

Cabinet Secretary for Net Zero, Energy and Transport
Michael Matheson MSP



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Dean Lockhart
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The Scottish Parliament
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2 March 2022

Dear Convenor,

FOLLOW-UP: NZET COMMITTEE SCOTTISH BUDGET 2022-23 SCRUTINY

I am writing to you following my appearance at the Net Zero, Energy and Transport Committee meeting held on Tuesday 1 February as I committed to providing further information on a number of matters.

Please find below the further information and responses requested.

Breakdown and utilisation of the Nature Restoration Fund

The Committee asked what the profile of spend would be for the natural resources budget, in light of the importance of the biodiversity crisis.

The Nature Restoration Fund (NRF) is a Programme for Government commitment for multi-year funding, as part of the investment of at least £500 million in the natural environment. The NRF was introduced in 2021-22 with £5 million funding allocated to 54 projects across Scotland and a further £5 million allocated directly to Local Authorities. On Nature Day at COP26, the Scottish Government announced an expansion to the NRF, with at least £12.5 million being made available in 2022-23, part of a multi-year package of at least £55 million over the next five years.

The strategic goal of the NRF is to catalyse action at scale to protect and restore Scotland's biodiversity on land and at sea.

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The Scottish Biodiversity Strategy will be instrumental in defining clear priorities for the Fund, determining the optimum allocation of resources and the impact we want projects to deliver. The Strategy will be finalised in Autumn 2022. Therefore, 2022-23 will be a bridging year for the NRF, focusing on some broad priority themes and, in recognition that larger multi-year projects may take time to develop, allocating funding to a number of smaller projects that are ready to deliver.

The priority themes for the NRF are initially:

- Habitat and species restoration – management for enhancement and connectivity
- Freshwater restoration, including restoring natural flows in rural catchments
- Coastal and marine management to promote restoration and resilience
- Control of invasive non-native species impacting on nature

In 2022-23, the NRF has been allocated £13.5 million of the Level 4 Natural Resources budget allocation (£29.8 million) and will comprise two main strands:

A. Competitive Fund split according to project size:

- i. projects requesting a grant of £25,000 to £250,000 to be delivered over a maximum of 2 years, [launched in January 2022](#) - 25% of the fund
- ii. projects requesting a grant of over £250,000 that can be delivered over 3-5 years - 25% of the fund

B. The Edinburgh Process Fund:

- i. a semi-competitive fund for Local Authorities and their partners engaged in delivering local nature networks and other biodiversity projects locally - 50% of fund.

All projects must also demonstrate how they contribute to climate change mitigation and adaptation in recognition of the interconnectedness of the climate and nature emergencies and how effective action can tackle them together.

Green Jobs Fund

The Committee requested information around how Enterprise Agencies will allocate the Green Jobs Fund, as well as how many applications had been received and how many of these were successful. To note, the Green Jobs Fund is outwith my area of responsibility.

Enterprise Agencies will allocate funding in one of two ways:

- Calls to Business

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- Identifying suitable projects through business and community specialists and making direct awards to businesses that meet the set criteria.

At present, there are around 50 applications being processed for 2022-2023, with this number expected to increase.

There have been around 40 successful awards made for 2022-2023, this includes projects that have been awarded funding for multiple years and rollover of projects from 2021-2022.

Please note that these figures will be subject to change as the approval, negotiations and contracts for the Green Jobs Funding proceeds.

Business continuity and disaster recovery plans

The Committee asked if the Scottish Government asked public bodies and local authorities to assure them that they had business continuity and disaster recovery plans in place.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government (SG) and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

Accountable Officers (AOs) are required to prepare [Governance Statements](#) as part of the annual accounts for which they are directly responsible. To enable them to sign governance statements, Accountable Officers require assurances on the maintenance and review of internal control systems within or affecting their area of responsibility. Internal control systems comprise the whole network of systems established in an organisation to provide assurance that organisational objectives will be achieved. Within this process, AOs and Directors need to complete a certificate of assurance with particular reference to areas such risk management, the effectiveness of operations, the economical and efficient use of resources, compliance with applicable policies, procedures, laws and regulations, safeguards against losses, including those arising from fraud, irregularity or corruption, and the integrity and reliability of information and data. The internal control checklist requires assurances to be provided specifically on business continuity plans and disaster recovery giving assurance to the Scottish Government that core SG and public bodies have sufficient plans in place.

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Community Bus Fund

The Committee asked if the Community Bus Fund would be available in the next year for councils to bid into in order to do this work.

The Community Bus Fund will support local transport authorities to improve local public transport in their areas. We have allocated £1 million in the Scottish Budget for the development of the Community Bus Fund in financial year 2022-23. The Fund will support local transport authorities to improve local bus services and to explore the full range of options set out in the 2019 Act, including local authority-run bus services. There are a variety of ways in which a Fund might be used.

We will work with partners on the design and timelines of the Community Bus Fund and have begun early informal discussions with COSLA and ATCO on the scope. In administering the fund, we and local transport authorities will need to observe competition, procurement, and subsidy control rules.

