

Item: 4

Community Development Fund Sub-committee: 1 July 2025.

Carbon Neutral Islands Capital Fund.

Report by Director of Enterprise and Resources.

1. Overview

- 1.1. In 2022 the Scottish Government announced the establishment of the Carbon Neutral Islands project, aimed at supporting six islands to become carbon neutral by 2040. The selection process resulted in six Scottish Islands being chosen, namely:
 - Barra.
 - Great Cumbrae.
 - Hoy.
 - Islay.
 - Raasay.
 - Yell.
- 1.2 In 2024, the Scottish Government launched the Carbon Neutral Islands Capital Fund (CNICF), allowing local authorities to competitively apply for approximately £1 million for the financial year 2024/25 on behalf of eligible islands.
- 1.3 In May 2025, the Scottish Government launched a new round of the Carbon Neutral Islands Capital Fund for year 2025/26 with a total budget of approximately £1.4 million available.
- 1.4 Council officers have been liaising with the Scottish Government, the Scottish Futures Trust, and the Hoy-based Community Development Officer for the CNI Project to identify potential projects that could be the basis of an application to the Scottish Government.
- 1.5 This has resulted in the Hoy Community Transport Electrification Project, led by the Island of Hoy Development Trust (IoHDT), being identified as a potential application and officers are now working directly with the IoHDT to develop a bid for funding of up to £131,485.

- 1.6 CNICF requires local authorities to be the lead applicants on any submission, with applications being submitted to the Scottish Government by the Council on behalf of the third parties by 22 July 2025.

2. Recommendations

- 2.1. It is recommended that members of the Sub-committee:
- i. Agree that the Council submit an application to the Scottish Government's Carbon Neutral Islands Capital Fund, on behalf of the Island of Hoy Development Trust in respect of the Hoy Community Transport Electrification project, for the amount of £131,485.
 - ii. Delegate powers to the Director of Enterprise and Resources, in consultation with the Head of Finance, to make payment to the Island of Hoy Development Trust, should the application to the Scottish Government's Carbon Neutral Islands Capital Fund be successful.
 - iii. Delegate powers to the Director of Enterprise and Resources, in consultation with the Head of Corporate Governance, to enter into grant agreements, on the Council's standard terms and conditions, with the Scottish Government and the Island of Hoy Development Trust, as appropriate, including whether appropriate security can be put in place.

3. Background

- 3.1 The Carbon Neutral Islands project is aimed at supporting the six islands to become carbon neutral by 2040. The definition of 'carbon neutral', in the context of this project means an island where the greenhouse gas emissions, captured as CO₂ equivalent, are in balance with carbon sinks.
- 3.2 The Carbon Neutral Islands project provides an opportunity to demonstrate the low carbon energy potential of islands as hubs of innovation in relation to renewable energy and climate change resilience. The project aims to also positively impact on island economies, facilities and general wellbeing by allowing for reinvestment in the communities.
- 3.3 The aim is that the six islands will act as catalysts for decarbonisation across all Scottish islands.
- 3.4 Carbon Neutral Islands Funding was initially allocative. However, in 2024 the Scottish Government moved to a competitive bidding process and launched the Carbon Neutral Islands Capital Fund, accessible to islands involved in the Carbon Neutral Islands Project.

- 3.5 The Carbon Neutral Islands Capital Fund is open to applications from local authorities associated with each CNI island (Argyll and Bute Council, Comhairle nan Eilean Siar, Highland Council, North Ayrshire Council, Orkney Islands Council and Shetland Islands Council). These councils will act as the lead applicant.
- 3.6 The minimum amount of funding that can be applied for is £75,000. There is no maximum.
- 3.7 Applications will be assessed and scored by an Investment Panel, which will then make funding recommendations to the Minister for Agriculture and Connectivity.
- 3.8 The submission deadline for this funding round is 22 July 2025, with the panel scheduled to meet in mid-August. Funding decisions will follow shortly thereafter.
- 3.9 The Scottish Government has asked the Scottish Futures Trust to continue its role in co-delivering the Carbon Neutral Islands Capital Fund for the current financial year.

4. Hoy Community Transport Electrification Project

- 4.1 The Community Development Officer, based in Hoy, has liaised with representatives throughout the Hoy community requesting ideas for proposals, and welcomed submissions of interest ahead of the formal announcement of the fund.
- 4.2 The Council's Sustainable Regeneration Funding Managers have been in routine contact with Scottish Government's Islands Team, the Scottish Futures Trust, and the Community Development Officer in Hoy to understand potential projects in advance of the fund's announcement and since.
- 4.3 The proposed application is recommended as a result of these conversations. Additional carbon saving projects have not been proposed for this year due primarily to delivery timescales and will be considered for future rounds of CNICF.
- 4.4 The project aims to fully electrify the community transport fleet, and will deliver:
- Three Toyota Proace Verso 9-seat electric minibuses, replacing two diesel minibuses (14-seat and 17-seat).
 - One dual-post Alfen Eve Double Pro-Line EV charging station, installed in the Car Park at YM Hall, Longhope.
 - Installation of the charger, and updated training for drivers.
- 4.5 The project hopes to:
- Reduce Greenhouse Gas Emissions by 23 tonnes of CO₂ per year.

