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Dean Lockhart Esq
Convener
Net Zero, Energy and Transport Committee ('the Committee')
The Scottish Parliament
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Dear Mr Lockhart

INQUIRY – THE ROLE OF LOCAL GOVERNMENT AND ITS CROSS SECTORAL PARTNERS IN FINANCING AND DELIVERING A NET ZERO SCOTLAND

We are writing to you following the Committee's request for information about Scottish Futures Trust's (SFT) work with local government in helping them reach net zero goals. Enabling the transition to net zero emissions is one of SFT's three Corporate Priorities and as such we work with local government, the private sector and other public bodies to support net zero initiatives across our workstreams.

There is no shortage of ambition from local government with many having declared a climate emergency and having set early target dates to achieve net zero. We consider that investing in collaboration to achieve these ambitions is central to success in several emerging net zero sectors.

These collaborations are required between central government, local government and the private sector - for example to bring together a combination of a supportive regulatory environment, funding and broader interventions to establish a pipeline of investable projects that can attract private sector investment and engaging with developers at the local level. In many areas the income stream to repay potential investors is currently unclear to the market. Therefore we set out the features of collaboration below, along with our view of other key success factors to help underpin the role of local government and its cross sectoral partners in delivering a net zero Scotland.

At the heart of the local government path to net zero is to sustain service delivery with a significantly lower associated carbon footprint. As part of the wider review of the approach to service delivery, the supporting asset base plays an important role. There is a need to look strategically at minimising the number of assets required to effectively deliver these services, as well as the minimising the carbon from the assets that are required. Therefore SFT's work with the central government property team on asset strategy guidance to help public bodies, including local government, make

best use of their existing assets is relevant here as well as supporting local authorities in considering their assets in the support of service programmes such as the expansion of early learning and childcare – with more detail on these areas set out in the Annex.

We set out below our views on key success factors in financing and delivering a Net Zero Scotland.

1. CREATING SUCCESSFUL COLLABORATIONS

Important to establishing a decarbonisation project with sufficient scale and certainty of income stream to attract investors and locating it in the right geography suitable for a particular business model, can be Local Authorities coming together in an effective partnership with central government and the private sector (and sometimes collaborating with other Authorities). Collaboration is at the heart of most of the work that SFT does and therefore is relevant to all of the workstreams described below. We see the key features of successful collaborations as follows:

- **Outcome Clarity** - Ensuring that there are clear benefits for all partners who are collaborating and that these are articulated at the outset and monitored throughout the process and realised at the end; all aligned to clear accountability and responsibility.
- **Leadership Commitment** - Senior level sponsorship, drive and commitment to an expectation of collaborative working and understanding of the practical delivery issues to be overcome
- **Local Authority project sponsor** - Someone with appropriate seniority and who can act as a champion for a project
- **Organisational Resources** - Investment of revenue and senior people's time in the relationships, co-working and negotiation required for collaboration
- **Shared Governance and Processes** - Collaborative processes (e.g. joined up governance, contractual arrangements to share existing assets, co- production throughout, collaborative procurement) that partners can adopt and integrate into their everyday business.
- **Development Time** – Recognition and allowance of the additional project preparation time required to work in a collaborative manner – at least in early examples between organisations.
- **Place Principle** - Applying the place principle in practice can provide a structured approach to delivering collaborative projects which work for communities.
- **Funding Alignment** - Coherent programmes of capital investment that have conditionality on collaboration built into them both in the preparation and planning stage as well as implementation and sufficient timing flexibility to align budgets from different sources.
- **Expert Brokering** - An independent brokering and oversight role within the process or programme that is able to provide constructive challenge and mitigate natural organisational biases and interests.

2. ESTABLISHING CENTRES OF SUPPORT AND EXPERTISE

Many local authorities face very similar issues in addressing net zero barriers – understanding the technology available and what the private sector can deliver, evaluating the available business

models and developing procurement and contract documentation that is credible and deliverable to the private sector. If co-developed between the centre and local government, much of this work only needs to be done once and support can then be provided to/by Local Authorities to adapt standardised documentation to local circumstances, provide guidance for business case development and to bolster local resource to establish procurements and to engage bidders.

Similar to collaboration, this central support role is core to much of what SFT does and therefore this plays a role in all of the workstreams mentioned below.

