

Investor Panel

Scottish Government Response to Investor Panel Recommendations



Ministerial Foreword

The Scottish Government established the Investor Panel to provide us with expert advice, from the perspective of investors, on how we can attract mobile capital and investment to support Scottish Government policy and the just transition to net zero, particularly around the physical infrastructure required to support this transition. As we approach COP28, it is clearer than ever that the domestic and global transition to net zero will require massive public and private investment, so this advice is especially timely.

As Co-Chair of the Investor Panel alongside Angus Macpherson I have greatly valued the insights, expertise and experience the Panel have shared with me, other Ministers and officials throughout their work.

The Scottish Government agrees with the Panel's diagnosis that there are characteristics of investor friendly states that Scotland can and should seek to emulate and that, partly because of its relatively small size, Scotland can be seen as a challenging destination for investment. At the same time, we share the Panel's view that our small size is a potential strength, allowing us to act nimbly and decisively to differentiate Scotland positively from other markets. There will, of course, always be a wide range of issues we need to consider in developing and delivering policy and the decisions we make will not always favour investor considerations. We will though aim to understand and consider investor interests and the impact of our decisions on existing and future investment. This is what states that are perceived as being investor friendly do and we can too.

Scotland already has a strong track record in attracting Foreign Direct Investment (FDI) – attracting international companies to locate in Scotland. Indeed, supported by Scottish Development International, Scotland has been the most attractive destination in the UK outside London for such FDI for the eighth year in a row according to Ernst & Young's (EY) Annual Attractiveness Survey 2023. I believe that by acting on the Panel's recommendations on strategic direction, engagement and delivery and across ScotWind, hydrogen and heat, we can replicate that success in attracting mobile capital at scale to support Scotland's just transition to net zero.

The Panel's work has already informed decisions we have made; for example, our commitment of up to £500 million to leverage private investment in ports, manufacturing and assembly work critical to the success of offshore renewables; to start due diligence work with the aim of making bonds available to the market by the end of the current parliamentary session; and to establish an Investment Strategy and Delivery Unit to consider and drive forward the recommendations of the Panel.

However, the Panel is clear that Scotland's competitive advantages and ambitious policy commitments require a new and very different approach from that currently taken by Government and its agencies if Scotland is to attract the scale of global capital required. The Government accepts this challenge.

Our initial response to the Panel's findings and recommendations is set out below. We will publish a progress report on delivery by June 2024.

I would like to put on the record my thanks to all the Panel members for their contribution to the Panel's work and in particular Angus Macpherson, Margaret Ford and Gavin Templeton for the work they each led to inform the Panel's deliberations.

Thanks are also extended to Peter Reekie, Chief Executive of the Scottish Futures Trust and Willie Watt, Chair of the Scottish National Investment Bank, who acted as advisors to the Panel; those who have facilitated the work of the Panel by participating in interviews to inform recommendations; and the Universities of Edinburgh and Strathclyde for their support.

First Minister

Humza Yousaf MSP

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Strategic Context

As set out in our Policy Prospectus and Programme for Government, the Scottish Government is focussed on three clear and mutually reinforcing missions:

- **Equality** – Tackling poverty and protecting people from harm;
- **Opportunity** – Building a fair, green and growing economy; and
- **Community** – Delivering efficient and effective public services.

The Opportunity mission brings together our focus on delivering a just transition to net zero with seizing the massive economic opportunities of that transition.

Delivering our climate change target of net zero emissions of all greenhouse gases by 2045 will require the fundamental transformation of our economy and society, underpinned by massive investment in physical infrastructure. For example, the Committee on Climate Change estimated that, to achieve our climate change targets, Scotland will need an additional £5-6 billion of investment in low carbon infrastructure each year, every year from 2030 ([Sixth Carbon Budget - Climate Change Committee \(theccc.org.uk\)](#)). At the same time, maximising the economic, supply chain and employment opportunities of, for example, onshore and offshore wind, renewable hydrogen and changes to the built environment will also require very large scale investment.

