy would see **higher public investment in nature restoration funded through progressive taxation** and supplemented by **specific environmental taxes** designed to change behaviour.

The Scottish Government's *Framework for Tax* (2021) states that "tax can be used as a lever to increase the cost of harmful behaviours, or reduce the costs of desired behaviours, in order to incentivise change". The *Framework for Tax* also states that tax policies should be aligned with (among other strategies) the Climate Change Plan and the Scottish



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Government's policy programme, which includes the introduction of legal nature restoration targets<sup>8</sup>.

### **Environmental principles**

The 'polluter pays' principle, mentioned above, is one of the environmental principles established first while the United Kingdom was a member of the EU and later adopted in Scotland through the 2021 Continuity Act. Scottish Ministers have a legal duty to consider these environmental principles when making policies and proposing laws. It is therefore useful to consider how these principles could be applied to fiscal measures.

#### **Environmental principles**

**The integration principle** that protecting the environment should be integrated into the making of policies.

**The precautionary principle** that lack of scientific certainty should not postpone cost-effective measures to protect the environment from threats of serious or irreversible damage.

**The prevention principle** that preventative action should be taken to avert environmental damage.

The principle that environmental damage should be **rectified at source**.

The principle that **the polluter should pay the costs of environmental damage**.

A tax policy informed by these principles would see the highest tax burden placed on the firms and individuals with the greatest environmental impact. This would act both to prevent environmental damage through behavioural change and to raise revenue under the 'polluter pays' principle. Such measures must be introduced at a level which effectively shifts behaviour, which may limit the revenue raised. Revenue raised through hypothecated mechanisms should be seen as additional to core public funding, rather than as a replacement. In some cases an 'ecosystem service user pays' approach, moving beyond an approach solely based on the concept of pollution, may also be appropriate.

### **Beyond tax**

Tax is one side of the fiscal picture – spending is the other. The Scottish Government spends significant sums of money each year directly supporting activity with significant implications for nature and land use. The 'integration' and 'prevention' principles imply that government should not financially support activity with a negative environmental impact. Reform of

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<sup>8</sup> <https://www.gov.scot/publications/framework-tax-2021/>







public subsidies would allow for greater investment in nature restoration without any additional burden on the public purse.

## Options for reform

This report proposes a range of fiscal and regulatory reforms which could be utilised for the Scottish Government either to raise revenue for investment in nature or to encourage behaviour change. Most of these measures fall within the devolved powers of the Scottish Government, and it is stated where we believe these measures would require the use of reserved powers.

### Tax policy

#### ***Income tax***

The Scottish Government has the power to vary income tax rates and has used this to introduce a more progressive system than the rest of the UK, with higher tax rates for those earning above average incomes. Future Scottish Governments may take different approaches, though it seems likely that there will remain some divergence between Scotland and the rest of the UK.

The principles outlined in *Financing Climate Justice* are a useful starting point in determining a fair approach to income tax. Income tax has an important role in funding environmental measures, and a progressive approach to tax which adequately funds public services is necessary alongside the ‘polluter pays’ principle. Research by Oxfam has shown that the richest have a hugely disproportionate environmental impact<sup>9</sup>.

As part of the ongoing budget-setting process, the Scottish Government should continue to take a progressive approach to income tax that allows for sufficient public investment in the natural environment.

#### ***Reform of local taxation***

One key lever available to the Scottish Government is local tax, through either the reform or replacement of the Council Tax. This is an area with considerable interest from multiple political parties, though no consensus on potential reform.

Changes to local tax would not directly affect the Scottish Government’s ability to fund environmental measures on a national scale, though local government does have important relevant responsibilities including the management of land and the planning system.

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<sup>9</sup> <https://www.oxfam.org.uk/media/press-releases/richest-1-emit-as-much-planet-heating-pollution-as-two-thirds-of-humanity-oxfam/>





Increasing council budgets through tax reform could support, for example, the development of Nature Networks.

A land tax, replacing the property-based Council Tax, was one option considered by the Commission on Local Tax Reform (2015)<sup>10</sup>. The taxation of land would have clear implications for the use of this land and would incentivise certain behaviours dependent on how the tax was designed. LINK's Land Use and Land Reform Group has encouraged the Scottish Government to explore "how the tax system can support a transformation in land use in response to the climate and nature emergencies" including through reform of local tax "to include a land-based element"<sup>11</sup>.