3. INVESTMENT IN LOCAL AUTHORITY RESOURCING

It is crucial for successful delivery that there are capacity and skills within local authorities to develop strategies, business cases, deliver procurements and monitor the resulting contracts. Having such individuals or teams that are ready to engage with the documentation and guidance that a centre of expertise may provide and have the capacity to lead local procurements are a feature of achieving effective outcomes.

Given constraints on central and local budgets, this is sometimes difficult to achieve given that net zero markets are still emerging areas for local authorities and the responsibility for which can lie across a number of different existing authority teams. Hiring consultancy support can at times fill some gaps but ultimately is not a substitute for investing and upskilling internal resources for the transition. This is an important factor across the SFT activities with Local Authorities on net zero delivery and we encourage such resources to be put in place, where appropriate working with central government to provide grant support for such resourcing. This is particularly relevant to the examples of EV chargepoints and Green Growth Accelerator below.

4. LEVERING IN PRIVATE SECTOR CAPITAL

There is no shortage of private sector investment capital in the net zero space looking for an investable project. Unfortunately in many cases the income stream from emerging net zero markets to pay back investment is insufficiently certain for the private sector to invest. There can be key roles for both central and local government in addressing these issues.

Central government (sometimes UK Government, sometimes Scottish Government dependent upon reserved and devolved powers) often need to set a national regulatory and / or legal framework (e.g. a date beyond which fossil fuel powered assets can no longer be used in various sectors). This can

set the backdrop for a pipeline of projects across Scotland in a particular sector. Then, in some circumstances, it may be appropriate for local government to develop local procurements and bridge the timing gap until reliable commercial income streams emerge – through committing local authority demand (e.g. public buildings heat demand or public fleet EV charging demand) or other forms of short term demand underpinning. This situation is particularly appropriate to SFT’s work in heat network delivery, EV chargepoints and Green Growth Accelerator pathfinder projects.

A number of workstreams and case studies demonstrating SFT work with local government and other partners are contained in the Annex as follows

- AREA 1 EV CHARGEPOINTS AND FLEET
- AREA 2 SUPPORTING THE DELIVERY OF HEAT NETWORKS
- AREA 3 ENERGY EFFICIENCY IN THE PUBLIC SECTOR ESTATE
- AREA 4 THE LEARNING ESTATE – OPERATIONAL ENERGY TARGETS IN SCHOOLS
- AREA 5 TOOLS - NET ZERO PUBLIC SECTOR BUILDINGS STANDARD (“the Standard)
- AREA 6 NET ZERO PATHWAYS FOR PPP CONTRACTS
- AREA 7 GREEN GROWTH ACCELERATOR (GGA)
- AREA 8 ASSET STRATEGY GUIDANCE

We trust that the commentary above and the areas in the annex give a good overview of how SFT works with local government and cross sector partners. The examples cover SFT’s preparation of strategic guidance for asset planning to support service delivery; our input to the development and roll out of frameworks; the delivery of investment programmes and funding approaches and their monitoring; and, technical tools and guidance and support to local authorities to achieve their net zero goals.

We would be pleased to answer any follow up questions that are prompted by the information provided.

Yours sincerely,

Kerry Alexander
Director – Infrastructure Finance and Programmes

ANNEX: SFT WORKSTREAMS AND CASE STUDIES WITH LOCAL GOVERNMENT ON NET ZERO GOALS

AREA 1 EV CHARGEPOINTS AND FLEET

SFT started working with Local Authorities during 2021 to support them in the roll out of more EV chargers for public use and their own fleet usage as set out below.

SFT is seeking to lever in private sector investment in what should be commercially attractive areas. Following a long period of a largely public sector funded network with low or zero tariffs, private sector chargepoint operators (CPOs) are looking to install chargers on all the most attractive sites for EV drivers, which they expect to become profitable in the short term, given forecasts for EV demand. However zero and sub commercial tariffs on the existing Chargeplace Scotland network are acting as a deterrent for private investment in some places. Therefore all Local Authorities are being encouraged to introduce a tariff that reflects the cost of electricity, installation and maintenance costs as well as the replacement costs when chargers reach the end of their useful lives – where appropriate having a separate membership scheme with a lower tariff for low income groups. SFT is working with Local Authorities to advise on tariffs and engaging with CPOs to articulate the emerging opportunity for private sector investment.