It is in this context that the Investor Panel was established to provide advice to the Scottish Government on attracting mobile capital and investment to support government policy and the just transition to net zero.

The Panel makes clear that the scale of our ambition will require financial investment that is far greater than anything that has been accomplished to date. It is also clear that, as other countries follow a similar path, international competition to secure capital will intensify. The Panel's recommendations provide useful insights and expertise on how we might do that to position Scotland as an investor friendly destination of choice.

Background and Approach

The National Strategy for Economic Transformation (NSET) committed to establishing an Investor Panel, co-chaired by the First Minister, to attract investment to projects in Scotland that support our transition to net zero and to bring investor intelligence to policy and regulatory development early in the process.

In Summer 2022, the former First Minister invited Angus Macpherson, Chief Executive of Noble & Co, to co-chair the Investor Panel. She asked the Panel to consider investment in the round but also, given their importance to achieving net zero, to provide specific recommendations on ScotWind, hydrogen and heat.

From the outset, the intention was to produce a short, sharp overview and set of recommendations from the perspective of investors. This has been informed by the experience and expertise of Panel members and a series of semi-structured interviews and discussions with over 40 institutions, companies, advisers and individuals who are active in making infrastructure investments and know Scotland. Members of the Panel also engaged with senior officials across the Scottish Government, Enterprise Agencies, Scottish Futures Trust and the Scottish National Investment Bank. Support for the Panel was also provided by the Universities of Edinburgh and Strathclyde.

The Panel's initial focus was to identify the characteristics and practices of countries and jurisdictions which investors view as attractive. They looked in particular at Western Australia and the Republic of Ireland and also considered practice from Portugal, Canada, Singapore and Norway. The Panel concluded that the common characteristics of 'investor friendly' destinations are:

- the political atmosphere and posture is positive and encouraging towards private investment with knowledgeable and credible senior politicians and officials who invest time at the right level and in the right relationships;
- there are clearly articulated, credible, long-term policies encompassing net-zero targets and sector priorities;
- policies favour a national approach to scale investments;
- physical planning of critical infrastructure is prioritised and fast tracked;
- Government makes difficult decisions between competing policy objectives quickly and clearly;
- Government and public sector leadership is energetic, focussed, decisive and aligned;

- investor relationship management is taken seriously and is regarded as a long-term exercise which requires a professional approach;
- it is clear to investors who they need to engage with, and how;
- infrastructure priorities that require government intervention are planned, shaped and costed: these form a pipeline, not a wish list; and
- Government is sensitive to decisions which impact the risk, reward or timing of investments and any negative impact is communicated and, where possible, mitigated.

The Panel used this framework to consider and make recommendations across three related themes – strategic direction; investor engagement; and delivery.

Scottish Government Response

The Scottish Government is clear that delivering the physical infrastructure necessary for a just transition to net zero will require public and private capital investment on an unprecedented scale over many years, at a time when public finances are extremely stretched. We are also clear that such investment has the potential to generate significant economic growth and create new jobs and industries right across Scotland.

The Investor Panel's report and recommendations are therefore particularly welcome. Following consideration of those recommendations, the Scottish Government:

- agrees that we need to change how we and our agencies work so that Scotland better resembles the characteristics of destinations that investors find attractive;
- understands that to get to net zero and realise associated economic opportunities, external finance is essential and that the providers of this finance require a competitive reward for the risks that they are taking;
- agrees we need to take a serious, professional and consistent approach to investor relations and engagement; and
- recognises that, in the context of attracting capital investment, scale matters.

Furthermore, following discussions with the Panel over recent months we have already taken a number of decisions informed by the Panel's work.

The Panel noted that:

“ScotWind has the scale to attract global investor interest... and that projects like ScotWind will require a fundamental shift from funding to financing and for the public and private sectors to work closely together.”

