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# **INQUIRY – JUST TRANSITION FOR THE NORTH EAST AND MORAY**

## About us

Prosper is Scotland's Economic and Social Forum. We are an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members, partners, and stakeholders across the private, public and third sectors to deliver inclusive and sustainable economic growth.

For more information on this report, please contact the Prosper Policy Team:

Clare Reid

Director of Policy & Public Affairs

[clare.reid@prosper.scot](mailto:clare.reid@prosper.scot)

07799049455

Gareth Williams

Head of Policy

[gareth.williams@prosper.scot](mailto:gareth.williams@prosper.scot)

07944590770

Nairne Hopkinson

Policy Analyst

[nairne.hopkinson@prosper.scot](mailto:nairne.hopkinson@prosper.scot)

07506882591

Prosper

Brunswick House

51 Wilson Street

Glasgow, G1 1UZ

0141 243 2667

## **Inquiry – Just Transition for the North East and Moray**

1. How can public investment, such as the Just Transition Fund, unlock private capital to support a just transition?

Mobilising higher private capital to support a just transition will be essential due to the scale of the investment required and the long-term pressures on public finances. The private capital available globally for sustainable finance has been increasing. Governments are competing to attract private investment, for example in the US through its Inflation Reduction Act and the EU through its European Green Deal. Scotland and the UK cannot match the major scale of their public funding or market opportunities.

Nevertheless, higher public investment is required to catalyse private capital to support a just transition. But Scotland and the UK must be strategic in identifying national, regional and technological priorities and opportunities, the types of investors that will be interested in them and the objectives of these investors, and how public investment can de-risk investments and deliver optimal returns and benefits at the lowest costs.

The reaction to the UK Government's recent changes to key Net Zero policies show the risks to investor and business confidence of undermining long-term policy stability. The forthcoming Autumn Statement from the Chancellor will be an opportunity for the UK Government to build on previously announced public investments, in areas such as offshore wind, hydrogen and Carbon Capture, Utilisation and Storage, and unlock the UK's strengths in sustainable finance to support a 'homegrown' just transition.

The development of a Green Industrial Strategy by the Scottish Government should be the platform for a strategic approach that strengthens Scotland's competitiveness. In terms of unlocking private capital, the Strategy should build on the conclusions of the First Minister's Net Zero: Investor Panel. Investors should be involved in the development of the strategy and it should set out where Government plans public investment to unlock private capital and how it plans to partner with private investors. Scotland will have to be more agile than countries offering higher subsidies and with larger markets, so public-private partnerships which accelerate technologies and projects will be key. Strategic public investments in ports capacity for offshore and floating wind, innovation, skills, supply chain and regional infrastructures will be among the priorities. It will be vital that the strategy makes clear commitments to the accelerated delivery of projects, backed with resources and reforms of planning and consenting processes which support effective community engagement and streamlined decision-making. The Green Industrial Strategy should also clearly interface with regional strategies.

While it is welcome that the Just Transition Fund for the North East and Moray is a 10-year commitment to transition the regional economy, the £500m available in public investment when spread over that timescale is relatively modest in international terms. Prosper members in the North East have commented that decision-making about the Fund lacks some clarity for them and does not seem aligned in every case with the Regional Economic Strategy. They also comment that annual allocations make it more difficult to plan and achieve a strategic impact for a just energy transition over a 10-year period. Greater policy coherence and certainty would unlock more private capital. This could be provided by the Scottish Government and Scottish National Investment Bank consulting more closely with local authorities and stakeholders in decision-making, fully aligning the Fund with economic strategies and partnerships in the North East and Moray, and clarifying the objectives for funding rounds and project allocations.

Prosper has held early discussions with the Scottish Government about where we can build on our Clean Growth Leadership Group's 'Manifesto for Clean Growth' to inform the Green Industrial Strategy. Our Business Purpose Commission for Scotland showed the value of business purpose in unlocking profitable solutions to the problems of people and planet. A focus on business purpose can support the establishment of a world-leading ESG investment hub in Scotland, develop new public-partnership models based on the enhanced potential through business purpose to align objectives and be trusted partners, and empower employees to drive purpose. These benefits, and the others identified in the Commission's report, would support a just transition.