Local Authorities also need to collaborate in addressing the less commercially attractive areas (e.g. rural areas and / or slow AC on street charging). The Electric Vehicle Infrastructure Fund, for which Scottish Government have made available £30m over 4 years (with at least a further £30m expected from the private sector), needs to bring together large groups of such chargepoints, often across Authority boundaries, for single attractive procurements with the private sector. SFT is working to support 6 pathfinder projects (involving 17 Authorities) to develop a business case for such engagement, as well as considering options for standardised procurement and contractual documentation to simplify the procurement process and reduce costs. SFT also expect to engage with the remaining 15 authorities later this year.

Finally SFT has recently started working with some Authorities (and other public bodies) to encourage private sector investment into the charging infrastructure for their EV fleet and recently published a report on the work required in this area.[\(here\)](#) Whilst some Authorities may choose to finance these works from the Public Works Loan Board, there may be advantages of asking the private sector CPOs to finance, deliver and maintain this infrastructure; including sharing the cost with other customers (i.e. shared with public charging usage and private sector fleet operators) and

transferring the risk of delivery, performance and replacement of assets to parties that may be better placed to manage these.

AREA 2 SUPPORTING THE DELIVERY OF HEAT NETWORKS

SFT is working with Local Authorities to assist them in considering the roll out new heat networks and growing existing ones to move to a low carbon economy and reach climate change targets.

SFT works alongside partners, such as Scottish Government and Zero Waste Scotland, to support Local Authorities in this area and are seeking to find ways to bring in more private sector capital to accelerate delivery. The heat network sector is still undeveloped compared with gas and electricity markets and SFT has been working with a number of local authorities to help them identify and manage potential opportunities / risks and advise on potential business models and procurement routes for each project. SFT has, for example, been working with Fife Council and its project partner RWE, to develop the Glenrothes Energy Network. This is one of a number of heat network projects supported by Scottish Government's Low Carbon Infrastructure Transition Programme (LCITP), of which SFT is a delivery partner. The £24m scheme was officially opened by the then Energy Minister, Paul Wheelhouse, in April 2019, and is now fully operational and supplying heat to a number of Fife Council buildings and a sheltered housing complex. Fife Council is actively developing opportunities to expand the network. Importantly, the heat network will contribute to climate change targets, including Fife Council's goal to reduce carbon emissions by over 40% by 2020 and 80% by 2050.

AREA 3 ENERGY EFFICIENCY IN THE PUBLIC SECTOR ESTATE

SFT developed a delivery mechanism (Non Domestic Energy Efficiency or 'NDEE' Framework) to help public bodies to improve the energy efficiency of the buildings they own.

This work included the development of a robust and commercially viable delivery mechanism to deliver improvements and secure cost and carbon savings. To meet that goal, we worked with many stakeholders within the public and private sector to develop and deliver the framework. SFT supported Scottish Government in the development and delivery related project support unit (PSU);
by

- project managing the procurement governance process,
- supporting Scottish Government colleagues in implementing key policy requirements aimed at securing energy efficiency benefits and outcomes as well as

- leading on the development and delivery of the technical, commercial, legal, technical and financial aspects of the Framework process

The framework has been in operation for a number of years and is allowing Local Authorities to take forward their energy efficiency retrofit projects by developing and delivering capital and revenue funded energy performance contracts (EPCs) with appointed framework contractors underpinned by a guaranteed energy savings and related payment mechanism recognising actual performance. Since the NDEE Framework went live in 2016, 31 EPC projects have been taken forward involving energy efficiency improvements to 318 buildings; capital expenditure of £37m has been invested in related works and services delivered by framework contractors and their supply chains and guaranteed annual cost and carbon savings of £4.2m and 16,255 tCO₂ respectively have been achieved across the public bodies.

AREA 4 THE LEARNING ESTATE – OPERATIONAL ENERGY TARGETS IN SCHOOLS

The Learning Estate Investment Programme (LEIP) was launched in 2019 and is a joint programme of investment in Scotland's learning estate between Scottish Government and local government.

SFT manages the £2 billion LEIP programme on the Scottish Government's behalf having previously managed its predecessor, the £1.8bn Scotland's Schools for the Future programme.