In October, the First Minister announced the Scottish Government's commitment to invest up to £500m of public sector funds in offshore renewables. This commercial and grant investment will stimulate and support private investment in the infrastructure and manufacturing facilities critical to the growth of our world-leading offshore wind sector. We are working with Crown Estate Scotland, the Scottish National Investment Bank and our enterprise agencies to ensure the strategic alignment of our approach and that of the Strategic Investment Model (SIM) which brings together ScotWind developers to identify shared investment needs. This investment and approach will take account of the Panel's wider recommendations on ScotWind.

On investor engagement, the Panel recommended that:

“Although it will involve additional costs, Scotland’s profile could be significantly raised in the international capital markets by using existing devolved powers to issue debt. This will provide a motivation for regular engagement by investors and an opportunity to market Scotland’s investment story. It would also allow the development of relationships with providers of debt, a track record and credit rating.”

The Scottish Government agrees that it is important that we consider all means to raise Scotland’s profile, engage with investors and attract investment. Following the fiscal framework review we are also of the view that it is the right time to re-assess how we use our borrowing powers. Given this, we have already started a process of due diligence on this proposal. This will involve consultation with banks, credit agencies, financial experts and the Treasury, with the aim of making the bonds available to the market by the end of the current parliamentary session. Only if fiscal, economic and value for money conditions are satisfied will the recommendation be taken forward. Further details on next steps will be provided alongside the Scottish Budget in December 2023.

Investment Strategy and Delivery Unit

We have also established a new Investment Strategy & Delivery Unit within the Scottish Government. This Unit, which over time will draw in and on experience and expertise from our public sector partners and the private sector, will:

- lead and co-ordinate the effective implementation of the Panel’s recommendations;
- shape, influence and support relevant policy and delivery teams to attract mobile capital investment;
- convene policy, delivery and regulatory interests across the public sector to create a more ‘investor friendly’ environment and support the delivery of specific, priority investments;
- develop consistent approaches and methodologies for how government and public sector bodies identify and engage with large scale investment opportunities and investors; and
- establish clear routes for investor engagement.

Links to New Deal for Business Group

More broadly, there is a strong read across between work being driven forward through the New Deal for Business Group (NDBG) and some of the Panel's recommendations on the Government's relationship with investors and if and how we consider the impact of policy and regulation on investment and investor sentiment. The NDBG brings together government and business leaders to actively work together to achieve common goals, aligning Scottish Government policy with business. Its recent Implementation Plan seeks to ensure that there is honest and open dialogue between business and the Scottish Government which enables business to thrive and that informed choices are made around the timing, content and practical consequences of new policies.

Initial Response

The improvements we are making to processes and practice across the Scottish Government to deliver the NDBG Implementation Plan, and the principles that underpin them, will also support delivery of some of the Panel's recommendations.

The Scottish Government's initial response to each of the Investor Panel's 31 recommendations on Strategic Direction, Engagement, and Delivery is set out below. Some of the recommendations will be delivered relatively quickly but others require detailed work, sustained effort and cultural change across Government and public sector partners. We will publish a progress report on delivery by June 2024.