A complicating factor is that a straight replacement of the Council Tax would impact residential landownership rather than businesses, which are instead subject to Non-Domestic Rates. Agricultural land – which makes up around three quarters of Scotland's land mass – is exempt from Non-Domestic Rates, alongside some other land uses<sup>12</sup>. A report by the New Economics Foundation on behalf of the Scottish Government recommended removing Non-Domestic Rates exemptions from timber production and finfish aquaculture<sup>13</sup>.

It is highly unlikely that any government would wish to subject all agricultural land to business rates, though specific forms of land taxation or other levies may be considered. If agricultural land was excluded, a land tax would not impact the majority of Scotland's land, though there may be benefits in incentivising changes to, for example, derelict urban sites. On the other hand, a blanket land tax applied to all or most land may have the environmentally counterproductive effect of encouraging greater intensification of land use, with the 'cost' of low-impact land use or nature restoration increasing.

There is precedent for land tax being applied to agricultural land: in Denmark, farms pay a discounted rate of municipally raised land tax<sup>14</sup>. The introduction of forms of land taxation should be considered but particular care should be given to equity, the 'polluter pays' principle, and to avoiding any unintended consequences. Targeted taxation of land based businesses which are not managing their land in the public interest should in particular be considered.

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<sup>10</sup> <https://web.archive.org/web/20220322152354/https://localtaxcommission.scot/download-our-final-report/>

<sup>11</sup> <https://www.scotlink.org/wp-content/uploads/2022/10/Land-reform-in-a-net-zero-nation-consultation-response.pdf>

<sup>12</sup> <https://www.mygov.scot/non-domestic-rates-guidance/paying-non-domestic-rates>

<sup>13</sup> <https://www.gov.scot/publications/environment-strategy-scotland-delivering-environment-strategy-outcome-scotlands-economy-evidence-base-policy-levers/pages/6/>

<sup>14</sup> <https://www.oecd-ilibrary.org/sites/031a8ba5-en/index.html?itemId=/content/component/031a8ba5-en>







### **Carbon Emissions Land Tax**

One specific proposal for a targeted land tax has been developed by the John Muir Trust. The proposed Carbon Emissions Land Tax (CELT) would introduce tax bands on large landholdings (over 1000 hectares) according to their land uses and whether they are emitting or sequestering carbon<sup>15</sup>. This would allow rural local authorities to generate some income and would act as an incentive for landowners to restore peatlands and expand native woodlands. By targeting only the largest landowners, such an approach is consistent with the 'polluter pays' principle and the establishment of a fair tax system.

This proposal is under active consideration by the Scottish Government and a consultation is expected<sup>16</sup>.

### **Air Departure Tax and frequent flyers**

Under the Scotland Act 2016, the Scottish Government has the power to introduce a tax on flights departing from airports in Scotland. Legislation has been passed to replace the existing Air Passenger Duty with a devolved Air Departure Tax (ADT), although implementation has been held up due to issues related to existing exemptions for regional flights in the Highlands and Islands<sup>17</sup>.

International aviation is a high carbon activity<sup>18</sup>. It is also an activity which is disproportionately undertaken by a small number of individuals. 70% of flights in the UK are taken by 15% of people, while each year nearly 50% of the population do not fly at all<sup>19</sup>. The inequality is even starker for domestic flights, with 90% taken by just 2% of the population and the vast majority never flying domestically<sup>20</sup>.

In response to its failure to meet climate targets, the Scottish Government has stated that it will take an approach to ADT that supports emission reductions, alongside other policy interventions including support for road user pricing<sup>21</sup>.

The introduction of a Frequent Flyer Levy, with higher levels of tax paid for those flying more than once a year, would align with the 'polluter pays' principle and could act to significantly change behaviour to reduce emissions. Reasonable exemptions, such as for

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<sup>15</sup> <https://www.johnmuirtrust.org/support-us/take-action/982-carbon-emissions-land-tax>

<sup>16</sup> <https://www.gov.scot/publications/scottish-budget-2024-25/pages/4/>

<sup>17</sup> <https://www.gov.scot/policies/taxes/air-departure-tax/>

<sup>18</sup> Most recently available statistics on Scotland's emissions cover the period when international travel was significantly implicated by the Covid 19 pandemic, and so show a significant drop in emissions. Emissions from international flights in 2019 stood at 1.5 MtCO<sub>2</sub>e, which is 7.5 times the emissions footprint of Scotland's railways.