The LEIP programme focuses on the delivery of a number of outcomes which are linked to the joint SG/COSLA Learning Estate Strategy published in September 2019. The outcomes also align with the more recently published 2021/22-2025/26 Infrastructure Investment Plan. One of these outcomes is enabling the transition to net zero by using ambitious operational energy targets. In addition to investment of time in setting a target capable of definition and attached to a funding mechanism was the depth of engagement across the key stakeholders including Directors of Finance, Association of Directors of Education in Scotland, Scottish Heads of Property, COSLA, industry players as well as the Learning and Finance directorates in Scottish Government.

AREA 5 TOOLS - NET ZERO PUBLIC SECTOR BUILDINGS STANDARD (“the Standard)

The Standard aims to provide the public sector with a framework to achieve exceptional energy and environmental performance in their new build and major refurbishment construction projects.

SFT developed the Standard in collaboration with Zero Waste Scotland and National Services Scotland for the Directorate of Energy and Climate Change. The Standard was adopted by Scottish Ministers in 2020 and launched at COP26. It is a voluntary standard that sets and delivers ambitious targets to achieve net zero outcomes for new buildings and major refurbishments for Local Authorities (and other public bodies).

SFT supports the delivery of the Standard by Local Authorities. The Standard was developed in tandem with the Learning Estate Investment Programme’s operational energy and indoor environmental quality requirements (that are discussed above) and is designed for ease of delivering projects under the programme. Through its flexibility on net zero deadlines and recognition of Local Heat and Energy Efficiency Strategies, the Standard offers a powerful tool for a Local Authority project sponsor to influence the setting of outcomes that must be achieved by other public bodies’ new build projects in their local authority area. The Standard also incorporates targets for new buildings that go beyond simple compliance with current regulations, anticipating forthcoming Scottish Government regulations on electric vehicle charging provision, heat networks and heat in new buildings and Local Authorities’ commitments on air quality, net zero deadlines and Local Heat and Energy Efficiency Strategies.

Among the pathfinder projects, undertaken to test and demonstrate what the Standard can achieve, are the following Local Authority projects:

- Penicuik High School (Stage 0), led by Midlothian Council
- Broadford Primary School (Stage 0), led by the Highland Council
- Currie High School (Stage 2), led by the City of Edinburgh Council
- Dunfermline Learning Campus Schools (Stage 2), led by Fife Council
- Maybury School and Health Centre (Stage 3), led by the City of Edinburgh Council
- St. Sophia’s Primary School (Stage 3), led by East Ayrshire Council
- Dunlop Early Learning Campus (Stage 4), led by East Ayrshire Council

SFT are currently working on a Net Zero Public Sector Building Standard for Existing Buildings to complement the current Standard for new build and major refurbishment.

AREA 6 NET ZERO PATHWAYS FOR PPP CONTRACTS

SFT has a small team that works as a national support for local authorities (and other public bodies) on the contract management of their PFI, PPP, Hub and NPD (collectively PPP) contracts. Almost all Authorities have schools PPP projects, each often covering a number of schools.

SFT works on individual projects and also with a number of regionally based collaborative groups that brings together the operational managers from the relevant Authorities and allows the sharing of best practice and lessons learnt as well as discussion on topical subjects such as the pathway to net zero. Of particular relevance to your Inquiry may be the guidance that SFT will publish in the coming weeks on Pathways to Net Zero for assets delivered under PPP contracts. The guidance:

- outlines the need to transition discrete elements of existing operational PPP assets onto the path to net zero in the context of Scottish Government policy and objectives;
- assists public sector PPP practitioners and technical teams to transition assets to the path to net zero through decarbonisation of existing facilities and system building elements via a net zero-driven approach;
- provides a methodology to produce a net zero carbon roadmap to identify carbon reduction opportunities around lifecycle planning and potential alterations within a PPP context;
- directs readers to other tools/guidance etc that might be useful; and
- provides specific PPP support on contractual and other barriers to be overcome.

While the guidance is relevant to projects at any stage, there are particular opportunities in relation to lifecycle replacement works including in the period running up to the handback of projects to the public sector at the end of the project's contract period.

During the course of this financial year, SFT will support two pilot projects in education or the health estate to support the bodies in managing PPP projects to transition those assets towards the net zero carbon requirement.

AREA 7 GREEN GROWTH ACCELERATOR (GGA)

GGA is a Scottish Government (SG) innovative financing solution that is seeking to unlock £200 million of investment from Local Authorities in low carbon infrastructure by linking SG grant support to the achievement of key net zero outcomes.

