

The Highland Council

Agenda Item	5iii
Report No	CCC/07/26

Committee: Climate Change

Date: 20 May 2026

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

Report By: Assistant Chief Executive - Place

1 Purpose/Executive Summary

- 1.1 To provide Members with an update on the progress of the Capital Programme and Net Zero Funding Strategy Thematic Group, including developments in embedding net zero into the capital programme, the current funding position, and improvements to governance, coordination, and funding processes.

2 Recommendations

- 2.1 Members are asked to **note** the progress of workstreams as outlined in the report.

3 Implications

- 3.1 **Resource** - Delivery is supported through a combination of existing staff resource, external funding, and time-limited consultancy support.

Whole-life carbon assessment will require external LCA support over a 12–18-month transition period. Climate Emergency Funding, alongside other external funding streams, provides a strong opportunity to develop a coordinated pipeline of energy efficiency projects, supported by energy option appraisals.

Strengthened cross-service collaboration will enable the Council to maximise external funding opportunities, increase the scale of investment, and support a more programme-led approach to delivering net zero across the estate.

- 3.2 **Legal** - There are no direct legal implications arising from this update report. However, the development and delivery of net zero projects within the capital programme and the progression of external funding and alternative financing models, will require ongoing compliance with relevant procurement, subsidy control and contractual obligations. Appropriate legal advice will be sought as required as projects and funding mechanisms are developed.

- 3.3 **Risk** - Delivery of the Council's net zero programme carries risks relating to reliance on external funding, data availability, and the need for effective cross-service coordination.

Addressing these will be key to enabling a more proactive, programme-led approach, strengthening the project pipeline, and maximising external funding and investment opportunities.

- 3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** - No implications arising from this report.

- 3.5 **Gaelic** - No implications arising from this report.

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.

5 Embedding Net Zero in the Capital Programme

- 5.1 On 26 May 2025, the Capital Board approved a three-month trial to evaluate various tools to assess embodied, operational, and maintenance carbon emissions. It was agreed that three live projects (new build, retrofit, infrastructure) would be identified by the end of June, enabling the trial to commence in July.

On 25 August, the Capital Board confirmed the following projects for inclusion in the pilot:-

- Corran Ferry infrastructure;
- Broadford Primary School (new build); and
- Tigh Na Sgìre (retrofit)

During the pilot, difficulties were encountered, particularly in relation to data availability across projects. This resulted in a more limited assessment than originally intended. However, the pilot generated valuable insights and provided a clear understanding of the changes required to embed whole-life carbon assessment within the Council's Capital Programme.

These insights informed a recommended approach which was approved by the Net Zero, Energy Investment & Innovation Portfolio Board on 4 March 2026. The approved approach to embedding whole-life carbon assessment comprises the following elements.

5.2 **Progress integration of key systems**

The pilot confirmed that consistent capture of structured, quantity-based project information is essential to enabling robust whole-life carbon assessment. Integrating key project, cost and asset management systems will strengthen sustainability governance, support improved asset management, and enable more informed decision-making across the Council's capital programme.

5.3 **Utilise external life-cycle assessment (LCA) consultancy support for 12-18 months**

To ensure that the system integration does not delay existing Highland Investment Plan projects, Property has proposed the engagement of external LCA consultancy support for transitional period of 12-18 months. This will enable carbon assessments to continue during this transition, while supporting skills transfer and capability-building to allow assessments to be undertaken by the Climate Change and Energy Team (CCET) going forward.

5.4 **Governance through the Climate Change & Energy Team**

During the transition period, governance and oversight will be provided through the Climate Change & Energy Team (CCET). CCET will provide assurance that consultant-produced assessments are accurate, consistent, and aligned with the Council's Net Zero objectives, and that learning from the pilot is embedded into business-as-usual capital delivery.

6 **Funding to Support Net Zero Delivery in the Capital Programme**

6.1 **Salix**

During FY 2025/26, £948,080.70 was invested through the Salix Recycling Fund across three programme areas. Investment was principally directed towards the installation of new solar PV systems across the Council's non-domestic estate (48%), the ongoing replacement of streetlighting with LED technology (34%), and the installation of new LED lighting within Council buildings (19%). The projected Recycling Fund spend for FY 26/27 is £1,349,788.00.

Projects delivered through the Recycling Fund in 2025/26 are collectively expected to generate estimated annual financial savings in excess of £120,000, alongside an estimated annual carbon emissions reduction of approximately 150tCO₂e.