2. What engagement has there been between the public sector, industry and local communities in planning for the transition to a low carbon future for the North East and Moray?

There has been a wide range of engagements between the public sector, industry and education in planning for the transition to a low carbon future for the North East and Moray. This has taken place over many years, but has increased in more recent years. Organisations such as Opportunity North East have led planning for the transition. The Regional Economic Strategy sets out a long-term plan of investment for North East Scotland to transform its economy over the next decade and beyond and is supported by a Skills Action Plan. However, it has been more challenging to involve the workforce and local communities in this work. This should be a priority for ongoing engagement.

Prosper understands that there was consultation with local authorities and stakeholders prior to the launch of the Just Transition Fund and local communities have been participating in budgetary discussions. However, we have

heard that local authorities and stakeholders believe that engagement with them has reduced since the launch of the Just Transition Fund, and that decision-making about the Fund has been centralised to Scottish Government and national institutions. There is some concern that this means that local authorities and stakeholders do not have full clarity about the objectives for the Fund and that some of the activities it is supporting are not fully aligned with the Regional Economic Strategy. This could be addressed by giving the three local authorities more of a formal role in decision-making, which may also help ensure that areas across the North East and Moray benefit from investments.

In relation to specific projects, industry is aware of the importance of stakeholder and community engagement, and invests significant effort in building positive relationships and partnerships with local government, businesses, education and communities. This helps to resolve any concerns and increase low carbon socio-economic opportunities.

For Prosper, the energy transition is a regular focus for our work in the North East and Moray, which bring together representatives from the private, public and third sectors. Prosper recently held an event in the North East with a trade union leader to strengthen discussion between workforce representatives and leaders from the energy industry, the public sector, educational institutions and other local stakeholders on a just transition. Members based in the region were particularly active on our Clean Growth Leadership Group, which led production of our 'Manifesto for Clean Growth' in 2021.

3. Is there currently a good understanding of what skills will be in demand in the North East and Moray to support the transition to a net zero economy? Is the skills development infrastructure in place to deliver this?

The Climate Emergency Skills Action Plan, the Regional Skills Assessments and Sectoral Skills Assessments provide a good understanding of which skills will be in demand. The Climate Emergency Skills Action Plan is being updated at present and the Regional Economic Strategy includes an action to develop a regional skills plan in partnership with Skills Development Scotland that will support a just transition to a net zero economy. A range of recent research reports, such as RGU's UK Offshore Energy Workforce Transferability Review and the UHI Moray Just Transition project, are further strengthening the evidence base on key aspects of the energy transition. There will always be uncertainties in demand forecasts, which reinforces the need to update these assessments regularly, develop transferable skills and support reskilling.

It is evident that many parts of the energy industry are experiencing labour shortages and skills shortage/gaps, which are critical barriers for projects and a

just transition. These shortages are not only in manual skills but in other roles and skills in workforces. They have been made more acute by retirements and recruitment by other sectors. Many of the skills in the UK energy industry are highly valued globally and skilled people in the industry may be highly mobile in the global jobs market. The end of Freedom of Movement with the UK's departure from the EU and the UK's visa and immigration system have made it more difficult to recruit and retain international talent. The offshore energy industry workforce is ageing and the industry recognises the benefits of a more diverse and inclusive workforce than has historically been the case. It has become more difficult to recruit young people into industry roles in recent years.

The North East has a world-class education and skills infrastructure in its educational institutions and industry skills partnerships. Partners are working to further coordinate this infrastructure, including through the Energy Transition's Zone Jobs and Skills Plan, to provide accessible and inclusive training for the energy transition at all levels. However, Prosper members are calling for clarity about the Scottish Government's plans following the 'Withers' Review of the skills delivery landscape and share concerns about falling funding in the education and skills system and its impact on energy transition training courses and the Flexible Workforce Development Fund. Investment in 'learning throughout life' is fundamental to a just transition for people as well as a growing economy, from the expansion of STEM learning for young people to retraining for older workers. These opportunities should be affordable and accessible locally for people of all ages. The public and private sectors must collaborate to meet ever changing industry demand for technical and business skills to deliver projects. Capital investments in energy transition infrastructures should be joined-up with sustained revenue funding for skills and training programmes to increase social value.