The Community Bus Fund complements our broader package of long-term investment in bus, including through support for bus services, concessionary schemes for bus users and over £500 million through the Bus Partnership Fund.

Scottish National Investment Bank

The Committee asked why there had been a decline in the budget of the Scottish National Investment Bank (SNIB). To note, the Bank is outwith my area of responsibility.

The SNIB budget decreased from £241 million in 2020-21 to £205 million in 2021-22. This £36 million reduction was as a result of Financial Transaction budget reductions from UK Treasury and the Bank's business plan projecting it would earn income in 2021-22, therefore reducing the requirement for budgetary support.

The Scottish Government's Programme to establish the Bank was provided with £241 million of budget in 2020-21. This consisted of a £220 million Financial Transactions budget and a £21 million Resource budget. The Resource budget covered the Bank's programme team, as well as operating costs for precursor investment activity. In November 2020, the Bank launched and became a Non Departmental Public Body (NDPB). Some parts of the Bank programme transferred to the Bank and other parts were wound up or moved elsewhere in Scottish Government.

The newly launched NDPB was provided with £205 million of budget in 2021-22. This included £200 million of Financial Transactions and £5 million of Resource budget. The 2020 UK Spending Review reduced the Scottish Government's Financial Transactions budget by 66%, but Ministers chose to shelter the Bank from this reduction as far as they could and reduced the Bank's investment budget by less

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than 10%, to £200 million from £220 million. The initial Resource budget provided to the Bank of £5 million was increased at Spring Budget Revision to £12.2 million. This was in light of the Bank's investment activity being disrupted by the pandemic and the expected income from investments being delayed.

Despite the challenging budget settlement, Ministers will continue to prioritise the Bank and have provided £215.7 million of budget for 2022-23. £205.9 million of Financial Transactions will be available for investment alongside Resource budget of £9.8 million (of which £0.8 million is non-cash).

NZET portfolio and local authorities

The Committee asked how much of the NZET portfolio will be transferred to local authorities as: (a) distributors of funding; (b) net zero projects they can bid into; and (c) discretionary funding.

Given the breadth of this question, this is not analysis that currently exists in this form. As recognised by the Committee, providing this information will require further work.

The Scottish Government's policy towards local authorities' spending is to allow local authorities the financial freedom to operate independently. As such, the vast majority of funding is provided by means of a block grant. It is the responsibility of individual local authorities to manage their own budgets and to allocate the total financial resources available to them, on the basis of local needs and priorities, having first fulfilled their statutory obligations and the jointly agreed set of national and local priorities.

In addition to the block grant, the Committee will be aware of a number of transport programmes that support net zero ambition where NZET portfolio budget is transferred to local authorities e.g. Cycling, Walking Safer Routes (CWSR), EV Infrastructure and Fleets, the Smarter Choices Smarter Place behaviour change programme (with local authority match funding required), support for the implementation of LEZs within the 4 cities of Glasgow, Edinburgh, Dundee and Aberdeen or where local authorities can bid into programme funds, such as the Bus Partnership Fund, Switched on Towns and Cities, the Scottish Zero Emission Bus Challenge Fund, the Places for Everyone programme managed by Sustrans.

In terms of longer-term work, funding for future years will be subject to the ongoing resource and capital spending reviews. As such, this is not information that we would be able to provide at the present time. Once the reviews conclude, I would be happy to revert back to the Committee on these matters.

I anticipate that there will be further opportunities to comment and receive greater clarity around this question as part of the Committee's ongoing Inquiry into the role of

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local government and its cross-sectoral partners in financing and delivering a net-zero Scotland.

Community organisations and national funds

The Committee asked if there were any national funds within the budget for the forthcoming year that community organisations could bid into, particularly revenue for capacity building and staffing to help with projects. Some of the funds set out below are outwith the Net Zero portfolio and included here to demonstrate the breadth of national funds available to community organisations.

There will be a number of funding streams available to groups for this forthcoming year. Some of these are listed below. More detail on a number of these funds will become available in the coming weeks.

Our Community and Renewable Energy Scheme (CARES), delivered by Local Energy Scotland, provides advice and support including funding support (grants and loans) to community groups and organisations, rural SMEs, and other eligible organisations seeking to explore their renewable energy options. More details can be found at the [Local Energy Scotland website](#).

Funding is available for delivery of active travel initiatives through our grant funded partners, The Energy Savings Trust, with detail due on funding programmes for next year available soon.

Zero Waste Scotland provides advice and support to community groups, including delivery of cascade workshops on waste related topics and also links to funding opportunities. More information is on the [Zero Waste Scotland website](#).

We are committing £11.6 million of funding for future rural community led local development for 2022-23 to continue to support development of rural and island communities across Scotland. Engagement is underway with a range of stakeholders and delivery partners to develop the future Community Led Local Development (CLLD) funding stream, which will be informed by the projects underway this year testing new approaches to CLLD delivery. Projects will need to demonstrate that they advance greater inclusion, equality and diversity in developing their local communities, as well as show how they will support other priorities such as net zero ambitions and be community led.