In addition to Recycling Fund investment, £193,800 of loan funding was secured from Salix under Scotland's Solar Energy Efficiency Loan Scheme (SSEELS). As a condition of this funding, all expenditure must be completed by 30 September 2026. The ongoing suspension of non-domestic solar projects presents a significant risk to the delivery of this scheme and, if not resolved, will result in the requirement to abandon the project.

This risk is also anticipated to impact solar PV projects funded through the Salix Recycling Fund in 2025/26, as well as those proposed for funding in FY 2026/27.

6.2 Climate Emergency Funding

The Scottish Government's Climate Emergency Funding presents an opportunity to support the development of a coordinated programme of energy efficiency improvements across the Council's existing estate.

This funding can be used in conjunction with energy option appraisals to identify and prioritise projects that deliver the greatest carbon and financial benefits. By establishing a pipeline of well-developed, evidence-based projects, the Council can strengthen its position to leverage additional external funding, including Salix and other capital and grant programmes.

A structured approach to aligning Climate Emergency Funding with project development will support a more strategic, programme-led model of delivery, enabling the Council to maximise investment, improve asset performance, and accelerate progress towards net zero objectives.

7 Net Zero Funding Position

7.1 Funding secured

Financial Year 24/25

Funding	Work Type	Value
Salix RF 24/25	Salix RF	£1,345,206
Net Zero Social Housing Fund	Energy retrofit works to domestic properties	£962,000
Carbon Neutral Islands Fund (CNIF) Rehabilitation Works Bid	Energy retrofit works to domestic properties	£251,633
CNIF Nature Restoration Works	Rhododendron Removal	£75,000
		£2,633,839

Financial Year 25/26

Funding	Work Type	Value
Coastal Adaptation	Adaptation	£195,000
HITRANS	Active Travel	£18,355
Zero Emissions Heavy Duty Vehicles (ZEHDV) Skills Challenge Fund	Skills Development	£9,350
Salix RF 25/26	Salix RF	£948,080.70
		£1,170,785.70

Financial Year 26/27

Funding	Work Type	Value
Salix RF 26/27	Salix RF	£1,349,788
Scottish Zero Emission Bus Challenge Fund (SCOTZEB 3)	Transport, EVs and Infrastructure	£4,100,000
Scotland's Solar Energy Efficiency Loan Scheme (SSEELS)	Skills Development	£193,800
		£5,643,588

7.2 Unsuccessful Bids

Financial Year 24/25

Funding	Work Type	Value
Carbon Neutral Islands Fund (CNIF) Rehabilitation Works Private Bid (RDT)	Energy retrofit works to domestic properties	£112,299
		£112,299

Financial Year 25/26

Funding	Work Type	Value
Net Zero Social Housing	Energy retrofit works to domestic properties	£1,234,784.69
Depots Grant	Transport, EVs and Infrastructure	£1,000,000
		£2,234,784.69

7.3 Net Zero Funding Pipeline

A lessons-learned log has been established to record feedback and issues arising from both successful and unsuccessful bids, informing and strengthening the development of future funding applications. The GrantFinder database is monitored to identify future funding opportunities. Current open funding opportunities include:-

Financial Year 26/27

Name	Estimated Bid	Comments
Public Sector Decarbonisation Scheme	£2.5M	In Progress
Net Zero Social Housing Fund	£1.5M	In Progress
Depots Grant	£1M	In Progress

8 Cross-Service Working on Net Zero Funding

8.1 Strategic Alignment

The March 2026 Climate Change, Energy and Community Resilience Strategic Paper set out the need for a more coordinated, programme-led approach to delivery across the Council, including the development of aligned funding and investment pathways.

Progressing this requires stronger cross-service working to bring together policy, data, project development and funding activity across key areas including property, housing, transport, procurement and place-based investment. At present, funding opportunities and project development activity are often progressed within service silos, limiting the Council's ability to coordinate investment, maximise impact and present a clear, strategic pipeline.

Improving carbon reporting and data capability will support this transition by providing a consistent evidence base to identify priorities, align projects, and support the development of coordinated funding bids and investment propositions. This will enable services to work from a shared understanding of emissions, assets and opportunities, supporting more effective programme planning and delivery.

This approach will also strengthen the Council's ability to engage with external partners, including government, agencies and investors, by presenting a clearer, place-based investment narrative aligned to the Council's strategic priorities.

The Climate Change and Energy Team will continue to play a coordinating role in supporting this approach, working across services to align activity, support the development of investment pipelines and ensure that funding and delivery are integrated in line with the Council's agreed strategic direction.