<https://www.gov.scot/publications/scottish-greenhouse-gas-statistics-2021/pages/3/>

<sup>19</sup> <https://neweconomics.org/2021/07/a-frequent-flyer-levy>

<sup>20</sup> <https://www.stopclimatechaos.scot/manifesto/policy/introduce-a-frequent-flyer-levy/>

<sup>21</sup> <https://www.gov.scot/publications/climate-change-action-policy-package/>





island communities dependent on regional flights, could be introduced. This levy could be introduced in addition to ADT.

The tax could be designed to be progressive, with one flight per year levy-free, but with increasing charges for very frequent flyers. One option would be to specifically target domestic flights where reasonable rail alternatives exist, such as Edinburgh to London flights, for higher rates. France has gone as far as banning short-haul flights where rail alternatives of under 2.5 hours exist<sup>22</sup>. The specific approach taken may be limited by the extent of the Scottish Government's powers.

*Financing Climate Justice* argues that environmental taxes should generally be hypothecated and spent on relevant environmental improvements. An obvious benefit of a Frequent Flyer Levy would be in ring-fencing revenue for investment in rail travel (including in reducing the cost of train travel), and this link is most closely related to any levy raised on domestic flights. There is, however, an argument that, due to the high emissions caused by flying, that a proportion of revenue raised through ADT and a Frequent Flyer Levy should be invested in nature restoration with a clear carbon sequestration link.

### **Visitor levy**

Local authorities in Scotland are being granted the ability to introduce a visitor levy, also known as the tourist tax. While tourism is an important part of the Scottish economy its environmental impact extends beyond aviation emissions. Scotland's natural environment is also the most important factor for people choosing to visit Scotland: 50% of visitors say that scenery and landscape are a key motivation to visit, rising to 71% amongst European visitors<sup>23</sup>.

There will be a range of pressures on the revenue generated through visitor levies. Due to both the environmental impact and the importance of the natural environment in driving tourism, it is reasonable to ask how our natural environment can benefit from the significant economic impact of the industry. The Scottish Government and local authorities should both consider how the visitor levy could be used to support investment in nature. For example, a ring-fenced supplement to the visitor levy could be introduced to support nature restoration alongside visitor management.

### **Other mechanisms to raise funding**

#### **Green and blue bonds**

The Scottish Government can borrow up to £450 million annually, and £3 billion cumulatively, to fund capital investment. These limits will rise with inflation. This can be

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<sup>22</sup> <https://www.euronews.com/green/2022/12/02/is-france-banning-private-jets-everything-we-know-from-a-week-of-green-transport-proposals>

<sup>23</sup> <https://www.visitscotland.org/research-insights/about-our-visitors/why-people-choose-scotland>





funded through either commercial borrowing or through the issuing of bonds. In October 2023 it was announced that the Scottish Government would use its bond issuing power for the first time<sup>24</sup>.

Green bonds – bonds issued exclusively for use for investment in environmental purposes – are becoming increasingly significant sources of funding globally. It was estimated green bonds and similar products raised between \$900 billion and \$1 trillion in 2023<sup>25</sup>. Green bonds have been issued by the European Investment Bank, the World Bank, individual corporations, and national, state and local governments<sup>26</sup>. Blue bonds are a variation of green bonds to fund marine conservation, with the first sovereign blue bond issued in 2018 by the Seychelles<sup>27</sup>.

The Scottish Government should issue dedicated green or blue bonds to fund investment in capital spending such as on nature-based climate adaptation measures.

Additionally, Aberdeen City Council in 2016 raised £370 million by issuing bonds<sup>28</sup>. It is possible that local authorities could choose to issue green or blue bonds. This would have particular impact if undertaken across the country, and the Scottish Government could play a role in encouraging local authorities to take this approach.

Government-issued green bonds are safe investments that would be particularly attractive to ethical investors. *Financing Climate Justice* recommends that public sector pensions should divest from fossil fuel firms and instead invest in socially responsible measures such as creating green infrastructure. Green bonds would be a useful way of achieving this and would have the added benefit that the debt repayment would then support public sector pensions.

### **Infrastructure Levy**

The Planning (Scotland) Act 2019 gives Ministers the power to introduce an Infrastructure Levy on developments, which would allow local authorities to require developers to make contributions towards local infrastructure. This could include both ‘blue’ and ‘green’ infrastructure. Similar powers were introduced in England and Wales in 2010. However, the Scottish Government has yet to utilise this power.

