Item 3

11th November 2025

Glasgow City Council

Net Zero and Climate Progress Monitoring City Policy Committee

Report by Climate Finance Manager

Contact: Mary Kerr Ext: 78123

Model for Climate Investment Strategic Outline Case

Purpose of Report:

The purpose of this report is to:

- Present the Strategic Outline Case ("SOC") developed for the Model for Climate Investment
- Notify members of the progression to Outline Business Case ("OBC") on the terms set out in the SOC

Recommendations:

The committee is asked to:

- Note the progress made on the SOC
- Note that OBC will be presented to committee May 2026

Ward No(s):	Citywide: ✓
Local member(s) advised: Yes ☐ No ☐	consulted: Yes ☐ No ☐

1. Introduction

1.1. In March 2024 the City Administration Committee approved a budget of £4m to establish a specialist internal and external team to co-ordinate the development of Glasgow's own Model for Climate Investment ("MfCI").

1.2. The MfCI is specifically focused on a **delivery vehicle** which will create the conditions that mobile financing and enable the private sector to work with the Council in bringing forward infrastructure projects that are within the Council's control, business case ready and investable; and a **climate investment vehicle** for the city (and potentially in the Glasgow City Region going forward)that would be wholly controlled externally.

1.3. Similar vehicles have been created in other regions of the UK and consist of private finance consortiums, often including pension funds, that commit to funding investable infrastructure projects which demonstrate a return on investment, often over a longer timeframe.

1.4. Glasgow requires an estimated £15bn to progress its Local Heat and Energy Efficiency Strategy ("LHEES") with overall finances projected to reach £40bn to progress the city's full Net Zero ambitions. The Council recognises that with current and future anticipated budget allocations, public sector finance alone cannot be relied on to progress its ambitions. In order to bridge the funding gap, private sector financing is required.

1.5. Local authorities are unable to directly access this form of financing without appropriate agreements in place. In response, many are developing strategic frameworks and partnership models to facilitate delivery. As there is no universal approach, each authority must undertake due diligence to determine the most suitable structure for achieving its specific objectives.

1.6. In addition to financial opportunities, local authorities possess the asset base and ambition to support the large-scale deployment of heat networks, presenting a strategic opportunity for the city.

1.7. Glasgow is particularly well positioned due to its high heat density, which enhances the technical and economic viability of heat network infrastructure by enabling more efficient energy distribution and greater economies of scale.

1.8. The completion of the SOC as detailed in this report is the first step to establishing the correct model for Glasgow and presents an analysis of all options considered and a justification for progressing with the short-listed options. The executive summary of the SOC can be found at Appendix 1.

2. Case for Change and Project Objectives

2.1. A compelling and well-defined strategic case supports the progression of the MfCI project. As well as the statutory and policy obligations, the project will ensure strategic planning, integration with the wider infrastructure and fair and equitable access to low carbon heat across the city.

2.2. The challenge remains that the Council does not have the necessary technical expertise, investment capacity and delivery capability to achieve long-term sustainable energy outcomes without establishing a delivery vehicle.

2.3. In response, the project team has developed a set of SMART objectives to guide delivery and monitor progress. These five objectives will be further tested and refined during the OBC stage to ensure their continued relevance and alignment with the council's strategic goals.

Objective 1: Decarbonisation
Progress the decarbonisation of heat in the Council area (and potentially in the Glasgow City Region going forward) through development of the LHEES zones over the next ten years and in accordance with the projected pathways to net zero set out in the Glasgow Net Zero Route map, emphasizing the development of all forms of renewable energy infrastructure and enhancing energy efficiency across public sector and other assets.

Objective 2: Heat Network Development
Expand district heating networks across the 21 zones identified in the LHEES and utilise at least 80 Council owned assets over the next ten years to create the foundation for wider heat network adoption within the Council area and potentially more widely in the Glasgow City Region.

Objective 3: Attract Funding, Finance and Delivery Support
Attract up to £10bn of funding and finance over the next ten years to support the LHEES delivery, and potentially other regional projects and programmes, through the packaging of financially viable projects that minimise the total public sector spend required.