Investor Panel Recommendations	Initial Scottish Government Response
Strategic Direction	
<p>1. The current public sector landscape around attracting mobile capital needs to be simplified and given clear focus.</p>	<p>The Scottish Government, a number of public bodies (notably Scottish Enterprise, Scottish Futures Trust and the Scottish National Investment Bank) and local government all play a role in attracting mobile capital. Our actions in response to recommendations 13-15, led by the Investment Strategy and Delivery Unit, will seek to bring coherence and focus to how the public sector works to attract investment at scale.</p>
<p>2. The Scottish Government should review the balance between its narrowly focussed regulatory roles and processes, as well as those of its agencies and local government against the need to attract investment at scale to achieve the wider strategic goal of achieving net zero.</p>	<p>As the Panel has indicated, the National Planning Framework 4 requires planning authorities to give weight to the global climate emergency. We will give careful consideration to if and how a similar approach might be taken to other regulatory roles and processes and how those processes, and associated timescales, might be improved to attract investment at scale.</p>
<p>3. National and Local Government need to be disciplined and clear about their role in infrastructure projects; for example whether this is as a funder, a co-investor, or a planning authority.</p>	<p>We will work with public and private partners to help bring greater clarity and definition to the different roles that national, local government and public bodies play in infrastructure projects at different stages in their development and delivery; and to help communicate that to projects and the investment community.</p>
<p>4. Net zero and sector priorities need to be clearly articulated in Government strategies in a way which shows they can be delivered.</p>	<p>We accept that Government strategies are not always clear about how net zero and sector priorities will be delivered. Future strategies such as the forthcoming Green Industrial Strategy and Just Transition Plans will take account of this recommendation.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Strategic Direction	
<p>5. The concept of subsidiarity needs to be reviewed in the context of delivering infrastructure critical to the transition to net zero. Where projects can be designed or delivered nationally at scale, this should be the default option.</p>	<p>Following the Panel’s advice, the Scottish Government recognises that, in the context of delivering infrastructure and attracting capital investment, scale matters. It therefore agrees that projects need to be designed and delivered at the right scale – national or sometimes regional. In line with the Verity House Agreement with CoSLA (Convention of Scottish Local Authorities) and our commitment to take a ‘local by default, national by agreement’ approach, we will involve local authorities in the policy development process to act on the Panel’s recommendations. We are of the view that there is a strong rationale for an ‘at scale’ approach, especially as it supports Scottish and local government’s commitment to work together to transform our economy through a just transition to deliver net zero, recognising climate change as one of the biggest threats to communities across Scotland.</p>
<p>6. The Scottish Government’s interaction with regulators, including those at the UK level, should be strengthened to expedite the delivery of major infrastructure projects.</p>	<p>The Scottish Government already works closely with regulators at both Scottish and UK level, such as the Financial Conduct Authority (FCA), Office of the Gas and Electricity Markets (OFGEM) and Environmental Standards Scotland (ESS), to shape and inform policy and to support the delivery of specific projects.</p> <p>Whilst recognising the independent role of regulators, we agree that further work is required to strengthen relationships at both the strategic and operational level to expedite the delivery of major infrastructure projects. As we develop a shaped, costed and prioritised investment pipeline, see Recommendation 9, we will identify the roles of specific regulatory bodies, engage early and work with them to support project delivery.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Investor Engagement	
<p>7. The most appropriate providers of finance and expertise need to be identified and segmented. A serious, professional and consistent relationship management approach needs to be taken to these institutions.</p>	<p>As we develop a shaped, costed and prioritised investment pipeline we will identify the most appropriate providers of finance and expertise for each project. We will take a systematic and co-ordinated approach to relationship management across Scottish Government and our agencies. This will be led by the Investment Strategy and Delivery Unit which will lead in developing a consistent and professional approach for Government and public sector bodies to identify and engage with investors and large (national/regional) scale investment opportunities.</p>
<p>8. Although it will involve additional costs, Scotland's profile could be significantly raised in the international capital markets by using existing devolved powers to issue debt. This will provide a motivation for regular engagement by investors and an opportunity to market Scotland's investment story. It would also allow the development of relationships with providers of debt, a track record and credit rating.</p>	<p>A process of due diligence on this proposal, involving consultation with banks, credit agencies, financial experts and the Treasury has begun. If fiscal, economic and value for money conditions are satisfied, the aim is to make the bonds available to the market by the end of the current parliamentary session. Further details on next steps will be provided alongside the Scottish Budget in December 2023.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Investor Engagement	
