

Agenda Item	4ii
Report No	CCC/10/25

The Highland Council

Committee: Climate Change

Date: 21 May 2025

Report Title: Net Zero Thematic Group Update – Capital Programme and Net Zero Funding Strategy

Report By: Assistant Chief Executive - Place

1 Purpose/Executive Summary

1.1 This report provides an update on the Council's progress in strengthening its approach to Net Zero delivery by advancing two core strands of activity:-

- the identification and testing of **new funding mechanisms**, including Local Climate Bonds and Verified Carbon Credits, to support long-term investment in the Innovation and Legacy Investment Portfolio; and
- the **embedding of Net Zero into capital programme decision-making** through the launch of a pilot applying lifecycle carbon assessment tools and assurance processes across live projects.

1.2 Together, these initiatives aim to ensure that the Council can both secure the resources needed to deliver transformational change and make better-informed investment decisions that reflect carbon performance and long-term value. These steps reflect commitments made in the March 2024 Council report "*Place-Based Approaches to Strategic Capital Planning*", which elevated carbon and sustainability as key factors in future capital project prioritisation.

2 Recommendations

2.1 Members are asked to:-

- i. **Note** the progress being made to identify alternative Net Zero funding options, including the potential use of Climate Bonds and Carbon Credits;
- ii. **Note** the launch of a pilot programme testing the Capital Sustainability Assurance Protocol as a decision-making tool within the capital programme; and
- iii. **Agree** to support the principle of embedding lifecycle carbon analysis into the Council's Capital Gateway processes to enable data-led, sustainable investment decisions.

3 Implications

- 3.1 **Resource** - There are no direct financial implications arising from this report. Officer time from relevant services will support both the funding feasibility assessments and the delivery of the assurance pilot.
- 3.2 **Legal** - None directly arising from this report.
- 3.3 **Risk** - These initiatives aim to reduce delivery, reputational, and financial risk by supporting more transparent, sustainable, and credible decision-making in line with Net Zero obligations.
- 3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** – No implications identified.
- 3.5 **Gaelic** - No implications identified.

4 Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children’s Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is a monitoring and update report and therefore an impact assessment is not required at this stage

5 Innovation Funding Opportunities

- 5.1 The Council has already secured significant funding to support its Net Zero Strategy, helping to deliver a range of carbon reduction and energy efficiency initiatives. Key achievements to date include:-
- **Energy Efficient Scotland: Area Based Scheme (EES: ABS)** – Secured approximately £38.8m to support targeted energy efficiency retrofit measures across the Highland region.
 - **Salix Finance** – Accessed around £11.2m in low-interest loans and grants to support energy efficiency and decarbonisation improvements across the Council’s operational estate.

These programmes have enabled large-scale investment in fabric-first upgrades, low-carbon heating systems, and renewable energy installations across Highland communities. They demonstrate the Council’s ability to attract substantial public funding and deliver outcomes aligned with national climate targets and regional Just Transition objectives.

5.2 To sustain and scale up Net Zero delivery in the longer term, particularly across housing, public buildings and infrastructure, the Council is now actively exploring alternative investment mechanisms that can mobilise external capital and unlock circular, regionally anchored funding. Two of the most promising models under current review are **Local Climate Bonds (LCBs)** and **Verified Carbon Credits** generated through the **Retrofit Credits** programme.

5.3 **Local Climate Bonds (LCBs)**

Local Climate Bonds (LCBs) are a mechanism that enables the Council to raise community-backed financing to fund climate projects. These bonds allow residents and institutional investors to invest directly in Council-led sustainability projects, offering a fixed return while contributing to local decarbonisation. LCBs are typically structured to be **Individual Savings Account (ISA)** eligible and accessible to a wide range of investors.

Benefits include:-

- alternative to **Public Works Loan Board (PWLB)** borrowing, with average interest savings of 0.26%;
- allows residents to invest locally in tangible Net Zero projects;
- promotes transparency and builds community engagement;
- opportunity for investors to donate interest back to the Council, lowering borrowing costs further; and
- can be aligned with **Green Gilt** frameworks and existing treasury structures

Examples from other local authorities:-

Council	Saving on PWLB Certainty Rate
West Berkshire	0.50%
Lewisham	0.41%
Westminster	0.30%
Cotswold	0.27%
Islington	0.10%
Average	0.26%