Objective 4: Community Engagement
Maximise social value through community participation in LHEES and other project delivery in the next ten years among residents from historically underrepresented communities in the Council area through targeted outreach campaigns, training opportunities and local job creation.

Objective 5: Innovation and Sustainability
Launch and scale up to 10 innovation pilot projects focused on green investment and uptake of renewable energy sources in the Council area in the next five to ten years in partnership with the three Innovation Districts in Glasgow City Region as well as local start-ups.

3. Review of Options

3.1. The project team is actively considering a range of commercial structures to support delivery. It is important to note that all options under review will require dedicated funding mechanisms to enable further development and implementation. Currently, no confirmed pathway to securing the necessary additional funding exists Further assessments are underway to explore potential funding sources, and the OBC process will be critical in defining the financial requirements for progression and identifying how projects could be funded

3.2. An early part of the work was to understand all of the models available to Glasgow and identify a long list of potential options to deliver the MfCI. All available options were thoroughly explored ensuring that no potential models were excluded from consideration. This resulted in a long list of eight options:

- **Option 1 – Business As Usual**
  ‘Do minimum’, where the Council continues to deliver against its strategic objectives without changing the current operating and delivery model.

- **Option 2 – Public Sector Delivery**
  The Council is fully responsible for delivering the scope of services. The Council would procure and manage key subcontracts for delivery of works and services.

  This option is similar in approach to that adopted in the Stirling District Heat Network (excluding heat generation) and Fife Council's Dunfermline Community Energy Scheme.

- **Option 3 – Public Sector Delivery ESCO**
  As per Option 2, however delivered through a wholly owned Council subsidiary company (an Energy Service Company (“ESCo”)).

- **Option 4 – Council Led JV (50:50)**
  The Council would procure a private sector Delivery Partner (“DP”) and form a 50:50 joint venture (“JV”) which would be responsible for delivering the scope of services. Investment (financial or otherwise) from the Council would be commensurate with a 50% share and the Council would share in the future risks and rewards of the JV.

  An example of this structure is Midlothian Energy Limited, a 50:50 JV ESCo between Midlothian Council and Vattenfall Heat (UK) Limited. In this example, the JV ESCo was established to carry out multiple projects on a programme basis across Midlothian and surrounding areas.

- **Option 5 – Council Minority JV**
  As per Option 4, however, the Council would take a minority equity stake in the JV (e.g. 10%). Compared to Option 4, the Council’s investment (financial or otherwise) and share of future risks and

rewards would be smaller. The Council would have less control than under Option 4 but could negotiate key protective controls through the JV agreement.

- **Option 6 – Service Concession**
  The Council would procure a private sector DP who would be fully responsible for delivering the scope of services.

  The Council would not have a direct (equity) role but would manage the DP through a concession / project agreement.

  A variation might involve the Council holding a “golden share” to which certain specific rights may attach, e.g. surplus profit share, step-in rights.

  An example of this model is the heat network currently under development at Granton in north Edinburgh, where the City of Edinburgh Council procured a private sector company, Vattenfall Heat UK Limited, to develop, design, construct and operate the heat network and supply heat to customers. Subject to passing through agreed gateways in the project development process, the City of Edinburgh Council will enter into a concession agreement (a long-term contract) with an ESCo established by Vattenfall Heat UK Limited. The concession agreement will set standards for the delivery and operation of the heat network. The City of Edinburgh Council will also hold a "golden share" in the ESCo entitling it to a share of profits above an agreed threshold.

- **Option 7 – Community Led**
  A community group would be responsible for delivering the scope of services. This could be structured using a co-operative ownership model with a Community Interest Company (“CIC”), where it is possible to distribute some profit to its members, or a Company Limited by Guarantee (“CLG”), which are often established with a prohibition on profit distributions to members (i.e. is ‘not-for-profit').

  The CIC or CLG may appoint contractors/advisors to support it in the delivery of the scope of services.

- **Option 8 – Co-operative**
  The Council would establish a CLG, defined above, which would be governed by the Council, as well as potentially Regional Partners and representatives from the community. The CLG may appoint contractors/advisors to support it in the delivery of the scope of services.