<p>9. The current investment pipeline is too diffuse. A pipeline needs to be formed of projects that are properly costed, shaped and prioritised. It needs to be a real pipeline, not a wish list.</p>	<p>Working with partners, drawing in relevant expertise and learning from places such as Western Australia we will develop a pipeline of properly costed, shaped and prioritised projects.</p> <p>This will build on existing work across Government such as our Infrastructure Investment Plan; the 'Strategic Investment Model' (SIM) work being led by the Scottish Offshore Wind Energy Council (SOWEC) and recent collaborative efforts across the Government and public sector partners to identify and align investment behind key ScotWind projects.</p> <p>As we iteratively develop the pipeline we will test it with investors to check it is fit for purpose.</p>
<p>10. Once relationships have been established, an annual meeting should be held to engage with these investors around the opportunities in this pipeline. Feedback from this event should result in regular refinement of the pipeline.</p>	<p>As the investment pipeline develops we will hold annual meetings with investors to raise the profile of investment opportunities and understand their investment priorities and appetite. This intelligence will help us to refine the investment pipeline and assess broader investor sentiment towards Scotland and the key issues affecting investor views.</p>
<p>11. ScotWind has the scale to attract global investor interest. A state sponsored conference, at the right time, should be considered to attract key international investors to Scotland. This would also serve to raise the profile of the broader investment landscape.</p>	<p>It is already clear that ScotWind and associated infrastructure and manufacturing projects have the scale to attract global investor interest. In 2024 we will further develop the proposal to host a sponsored conference to help attract further interest and raise the profile of the broader investment landscape.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Investor Engagement	
<p>12. Investors and market participants are concerned that the Scottish Government and the Crown Estate Scotland may find it difficult to secure all of the published commitments from developers and a continued focus will be required to ensure commitments are realised.</p>	<p>The Supply Chain Development Statement (SCDS) process has been carefully designed by Crown Estate Scotland in respect to all applicable legal requirements, such as competition law and the EU-UK Trade and Cooperation Agreement.</p> <p>Developers are required to submit an initial SCDS as part of their ScotWind bid. The SCDS must be updated within 12 months of signing the Option Agreement and at least once every 3 years throughout the development phase of the project, from Option Agreement to Lease.</p> <p>Crown Estate Scotland has confirmed that applicants who do not fulfil their Supply Chain Development Statements will be subject to financial remedies.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>13. The revised Scottish Government's investment objectives and associated pipeline should dictate the amount, type and focus of resources.</p>	<p>As we review our approach with our agencies and partners we will focus our resources accordingly.</p>
<p>14. An exercise needs to be undertaken to fully understand the financial and human resource currently committed across the Scottish Government and its agencies to attracting mobile capital and delivering core investment priorities.</p>	<p>We agree that work needs to be done to understand the financial and human resource committed across Government and our agencies with a view to bringing greater coherence and focus to that resource and identifying capacity and capability gaps.</p> <p>A practical, early action of the Investment Strategy and Delivery Unit will be to map who does what, why and where. We know that the 'investor journey' needs to change by comparing and contrasting with examples of best practice in other countries. This will be an early, priority action for us.</p>
<p>15. The roles and responsibilities of organisations and teams should be reviewed and made clear and an assessment of their capacity and expertise to unlock investment undertaken. Changes are likely to be required to meet the scale of the delivery challenge.</p>	<p>We agree that change is likely to be required to meet the scale of the delivery challenge.</p> <p>Although public sector efforts to support investment in Scotland have shown individual successes they have also been relatively fragmented, with the relevant skills spread across a number of directorates in Scottish Government, agencies and local authorities. That system itself is shifting with the Scottish National Investment Bank now establishing its operations as both an investor and, over time, a centre of expertise for investment. The work we will carry out in response to recommendations 13-14 will help identify the necessary changes.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>16. A mechanism needs to be put in place whereby the implications for investors and investor sentiment are taken into consideration when policy is formulated or legislation developed across all of Scottish Government. This also needs to apply to how policy is delivered.</p>	<p>There is a strong read across between work being driven forward through the New Deal for Business Group (NDBG) and some of the Panel’s recommendations on the Government’s relationship with investors and if and how we consider the impact of policy and regulation on investment and investor sentiment.</p> <p>Working in alignment with work on NDBG we will put in place processes and practices at key stages of policy development and delivery to ensure implications for investors and investor sentiment are considered. This will include early engagement with the investment community on key policy proposals.</p>