SFT, alongside Scottish Government, is working with a series of five pathfinders that were selected in 2021 across a range of low carbon technologies that together will unlock a first tranche of £45 million in Local Authority investments. Drawing on previous outcomes based funding routes such as the Growth Accelerator and the Learning Estate Investment Programme referenced above, SFT is helping develop the GGA model and supporting its role out across the following five pathfinder projects (announced October 2021):

- Aberdeen City Council - Hydrogen Programme – includes portable hydrogen refuelling module, expansion of hydrogen bus fleet and conversion of refuse collection vehicles
- Comhairle nan Eilean Siar - Net Zero Hub – hydrogen production infrastructure and equipment.
- City of Edinburgh Council – EnerPHit - upgrades to up to 12 council buildings, using the EnerPHit energy and comfort standard approach.
- The Highland Council - Climate Action Coastlines - research and implementation of natural coastal adaptation solutions, including tree planting, peatland restoration, sand dune strengthening, saltmarsh restoration, and floodplain development.
- North Lanarkshire Council - Green Park, Green Power, Green Neighbourhood - retrofit of the Watersports Centre at Strathclyde Park, water source heat pump using Strathclyde Loch and installation of solar PV canopies to provide electricity for the heat pump, lighting, and EV charging.

A sixth pathfinder project looking at the expansion of the Queens Quay Heat Network in West Dunbartonshire is also under consideration.

The need for good Local Authority resourcing of these projects has been recognised. SFT, working with the Scottish Government Climate Change Division, has also helped target £1 million of revenue support to pathfinders to develop business cases in 2021/22, firmly recognising the need for Local Government teams to be resourced appropriately to bring projects forward to investment stage. A further £1 million of revenue support in 2022/23 is being considered specifically to support pipeline development at a Local Authority level for new low carbon infrastructure projects.

AREA 8 ASSET STRATEGY GUIDANCE

SFT has been working with Scottish Government to develop asset strategy guidance for the Scottish public sector. The guidance forms part of Scottish Government's response to 'making the most of existing assets' recommendation of the Infrastructure Commission Scotland, as set out within the 2021/22-2025/26 Infrastructure Investment Plan (IIP).

This guidance is aimed at public sector organisations in Scotland owning (or otherwise occupying) property assets and complements other guidance relating to public sector property asset management. It provides a perspective on strategic property asset management aligned closely to current government policy, which includes enabling net zero emissions and environmental sustainability.

It introduces the concepts of a system approach and application of the 'investment hierarchy'. The latter forms a key aspect of the IIP and is intended to aid planning and decision making in infrastructure investment, which as part of a whole life approach prioritises enhancing and maintaining existing assets over new build. By providing a common approach to the application of the investment hierarchy across the public sector, the guidance promotes a collaborative place-based approach to strategic asset planning and shared use of assets.

SFT undertook engagement with a number of local government organisations as part of the development of the guidance. Meeting net zero carbon emissions across their property asset portfolio was identified as a key challenge, and that organisations were at different stages in their planning and delivery. Guidance on a common approach to strategic asset planning closely aligned to government policy was welcomed, which together with other key features such as shared governance and funding alignment, were seen as important components for increased sharing of assets as part of the transition to a net zero public sector estate.

Due to be published shortly, SFT will look to support organisations embed the asset strategy guidance whilst also sharing good practice across central and local government.

AREA 9 THE LEARNING ESTATE – EARLY LEARNING AND CHILDCARE EXPANSION

The Scottish Government 1,140 hours Early Learning and Childcare (ELC) expansion programme sought to almost double the amount of funded ELC hours available to 3 and 4 year olds. SFT were involved in the early development work for the programme and supported the delivery of the infrastructure required to support the expansion.

As part of the early programme development work a series of guiding principles were established to encourage local authorities to maximise use of existing facilities and capacity available from partner providers. Taking the following approach provided a structure (i) use what you have first, then (ii) buy what you can, followed by (iii) build what you then need.

Further efficiency was achieved through ‘Space to Grow’ – the concept that up to 20% of the indoor capacity being able to be registered outdoors. For example, a building that could accommodate 80 children indoors could have a further 20 children registered outdoors. As well as the curricular and health benefits of outdoor learning and play, this approach had an added benefit of requiring less physical infrastructure to be built, heated and maintained, thus having a positive impact on the net zero ambitions of Scotland.