  Aberdeen Heat and Power is an example of this albeit now it has a single member. Currently there are limited other UK examples, though

Reheat is delivering the Community Heat Development Programme on behalf of Local Energy Scotland and the Scottish Government to explore deployment. It is a model regularly used in Danish heat networks.

3.3. For the long list of options, a comprehensive evaluation process was conducted by the specialist team comprising of internal and external project team members. Critical Success Factors for the project were used to score the options and further qualitative criteria assessment were identified to provide a consistent framework for evaluating the relative advantages of each option.

3.4. Following the evaluation process, a shortlist of preferred options has been identified. These options have been chosen as the most viable pathways for further development and assessment in the OBC:

- Option 1 – Business As Usual;
- Option 4 – Council Led JV (50:50)
- Option 5 – Council Minority JV
- Option 6 – Service Concession; and
- Option 8 – Co-operative.

3.5. The Business As Usual scenario will be retained as the counterfactual for inclusion in the OBC. While the community-led option has been set aside at this stage, as it is deemed highly challenged in its ability to co-ordinate and deliver at scale and pace and the ability to raise the necessary funds, the Council remains committed to supporting community driven initiatives. Work continues to explore and mobilise mechanisms such as the Community Renewable Energy Framework ("CREF") and the Community Municipal Investment ("CMI") model to ensure meaningful community engagement and participation.

3.6. The shortlist will be revisited once the scope of services of the DV(s) has been refined at the commencement of the OBC stage to test whether they remain the most appropriate to take forward and/or if further down selection is necessary prior to detailed option development, economic and financial appraisal.

4. Next Steps

4.1. The next stage in the project is the development of an OBC that tests the assumptions made and the success factors established for the Council. The OBC will either confirm or reject the assumptions made at SOC.

4.2. The commercial models being evaluated will be fully tested by the project team and highlight any key challenges, like the financial challenge raised earlier in the report in order to understand what needs to be unlocked for Glasgow to achieve the best model. Discussions will continue with partners like the National Wealth Fund to understand all options available to the Council.

4.3. Market engagement activities will be initiated to gain insight into current market challenges and opportunities. This process will inform the development of Glasgow’s delivery model and facilitate meaningful engagement with key stakeholders.

4.4. The OBC is scheduled for completion within a six-month timeframe. Upon completion, a comprehensive report will be prepared. This report will be submitted to the relevant committee for review and consideration

5. Policy and Resource Implications

Resource Implications:

Financial:	The cost of developing the OBC will be met by the MfCI approved budget. However, the delivery of the preferred model will require funding to be secured.
Legal:	The OBC will examine the legal and commercial frameworks as well as the contractual terms required for the Council to progress with the MfCI.
Personnel:	The OBC presents no personnel issues
Procurement:	Any procurement related issues will be determined through the OBC process.
Council Strategic Plan:	This work underpins Grand Challenge 3 of the Strategic Plan on fighting the climate emergency in a just transition to net zero. It also supports the reduction of poverty and inequality in our communities and increases the opportunity and prosperity for our citizens.
Equality and Socio-Economic Impacts:	

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	The focus of this report is to establish Glasgow's MfCI that provides additional benefits for the city. The projects progressed with the investment will support outcomes 1, 7, 8 and 9
What are the potential equality impacts as a result of this report?	The Council's approach to progressing the sustainability projects at pace has the potential to open up additional job markets as well as ensuring that there is more control over critical services, like heat.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	This work will help address the socio-economically disadvantaged by creating upskilling opportunities from the net zero transition.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	This report supports the Climate Plan actions by providing an opportunity to match private sector funding with public sector funding to achieve the required actions.
What are the potential climate impacts as a result of this proposal?	This report will allow the Council to deliver projects at pace bringing us closer to achieving our Net Zero 2030 targets.
Will the proposal contribute to Glasgow's net zero carbon target?	Mobilisation and delivery of the projects within the Climate Plan will help the Council to achieve the Net Zero targets.