8.2 Collaborative Approaches

The Climate Change and Energy Team have worked collaboratively with the following Services in the preparation and submission of funding applications:-

- **Property** – LED Replacement, BEMS, Pump Replacement;
- **Facilities and Fleet Management**- SCOTZEB 2&3, Depots;
- **CCET** – Solar, Public Sector Decarbonisation Fund;
- **High Life Highland** – Pool Covers;
- **Lighting and Communications** – Streetlighting LEDs;
- **Housing** – Net Zero Social Housing; and
- **Environment Development and Active Travel** – Coastal Adaptation

While positive collaboration has been established across a number of Services, engagement can be limited where funding opportunities have already been identified, which can constrain the development of a broader, coordinated pipeline of projects. There is an opportunity to strengthen early engagement across all Services to identify potential projects at an earlier stage, align priorities, and maximise the Council's ability to secure and deploy external funding.

Expanding this approach will support a more proactive, programme-led model of delivery enabling greater cross-service participation and increasing the scale and impact of net zero investment across the Council estate.

9 Assurance and Audit Actions

- 9.1 In response to [audit](#) findings relating to the governance, oversight and coordination of Net Zero funding activity, the following actions have been implemented or are in progress.

9.2 Strengthened governance and oversight

A consistent methodology has been developed for thematic groups leads to maintain a live pipeline of potential projects suitable for external funding. This pipeline will form a standing agenda item at each meeting of the Net Zero Strategy Group, providing continuous oversight, supporting cross-service alignment, and enabling timely responses to emerging funding calls. The pipeline will also be subject to formal quarterly review to ensure accuracy and readiness.

9.3 Improved data availability and quality

A centralised data hub has been established, overseen by the CCET. The hub catalogues key datasets required to support funding bids and provide guidance on their appropriate use. Data quality and suitability will be reviewed twice per year to ensure information remains accurate, up to date and fit for purpose.

9.4 Embedding learning from funding activity

A formal “lessons learned” process has been introduced for all funding applications, whether successful or unsuccessful. This includes a short standard template to capture feedback from funders and internal reflections on the bid process. Completed templates will be collated by CCET and shared quarterly with the Net Zero Strategy Group, with key learning distributed across thematic groups to support continuous improvement.

9.5 Performance Monitoring and KPIs

To strengthen assurance and performance monitoring, a suite of Key Performance Indicators (KPIs) will be developed and agreed through the Net Zero Strategy Group. These will track:-

- the number and value of potential projects identified for funding;
- the number of funding bids submitted;
- the value of bids submitted;
- the success rate of applications; and
- the contribution of secured funding to delivery of Net Zero targets.

KPIs will be monitored quarterly and reported annually to the Net Zero, Energy, Investment & Innovation Portfolio Board and the Corporate Management Team. Progress will also be reported to the Climate Change Committee to ensure visibility and accountability.

10 Alternative and Emerging Funding Models

10.1 Green Investment Bonds and Retrofit Credits are complementary, not competing:-

Green Investment Bonds	Retrofit Credits
Upfront capital funding	Long-term revenue stream
Debt finance	Performance-based income
Investor return via interest	Buyer return via carbon & social impact
Project delivery focused	Outcome monetisation focused

Together, they can:-

- fund retrofit delivery upfront (bonds);
- monetise verified carbon and social value over time (Retrofit Credits); and
- improve overall programme financial viability

10.2 Carbon Credits

Retrofit Credits provide a mechanism to monetise the carbon and social value generated through energy efficiency improvements. Each credit represents one tonne of CO₂e reduced, with additional recognition of social outcomes delivered to residents.

Credits are issued annually over a long-term period and sold to pre-approved buyers, creating a sustained revenue stream linked to the performance of retrofit projects. This approach has the potential to:-

- improve the financial viability of retrofit programmes;
- attract additional investment; and
- accelerate delivery of energy efficiency improvements across the Council's housing and wider estate

Participation requires robust data collection, long-term asset performance, and adherence to accredited methodologies. While credits are not currently traded on open markets, risks relating to data, governance, and market demand can be managed through independent verification and established frameworks.

There is also an opportunity for the Council to act as a programme aggregator, bringing together multiple projects into a single, scalable credit programme. This would enable greater control over governance, reduce delivery costs and retain more value within the region.

Further work is required to assess the feasibility and suitability of these models for Highland Council.

Designation: Assistant Chief Executive – Place

Date: 20 April 2026

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Background Papers: Internal Audit [Report](#)

Appendices: None