<p>17. The implementation of the policy within the National Planning Framework 4 of a requirement for planning authorities to give significant weight to the global climate emergency when considering development proposals should be monitored to see if it results in a faster, more certain planning process for development projects such as those associated with ScotWind.</p>	<p>We published an updated version of the NPF4 delivery programme this autumn which set out early but significant progress towards delivery of the policies and proposals set out in the framework. The delivery programme includes our commitment to produce ‘planning and climate change guidance’, which will support the practical application of the new policy, and on which work is currently underway.</p> <p>We are currently developing a fuller monitoring programme, and have discussed it with the High Level Group on Planning Performance which we jointly chair with CoSLA. In the meantime, we are working closely with planning authorities and stakeholders to assess how policies are being applied in practice. Where issues have arisen we have met with Heads of Planning Scotland and others to share views and experiences and encourage a consistent approach.</p> <p>Alongside this, we have established the Planning, Infrastructure and Place Advisory Group (which we jointly chair with the Scottish Futures Trust) to identify solutions to development delivery issues.</p> <p>Work is also ongoing, in collaboration with a wide range of stakeholders, to tackle the challenge of resourcing the planning system.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>18. Building on the recommendations of the UK Electricity Networks Commissioner Report, the Scottish Government should make representations to the UK Government on the development of a master plan for the implementation of the grid expansion necessary to meet the needs of ScotWind.</p>	<p>The Scottish Government continues to press the UK Government to ensure investment in our grid infrastructure happens at the pace and scale required to enable the full use of current and future renewables capacity, including from ScotWind. We also consistently urge the Electricity System Operator (ESO) to explore all avenues to accelerate the timelines for ScotWind projects. The Connections Action Plan published jointly by the UK Government and Ofgem is a step forward in this regard.</p> <p>The UK Government’s response to the recommendations of the UK Electricity Networks Commissioner needs to be implemented effectively and urgently. We are carefully considering the UK Government’s response, including emphasising the need for the Scottish Government to contribute to the Strategic Spatial Energy Plan, and we continue to work with the UK Government to ensure the wider proposals are fit for purpose.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>19. A plan needs to be developed for the scaling up of a floating offshore wind pilot scheme to assist in developing other sites at scale. This can leverage learning from the innovation projects emerging from the existing INTOG (Innovation and Targeted Oil & Gas) leasing round to start a practical conversation on the floating offshore wind supply chain opportunity for Scotland.</p>	<p>ScotWind is the world's largest commercial round for floating offshore wind and puts Scotland at the forefront of offshore wind development globally.</p> <p>Scotland's innovation sector is responding to this challenge. For example, in early 2024 the National Floating Wind Innovation Centre (FLOWIC) located within Scotland's Energy Transition Zone will become the UK's first testing and demonstration facility dedicated purely to the development of floating offshore wind technology. It will play a vital role in fast tracking the development of technical components critical to successful large-scale roll out of floating wind.</p> <p>The SOWEC Supply Chain and Clusters working group will support this activity with the creation of a Scottish Floating Offshore Wind supply chain that develops and grows alongside the committed investment in the two Green Freeports. It will leverage innovation opportunity from the INTOG leasing round to ensure maximum benefit to Scottish supply chain and the pipeline of projects which will rely on it.</p>
<p>20. The Scottish Government should evaluate the economic viability of pipeline exports of green hydrogen, generated by ScotWind projects, to Europe, relative to green hydrogen created in the Mediterranean rim.</p>	<p>A wide range of work is underway across the Scottish Government and through our agencies to put Scotland at the forefront of the development and use of green hydrogen and ensure Scotland derives maximum economic benefit from its use. There is also significant interest from countries such as Germany in importing green hydrogen from Scotland. As we take forward this work we will evaluate the economic viability of pipeline exports from Scotland relative to Europe and exports from other places such as the Mediterranean rim.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>21. Public financial resources and policy should focus on the use of green hydrogen as an enabler for industrial decarbonisation.</p>	<p>Green hydrogen can be useful across a number of sectors to decarbonise the parts of our energy system that are difficult or impractical to electrify. This includes the demand for high temperature heat from energy intensive industries and this a key focus of our policy interests.</p> <p>We are confident that we have enough energy resources around us in Scotland to supply our own domestic demand for hydrogen and service export markets as they develop. We have recently established the Scottish Hydrogen Industry forum chaired by Energy Minister Gillian Martin with a remit to help: drive forward the hydrogen economy in Scotland collaboratively; ensure Scottish Government policy and action remains responsive to technological and market developments; and maximise the decarbonisation and economic benefit for businesses and communities.</p>