The £10 million Scotland Loves Local multi-year programme was launched on 9 August 2021. It is really important in encouraging and supporting local businesses including people shopping locally. We will be considering the next steps for the Scotland Loves Local fund with partners and will provide an update soon. Our approach aims to achieve sustainable, long-term wider local economic benefits. The programme, which includes a fund, national marketing campaign and gift card scheme, is designed to motivate people to ‘think local first’, supporting local business

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and communities, building wealth in local communities, revitalising town centres, increasing footfall and activity safely in local places, in line with public health guidance.

The Investing in Communities Fund is expected to open to applications in spring 2022 for funding available in the three years 2023-24 to 2025-26. The annual budget for the fund is anticipated to be £10 million. The fund includes as part of its criteria supporting a just transition to net zero. The former Cabinet Secretary for Communities and Local Government agreed that an extended year of funding for current recipients due to the impact of the pandemic to provide funding stability and enable them to meet their intended outcomes.

In addition, we will be supporting community-led climate action through the developing network of regional climate action hubs. This network will empower communities to identify the actions that are most appropriate to their needs and provide support in their local areas. They will help groups to take advantage of funding opportunities, and promote collaboration between projects.

Heat in Buildings Strategy

The Committee asked for a detailed breakdown on the proposed spending profile of the Heat in Buildings Strategy to 2026.

The Shared Policy Programme agreed by the Scottish Government and Scottish Green Party committed to invest at least £1.8 billion in this parliamentary session to accelerate energy efficiency upgrades and renewable heating deployment and creating new jobs and supply chain opportunities across Scotland. This was an increase from the previous commitment set out in the Capital Spending Review, of £1.6 billion.

To date, we have committed the spending profile for this budget as follows:

- £465 million to support those least able to pay
- £400 million for large scale heat projects, including heat networks
- £200 million for the Social Housing Net Zero Heat Fund, investing in a sector already leading the way in the heat transition
- £200 million for the Scottish Green Public Sector Estate Scheme, supporting leadership for energy efficiency and heat decarbonisation right across the public sector.

These figures do not exhaust the full £1.8 billion, affording flexibility for our programmes to be responsive as circumstances and evidence develop. More detailed funding plans will be confirmed in due course, including how domestic and non-domestic property owners will continue to be supported.

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Local Authority Data

In relation to the Heat in Buildings Strategy, the Committee expressed concern about a potential lack of data on what housing assets existed and where they were located. It asked what role the Scottish Government could play in helping local authorities to get such data and the inventory of assets that will need to be converted by 2030.

Local Authorities and Housing Associations (Registered Social Landlords, RSLs) have a good understanding of their own stock and are better placed to manage retrofit than individual owner occupiers or smaller landlords in the private rented sector. Many RSLs are able to access private finance through existing financial markets. However, the ability of the social rented sector currently to borrow for retrofit for energy efficiency and zero emission heating systems is constrained by its ability to raise additional revenue to repay finance and associated costs of borrowing. This is because energy efficiency and zero emission heating retrofit does not generate additional revenue for social housing providers. Any benefits in terms of savings on energy are accrued by the tenant (the energy bill payer), rather than the RSLs.

Social landlords have little capacity to put the capital costs of net zero projects onto rents if costs are to remain affordable for tenants. The Scottish Government is committed to ensuring continued rent affordability for social housing tenants. The recently established Green Heat Finance Task Force will work with the social housing sector to investigate new models for financing. In addition, we have committed to invest £200 million through the Social Housing Net Zero Heat Fund.

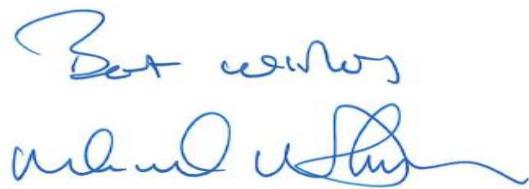
Beyond the social housing stock, the Scottish Government is working with local partners to improve the visibility of opportunities to invest in heat networks. The Heat Networks (Scotland) Act 2021 provides for a regulatory system. Once implemented, this will help to boost confidence in the sector and provide greater certainty for investors. We are also developing a Heat Network Pre-Capital Support Unit, expanding on the previous role of the Heat Network Partnership.

Across both energy efficiency retrofit and zero emission heating systems, new innovative financial mechanisms are required in order to grow the market in line with the transformation needed. Energy efficiency and low and zero emissions heating need to feel like a positive choice for households and building owners. It is important that this transformation is underpinned by an appropriate market framework, which helps to create the demand for energy efficiency and low and zero emissions heating, helps consumers overcome the upfront investment costs and helps to attract and secure further private investment and finance to help meet the costs of the transition. We are collaborating with the private sector through our Green Heat Finance Taskforce to develop innovative and new approaches to financing.



I trust that the Committee will find this information helpful.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Best wishes" above "Michael Matheson".

MICHAEL MATHESON

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