To date, over £8.5m has been raised through LCBs by UK local authorities. The Council is assessing the feasibility of this approach to support priority initiatives within the **Innovation and Legacy Investment Portfolio**, including **electric vehicle (EV) infrastructure, renewable energy generation, and sustainable building projects.**

5.4 **Verified Carbon Credits – Retrofit Credits Model**

In parallel, the Council is working with external partners to explore the creation and monetisation of **Verified Carbon Credits** through retrofit activities in the social housing sector. The **Retrofit Credits** model, developed by the **Housing Associations’ Charitable Trust (HACT)** and **PNZ Carbon**, allows verified emissions reductions to be quantified, certified, and sold on the **Voluntary Carbon Market (VCM).**

Process overview:-

1. The housing provider enrolls eligible stock with potential for improved energy efficiency.
2. Retrofit measures are implemented (e.g. insulation, double glazing, low-carbon heating systems).
3. Emissions reductions and social value outcomes are independently verified.
4. Verified Carbon Units (VCUs) are issued under the Verra Verified Carbon Standard (VCS).
5. VCUs are sold to companies or institutions seeking to offset emissions.
6. Revenue is reinvested into future retrofit work, creating a self-sustaining funding loop.

Key benefits:-

- unlocks a performance-based revenue stream for housing retrofit projects;
- strengthens business case development through measurable social and environmental impact;
- enhances local outcomes including fuel poverty reduction, improved health, and community wellbeing; and
- aligns with the Council's priorities for **Just Transition** and **Net Zero leadership**

This model supports the integration of carbon finance into the Council's capital planning and housing strategies, enabling Highland to lead in pioneering regional models of carbon offsetting with embedded social value.

6 Embedding Net Zero in Capital Investment Decision-Making

- 6.1 In parallel with funding innovation, the Climate and Energy Team are currently evaluating the piloting of Lifecycle Carbon Assessments (LCA) within the Capital Programme decision making process. A successful pilot will ensure that sustainability and carbon performance are embedded into capital project development, appraisal, and decision-making from the outset. This is in response to commitments made in the March 2024 report to Council, *"Place-Based Approaches to Strategic Capital Planning"*, which placed increased emphasis on assessing the carbon impact of proposed investments.
- 6.2 The pilot will test how **lifecycle carbon assessment (LCA)** can be practically integrated into the Council's Capital Gateway process using three live projects representing a diversity of asset types:-

Project Type	Purpose
New Build	Assess early-stage carbon targets and lifecycle carbon analysis
Retrofit	Test PAS 2035 alignment and operational/maintenance carbon modelling
Infrastructure	Trial PAS 2080 optioneering and embodied carbon tracking

6.3 The pilot will run for **4–6 months** and will evaluate various tools like — Cerclos eTool and One Click LCA (Life Cycle Assessment)—to assess **embodied, operational, and maintenance carbon emissions**. The approach includes scenario modelling, target benchmarking, and project-level carbon scoring. These tools are aligned with relevant national standards including the Royal Institution of Chartered Surveyors (RICS) *Whole Life Carbon Assessment* guidance, PAS 2080 (carbon management in infrastructure), PAS 2035 (retrofit coordination), the London Energy Transformation Initiative (LETI) guidance, and the Royal Institute of British Architects (RIBA) Plan of Work.

6.4 Each project will be supported by:-

- the **Climate and Energy Team**, acting as impartial verifiers of carbon analysis and outputs;
- the relevant **Property or Infrastructure** project team; and
- an advisory group including representatives from **the Capital Programme Board and the Net Zero, Energy Investment and Innovation Portfolio Board**.

6.5 **Expected benefits** of this approach include:-

- enhanced strategic alignment between capital investment and the Net Zero Strategy;
- data-driven, whole-life decision-making at business case stage;
- a consistent, repeatable method for evaluating new build vs retrofit options;
- improved visibility of long-term carbon liabilities and operational impacts; and
- integration of climate impact as a formal project appraisal criterion

6.6 The Climate and Energy Team will coordinate the pilot, provide LCA tools and training, and act as data custodians. At the end of the pilot, a full evaluation report will be produced with recommendations for embedding the approach into all future Council capital projects from 2026 onwards, with assessments introduced to current live projects at relevant stages identified within the pilot process.

Designation: Assistant Chief Executive - Place

Date: 17 April 2025

Author: Stuart Miller, Project Manager - Innovation Funding and Bid Writing
Neil Osborne, Climate & Energy Manager

Background Papers: None

Appendices: None