<p>22. Public sector connection to heat grids should be mandatory to provide the right demand signal for private investment into heat sources. Extending this regulation to new commercial real estate and large-scale housing development should be accelerated.</p>	<p>We are exploring further legislation to encourage certain buildings, including public sector buildings, commercial buildings and new buildings, to connect to heat networks where they can de-risk investment in these schemes. We will set out further detail on this in our upcoming Heat in Buildings consultation and during 2024.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>23. Private investment into heat sources can be accelerated by creating a viable margin for district heating. This can be facilitated by reducing upfront costs, such as planning, and focusing subsidies on the market for renewable heat.</p>	<p>We have established Scotland’s Heat Network Fund to provide grant funding to low carbon heat networks. All local authorities are developing their Local Heat and Energy Efficiency Strategies (LHEES) – this will enable engagement with developers about opportunities and how these can be best taken forward.</p> <p>We have developed resources to support local authorities to understand different ways that they can engage with and contract with heat network developers. LHEES will also enable us to work with Local Authorities and developers to better understand barriers in local areas and how these could be overcome, including through Scottish Government using levers it has available to it.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>24. For institutional investment at scale to be attracted to the residential housing sector to help finance its transition to net zero, greater clarity as to the stability and quantum of returns is required.</p>	<p>The Green Heat Finance Taskforce recently published Part 1 of its work. This sets out the current status of private finance markets for building retrofit including installation of clean heating. It also highlights barriers to the growth of private finance provision and notes opportunities to expand the range of products available to individuals and businesses to help finance the upfront costs of work. It also provides an overview of the current products on the market which consumers can access. Part 2 will look at aggregated funding models and will include consideration of how investor returns could be structured.</p> <p>We are also working with a range of different parties such as the Scottish National Investment Bank, Scottish Futures Trust, UK Infrastructure Bank and the investment community to identify how pathfinders and pilots could be established to provide investors with confidence of what their returns could be.</p> <p>The Panel's advice and assessment is welcome, and moving forward with work to secure investment for social housing and net zero policies we will take account of investor risk appetite and expectations relating to stability and Return on Investment.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>25. The Scottish Government should consider the recommendations of the Offshore Wind Champion and implement those that are within its devolved powers, including ensuring there is adequate resource for the Marine Directorate of Scottish Government and NatureScot to meet responsibilities in ScotWind.</p>	<p>The Scottish Government welcomed the recommendations of the Offshore Wind Champion (Tim Pick) and is taking steps to implement those recommendations that lie within devolved powers, working alongside Crown Estate Scotland, and our enterprise and skills agencies.</p> <p>The report also included a wide range of recommendations for UK Government. It is critical that these, especially recommendations on the removal of grid constraints and Contract for Difference (CfD) reform are delivered quickly.</p> <p>We have identified resource requirements for offshore planning and consenting work and will seek to ensure both Scottish Government and agencies are appropriately resourced. A streamlining project to consider and implement improvements to facilitate marine licencing and consenting is ongoing. We also continue to work with UK government officials on implementing changes brought about through the Energy Act.</p>
<p>26. The Scottish Government should improve engagement between the newly established Offshore Wind Directorate and the industry to ensure a focus on maximising opportunities around offshore wind operations and maintenance.</p>	<p>The Scottish Government agrees that there are significant opportunities in offshore wind operations and maintenance. The Offshore Wind Directorate was established in April and we have engaged with the industry via roundtables, individual meetings and supporting sector conferences. We will continue to work across Government and with our enterprise and skills agencies and the Scottish National Investment Bank to ensure the opportunities of offshore wind operations and maintenance are maximised.</p>