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<sup>24</sup> <https://www.gov.scot/publications/memorandum-scottish-government-capital-borrowing-bonds/>

<sup>25</sup> <https://www.spglobal.com/esg/insights/featured/special-editorial/global-sustainable-bonds-2023-issuance-to-exceed-900-billion>

<sup>26</sup> <https://www.weforum.org/agenda/2023/11/what-are-green-bonds-climate-change/>

<sup>27</sup> <https://www.worldbank.org/en/news/press-release/2018/10/29/seychelles-launches-worlds-first-sovereign-blue-bond>

<sup>28</sup> <https://www.aberdeencity.gov.uk/services/council-and-democracy/aberdeen-city-council-bonds>





The Infrastructure Levy should be introduced, and Ministers should support and encourage local authorities to utilise a proportion of revenue generated towards nature restoration and nature-based climate adaptation.

### ***Renewable energy benefits***

Community benefit schemes are a familiar aspect of renewable energy developments, with developers voluntarily making financial contributions to good causes. This can include ecological enhancements beyond onsite mitigation<sup>29</sup>.

The Scottish Marine Environmental Enhancement Fund (SMEEF) allows voluntary contributions towards marine projects. The Fund has received donations from the offshore wind industry, and has also distributed Scottish Government funding through the Nature Restoration Fund<sup>30</sup>. The Scottish Government should consider how to maximise the contribution the renewable industry makes to nature restoration, particularly in relation to future offshore leasing rounds.

### **Reforming public spending**

#### ***Agriculture***

The Scottish Government currently supports farmers with more than half a billion pounds of financial support each year. The funding system, inherited from the EU's Common Agricultural Policy, functions primarily through area-based direct payments. This massively weights funding towards a minority of large landowners. The top 20% of claimants receive 62% of the direct payments budget, whilst the bottom 40% of claimants receive just 5%<sup>31</sup>.

The Scottish Government's own analysis has found that the current system "did not deliver the intended benefits or value for public money" and that "direct payments had little environmental benefit, and in some cases may have had a negative impact". In contrast, schemes such as the Agri-Environment Climate Scheme were found to have a positive impact but was "limited by budget or uptake"<sup>32</sup>.

Agriculture makes a significant contribution to both Scotland's greenhouse gas emissions and nature loss. We will not be able to meet our climate or nature targets without changing the way we farm, and that will require changes to the way we financially support farmers. There is however an opportunity through the Agriculture and Rural Communities Bill, and the subsequent introduction of a new funding system, for reform.

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<sup>29</sup> <https://www.gov.scot/publications/scottish-government-good-practice-principles-community-benefits-onshore-renewable-energy-developments/pages/6/>

<sup>30</sup> <https://www.nature.scot/SMEEF>

<sup>31</sup> <https://www.scotlink.org/wp-content/uploads/2023/05/Farm-for-Scotlands-Future-summary-report.pdf>

<sup>32</sup> <https://www.gov.scot/publications/agriculture-rural-communities-scotland-bill-supporting-evidence-analysis/pages/9/>





The Scottish Government has confirmed that under the new system 70% of the budget will be spent on direct payments<sup>33</sup>. This will effectively maintain the status quo, albeit with some additional environmental conditionality. The then First Minister did however state that the new system represented “the start of doing things differently” and that farmers “will be expected to deliver far more for nature and climate in return for this funding”.

There are two primary ways in which the system could support such a transition. The first is through a shift in the distribution of payments across the Tiers of the new system. This should see the 70% direct payment envelope shrink over time, with money moving into the schemes directly supporting climate- and nature-friendly farming. Simultaneously, within the direct payment envelope, there should be a shift from Tier 1 payments to Tier 2, where there will be higher environmental standards.

The second change should be in the level of conditionality applied to these payments. An increase in conditions over time would drive up standards in the sector, reduce emissions, and would avoid the cliff-edge which Ministers wish to avoid. There are wider opportunities for nature in the introduction of the new system, including the potential for landscape-scale nature restoration grants for farmers and land managers.

### **Forestry**

The forestry sector is supported by public grants and a number of tax reliefs. Landowners are also able to access funding for tree planting through the Woodland Carbon Code. The Forestry Grant Scheme supports native woodlands alongside commercial forestry. The desirable balance of support between commercial and environmental outcomes is a matter of dispute; an inquiry by the Royal Society of Edinburgh recommended a complete end to all subsidy for coniferous commercial tree planting, with funding redirected towards tree planting for carbon, biodiversity and public benefit<sup>34</sup>.

In light of the climate and nature emergency, it is vital that public funding for forestry operates with a stronger environmental focus. At least 50% of new woodlands should be native and managed primarily for nature, including natural habitat defragmentation.