Privacy and Data Protection Impacts:

Are there any potential data protection impacts as a result of this report Y/N	This report has no impacts on privacy or data protection.
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	

6. Recommendations

6.1 It is recommended that the committee:

- Note the progress made on the SOC
- Note that OBC will be presented to committee May 2026

APPENDIX 1 – SOC Executive Summary

Glasgow City Council

Model for Climate Investment

Strategic Outline Case

Executive Summary

22 October 2025

Executive Summary

Glasgow City Council's proposed Model for Climate Investment ("MfCI") is being developed to drive forward the Council's net zero carbon ambition for Glasgow. This Strategic Outline Case ("SOC") sets out the Council's strategic vision and approach to achieving a net zero, climate-resilient economy through establishing a Delivery Vehicle ("DV") and a Climate Investment Vehicle ("CIV"). The SOC follows the HM Treasury green book 5 case model covering strategic, economic, commercial, financial, and management cases.

Strategic Case

The strategic case makes the case for change. It describes the Council's ambition for Glasgow to become a net zero carbon city by 2030, addressing climate change, fuel poverty, and public health. The MfCI is intended to enable the establishment of a DV and CIV to unlock necessary investments and deliver key net zero projects. The proposed DV will focus on decarbonizing heat and retrofitting and connecting public sector buildings as set out in the Local Heat and Energy Efficiency Strategy ("LHEES"). The CIV is intended to be complementary to the DV and will seek to mobilise private sector investment to address funding gaps and facilitate the delivery of wider projects.

The strategic case demonstrates clear strategic alignment between the MfCI and local and national policies and strategies such as the Glasgow Climate Plan and the LHEES.

Economic Case

The economic case describes the various structural and ownership options for the DV. Assessment of the DV options focussed on their ability to meet the Council's spending objectives and deliver anticipated benefits. A longlist of options was evaluated against critical success factors and qualitative assessment criteria, resulting in a shortlist of viable options. The shortlisted options include a Council-led 50:50 joint venture ("JV"), a Council minority JV, a service concession, and a co-operative model. Each option's potential to deliver economic, social, and environmental benefits was considered, with all the shortlisted options achieving a positive score.

The shortlisted options were also subject to a high-level risk assessment exercise to ascertain how well each option performed against a range of business (internal), service (project) and external risks. Further detailed appraisal of the shortlisted options including a more detailed risk assessment will be carried out at outline business case (“OBC”) stage.

Commercial Case

The commercial case explores potential procurement and contracting strategies for the shortlisted DV options and initial procurement considerations for the CIV. It contains a preliminary high-level assessment of market capability and capacity. At this stage, it is likely that a project of this scale will attract interest from potential private sector partners, but this assessment is subject to further market testing and economic feasibility work at OBC stage.

Delivering any of the short-listed options will involve a regulated procurement process to appoint a delivery partner for the works required. Some options are set out in the commercial case, but the precise procurement strategy will be designed at OBC stage for the preferred DV option. The commercial case outlines the key contracts that would be required for the short-listed models.

Financial Case

The financial case outlines the funding and financing requirements for the DV, estimated at around £10 billion for the delivery of the LHEES across 21 zones. The Council's constrained fiscal position necessitates the mobilization of private capital alongside targeted public funding. The financial implications of each shortlisted option are considered, including equity and debt participation, access to regional and national funding, and profitability and affordability considerations. The Council's contribution of assets and estate, such as anchor heat loads and infrastructure facilitation, is identified as a key financial enabler.

Management Case

The management case describes the governance and delivery arrangements for the project. The Council has established a robust governance structure, including the Climate and Sustainability Board, Climate Investment Board, and Political Oversight Group. The project will be managed using PRINCE2 principles, with clear roles and responsibilities assigned to key stakeholders. The implementation plan includes milestones for the SOC, market engagement, OBC, full business case (“FBC”), and procurement completion. A programme-level risk register will be maintained to manage and mitigate risks.

Conclusions and Recommendations

The SOC demonstrates a clear and compelling case for the establishment of a DV and CIV to deliver Glasgow's net zero ambitions. The shortlisted options for the DV offer a range of benefits, including economic growth, social value, and environmental sustainability.

The next step for the Council would be to proceed with the development of the OBC which will include further analysis of the shortlisted models and engagement with potential delivery partners and other stakeholders. The preferred delivery model will be identified at OBC stage and should be selected based on detailed financial and commercial analysis, ensuring alignment with strategic objectives and stakeholder interests.