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Delivery	
<p>27. The Scottish National Investment Bank should be able to provide guarantees and underwriting at scale in line with the capabilities of many other investment or development banks.</p>	<p>We agree with the principle of this recommendation and will actively consider it as part of wider work on the future development of the Bank.</p> <p>The Bank makes investments in line with its investment strategy, business plan and within its delegated authorities, and in the ordinary course of business the Bank may offer guarantees or indemnities within those limits. It hasn't chosen to use guarantees to date, preferring to use debt and equity instruments.</p> <p>The Bank's current delegated authority for the use of guarantees is £2.5m. This limit recognises the requirements of the Scottish Public Finance Manual and the terms of the Written Agreement between Scottish Government and the Finance and Public Administration Committee, and reflects the close scrutiny the Scottish Parliament expects to have over guarantees and other contingent liabilities. The Scottish Government has granted a number of guarantees that exceed this limit (which have been granted subject to Parliamentary approval), and we recognise that to meet the scale of the net zero investment challenge the Government may need to consider underwriting at a commensurate scale.</p> <p>We will:</p> <ul style="list-style-type: none"> • work with the Bank and the Investor Panel to better understand the opportunities that guarantees could unlock and the scale of potential guarantees that might be needed; • understand the value for money and potential budgetary implications for the Bank and Scottish Government of the use of guarantees; and • identify and overcome barriers to greater use of guarantees. <p>We will also work with other development banks that have the powers to offer guarantees, in particular the UK Infrastructure Bank, to ensure parties work together to unlock investment opportunities.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>28. The Scottish National Investment Bank should invest pre-emptively in the supply chain for ScotWind, complementing the tax incentives offered by the Green Free Ports.</p>	<p>The Bank has a pivotal role to play in being a catalytic investor in the infrastructure and supply chain necessary to deliver maximum economic benefit from ScotWind and, in line with Recommendation 12, securing the public commitments from developers. It has, for example, already invested in Aberdeen Harbour and North Star Renewables and will be a key delivery partner, along with our enterprise agencies, for supporting ScotWind.</p>
<p>29. Public leadership needs to continue to upskill to be able to act as effective counterparties to major investors and must commit to continually deepening this knowledge and understanding. These skills need to be learned from those with proven expertise and who embody international best practice.</p>	<p>We will develop and deliver a programme of skills development across Government and our agencies to ensure we can act as effective counterparts to major investors. In addition, in line with Recommendation 30, where we do draw on external expertise by borrowing or buying skills we will ensure that our arrangements allow for in-house capability building by knowledge transfer to enable us to become more intelligent in our interactions with investors. We will also explore opportunities for officials to spend time working for investment organisations. In advance of this we will learn from previous experience of other parts of Government and other parts of the public sector who have operated such exchanges.</p>
<p>30. Attracting mobile capital is a specialist area and the Scottish Government does not have the resources to build every capability to an adequate standard itself. Using external commercial specialists might prove to be a better value proposition.</p>	<p>We recognise that attracting mobile capital is a specialist area. In line with Recommendations 13-15 and 29, there are relevant skills and expertise within Government and across our agencies which the Investment Strategy and Delivery Unit will seek to draw together in to a more coherent and effective whole.</p> <p>However, in some areas and for some types of work we agree that it will make more sense and be a better value proposition to bring in external expertise than seek to develop capability within Government or our agencies. Where that is done, skills development and knowledge transfer will be an important part of the contractual arrangement.</p>

Investor Panel Recommendations	Initial Scottish Government Response
Delivery	
<p>31. A culture needs to develop that is rigorously focused on outputs, not inputs or on process management.</p>	<p>The Scottish Government, its agencies and partners, including investors must each play their part in changing the culture of the system in which we operate. We must hold each other accountable for change which makes a positive, measurable and lasting impact as we transition to net zero.</p> <p>We will seek formal and informal feedback from investors on our changing approach. Across the public sector in Scotland we stand ready to challenge our ways of working to secure a more productive and effective working relationship with investors.</p>



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Any enquiries regarding this publication should be sent to us at
The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

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