### **Scrutiny and conditionality for all public spending**

There should be coherence between funding streams to ensure that all public spending supports or, at a minimum, does not undermine nature restoration.

Public expenditure includes procurement, grants, loans and subsidies. Governments should seek to ensure that effective codes of good practice are conditions of any public expenditure; such that recipients are obliged to consider and pursue nature restoration. The same conditions should be applied to the granting of permissions or licences.

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<sup>33</sup> <https://www.gov.scot/publications/nfus-conference-2024-first-minister-keynote-speech/>

<sup>34</sup> <https://rse.org.uk/wp-content/uploads/2024/02/RSE-inquiry-into-public-financial-support-for-tree-planting-and-forestry-2024.pdf>





All public budgets should be scrutinised to ensure delivery on nature restoration and decarbonisation. In France the Green Budget provides an assessment of the green impact of all State budget expenditures, rating all expenditures across a variety of criteria, including impact on climate, biodiversity and local air pollution<sup>35</sup>. LINK developed the ‘Five green tests’ in 2020 and applied them to Scottish Government’s Economic Recovery Plan<sup>36</sup>.

## Summary of recommendations

### Overall approach:

1. In response to the climate and nature crises, the level of public funding for nature restoration should be increased, with a range of fiscal measures considered.
2. The Scottish Government’s approach to fiscal policy should be built on the principles of environmental justice, with strong consideration given to equity and the ‘polluter pays’ principle.
3. Most public funding for nature should come from progressively raised forms of general taxation. In addition, specific environmental taxes may be appropriate where they encourage behaviour change. The revenue raised from environmental taxes should be hypothecated and spent on relevant environmental improvements, including nature restoration.
4. All forms of public spending should be consistent with the Scottish Government’s climate and nature targets, and public subsidies should be reformed to prevent public funding for activity with negative environmental impacts.

### Tax policy:

5. As part of the ongoing budget-setting process, the Scottish Government should ensure that a progressive approach to income tax supports public investment in the natural environment.
6. Any reform to local tax should ensure that local authorities are adequately resourced to meet their environmental responsibilities.
7. The introduction of forms of land tax should be considered as part of the future of local tax. A badly designed land tax could have unintended consequences. Any form of land

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<sup>35</sup> [https://economy-finance.ec.europa.eu/document/download/bd682296-0ed0-4a37-b4aa-ed30c5eff32c\\_en?filename=6.%20France%20Green%20Budgeting.pdf](https://economy-finance.ec.europa.eu/document/download/bd682296-0ed0-4a37-b4aa-ed30c5eff32c_en?filename=6.%20France%20Green%20Budgeting.pdf)

<sup>36</sup> <https://www.scotlink.org/publication/the-5-green-tests-applied-to-the-scottish-governments-economic-recovery-plan/>







tax introduced should be designed to deliver clear and specific outcomes in the public interest and should help tackle the climate and biodiversity crises. Priority should be given to consideration of measures that will target landowners that are failing to manage their land in the public interest, such as the proposed Carbon Emissions Land Tax.

8. A proportion of revenue generated through the Air Departure Tax should be hypothecated for investment in nature restoration, reflecting the important role of nature restoration in tackling climate change.

9. A Frequent Flyer Levy should be introduced as part of the Air Departure Tax.

10. The Scottish Government and local authorities should ensure that the visitor levy is used to support investment in nature, reflecting both the environmental impact of tourism and the central importance of Scotland's natural environment in sustaining the visitor economy.

#### **Other revenue raising mechanisms:**

11. The Scottish Government should issue dedicated green and/or blue bonds to fund investment in infrastructure such as nature-based climate adaptation measures.

12. Local authorities should also consider issuing green or blue bonds, and the Scottish Government should provide support and advice on this approach.

13. The Scottish Government should use powers under the Planning (Scotland) Act 2019 to introduce an Infrastructure Levy on developments, and should support and encourage local authorities to utilise a proportion of revenue generated towards nature restoration and nature-based climate adaptation.

14. The Scottish Government should work to maximise the contribution the renewable industry makes to nature restoration, particularly in relation to future offshore leasing rounds.

#### **Reforming public spending**

15. Agricultural spending should be reformed to deliver for nature and climate.

16. Forestry funding should be reformed to ensure that at least 50% of new woodlands are native and managed primarily for nature.

17. A green budgeting approach should be adopted to ensure that all public budgets are scrutinised to ensure delivery on nature restoration and decarbonisation.





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Friends of the Earth Scotland

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