- Enhance the critical infrastructure of Hoy's transport service, and to immediately improve physical accessibility for current passengers.
- Promote Community Wealth Building.
- Support local business with installation and ongoing maintenance being procured locally.

5. Next Steps

- 5.1 Officers will continue to work with the Island of Hoy Development Trust, the Community Development Officer, and the Scottish Futures Trust to fully develop the bid ahead of the submission deadline.
- 5.2 Additional information will be gathered as required, for example confirmation of the subsidy position, ability to comply with the requirements of the fund and deliver outputs/outcomes and spend within the timescales.
- 5.3 Should all requirements be satisfied, applications will be submitted by 22 July 2025.

For Further Information please contact:

David MacRae, Sustainable Regeneration Funding Manager, extension 3352, Email david.macrae@orkney.gov.uk.

Implications of Report

1. **Financial** - The Carbon Neutral Islands Capital Fund is to cover 100% of costs therefore there is no requirement for match funding.
There are potential financial risks associated with accessing funding on behalf of third-party organisations.
There is no direct ongoing cost to the Council as a result of this application, nor financial benefit.
Should the Island of Hoy Development Trust be successful in securing a grant through the Carbon Neutral Islands Capital Fund, this does not guarantee any other level of financial contribution or support from the Council.
2. **Legal** - In order to claim grant monies, whether or not on behalf of a third party, the Council will be required to adhere to the funder's grant conditions.
In circumstances where the Council agrees to enter into a funding agreement on behalf of a third party, the Council's position will require to be protected by the third party entering into an agreement with the Council on terms mirroring the Council's agreement with the funder in respect of the relevant grant monies, including provisions for the Council's remedy in the event of a third party defaulting on the grant conditions.

3. **Corporate Governance** - In terms of the Scheme of Administration, submission of applications on behalf of third parties is delegated to the Community Development Fund Sub-committee. Submissions must be made in accordance with the Third Party Funding Applications Framework.
4. **Human Resources** - No direct implications.
5. **Equalities** - An Equality Impact Assessment is not required.
6. **Island Communities Impact** - An Island Communities Impact Assessment was undertaken by the Scottish Government for the Carbon Neutral Islands Project. The Carbon Neutral Islands Capital Fund has been created by Scottish Government to support this project.
7. **Links to Council Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Council Plan strategic priorities:
 - ☐ Growing our economy.
 - ☒ Strengthening our Communities.
 - ☒ Developing our Infrastructure.
 - ☐ Transforming our Council.
8. **Links to Local Outcomes Improvement Plan:** The proposals in this report support and contribute to improved outcomes for communities as outlined in the following Local Outcomes Improvement Plan priorities:
 - ☒ Cost of Living.
 - ☐ Sustainable Development.
 - ☒ Local Equality.
 - ☒ Improving Population Health.
9. **Environmental and Climate Risk** - The fund is focussed on the reduction of carbon associated with Island Communities therefore will report and demonstrate positive impact in relation to environmental and climate risk.
10. **Risk** - include the third parties' ability to:
 - Receive funds as Minimum Financial Assistance.
 - Cashflow/ spend within the short timescale.
 - Deliver a project with demands around compliance with public procurement processes, equalities, environmental and health and safety requirements.

The risk exists where the third parties are unable to deliver or comply with the requirements resulting in the Scottish Government requesting that funds are repaid. The grant offer letter would set out the conditions between the third party and the Council in order that such a situation was managed.
11. **Procurement** - The third parties will be required to comply with the fund guidance in relation to procurement. There are no implications for the Council.
12. **Health and Safety** - The third parties will be required to comply with the fund guidance in relation to health and safety. There are no implications for the Council.

- 13. Property and Assets** - The third parties will be required to comply with the fund guidance in relation to property and assets. The funding received by the third parties will relate to renewable energy installed in properties in Hoy. There are no implications for the Council.
- 14. Information Technology** - The third parties will be required to comply with the fund guidance in relation to Information Technology. There are no implications for the Council.
- 15. Cost of Living** - The outer isles are recognised by being affected by higher costs of living. The ability to provide renewable energy options that will improve efficiency and reduce costs will contribute positively to the cost of living for those associated with the properties.

List of Background Papers

None