Skills planning in the region should look beyond the offshore energy industry as well to assess demand for skills in other areas of the transition to a net zero economy, for instance green heat networks, and the impact across industries and the labour market.

The UK and Scottish Governments should use their respective policy powers to position Scotland and the UK as competitive and attractive places for people from around the world as well as from Scotland to work, live, bring up a family and learn.

Carbon literacy and the energy transition is a key theme for Prosper's Young Engineers and Science Clubs network in primary and secondary schools, which supports teachers and industry and engages young people of all ages in understanding challenges and creating solutions. For example, supported by

funding from Shell, 40 schools across Aberdeen, Aberdeenshire and Fife, will be completing YESC's Climate Smarter project in the 2023/24 academic year. YESC's work focuses on areas of high social deprivation and rural isolation, and underrepresented groups.

4. Are stakeholders confident that new technologies will stimulate sufficient enough demand for labour to maintain levels of employment giving the current dominance of the oil and gas sector in the region?

Delivery of the currently planned developments in 'new' offshore energy technologies such as offshore wind (including floating wind), hydrogen and Carbon Capture Utilisation and Storage would involve increased demand for labour. The recent report by RGU Energy Transition Institute 'Powering Up the Workforce' found that, if UK Government's targets for these technologies are met, the offshore energy workforce across the UK could grow from just over 150,000 in 2023 to close to 225,000 by 2030. The Scottish-based offshore energy workforce would increase by 25% from 79,000 to close to 100,000 over the same timescale. However, if these targets are not achieved the UK offshore energy workforce could drop by around 15% to around 130,000 by 2030, while the Scottish-based workforce could fall by almost 40% to below 50,000.

The report also found that while a managed transition from oil and gas to renewables would reduce the oil and gas workforce from 120,000 in 2023 to around 87,000 by 2030, an accelerated decline could reduce the workforce by 50% to around 60,000. It highlighted the significance of sustaining and developing UK supply chain capacity/capability, especially over the period from 2024 to 2028, in maintaining and growing employment, and, therefore optimising the success of the energy transition.

These forecasts show the importance of delivering the investment in planned developments to realise the employment opportunities, the scale of the demand for skills and the need for a managed rather than a disruptive transition from oil and gas.

Labour demand stimulated by new offshore energy projects will be more dispersed around the UK than employment levels are within the offshore oil and gas industry. While the supply chain capacity/capability based in the North East and Moray is a competitive advantage for the region, employment in new technologies is forecast to grow more rapidly in other regions of the UK and therefore employment levels in the North East and Moray are disproportionately at risk from an accelerated decline in oil and gas. According to the RGU Energy Industry, around one in five of the region's working population is currently directly or indirectly employed in the offshore energy industry, which rises to one in three

people in employment when induced jobs are included. Furthermore, although optimistic scenarios for the energy transition offer confidence that employment levels can be maintained, as the report 'Energy System and Just Transition - Independent Analysis' by EY for the Scottish Government found, models show that the decline in oil and gas will lower wage levels which will cause a significant GVA gap. This will reduce the prosperity of the economy in the North East and Moray.

Prosper strongly supports actions to optimise the delivery of the energy transition and increase confidence about employment growth in the Scottish and UK offshore energy sectors. Barriers to investment must be unblocked, and supply chain capacity/capability must be anchored and developed in the North East and Moray. As all parts of the energy sector already face significant skills shortages and gaps, Government, industry and education must work together to address recruitment challenges across technologies, educating and equipping young people with skills, diversifying workforces, and funding programmes to train, upskill and reskill workers. Job transitions should be facilitated with introduction of the planned Offshore Energy Skills Passport by the Scottish Government for cross-sector training recognition.

Government should also be aware of the implications of significant growth in the offshore energy sector in a tight labour market for other sectors of the economy and for those areas of Scotland which are experiencing a declining working age population. Actions are also necessary to ensure a just transition for those sectors and regions.

5. What support has there been for innovation and demonstrator projects, and what are the other opportunities which the North East and Moray are well placed to take advantage of?

Government, industry and academia are supporting a wide variety of innovation and demonstrator projects in the North East and Moray, including through the Aberdeen City Region Deal and Moray Growth Deal, Opportunity North East and the Energy Transition Zone. These include the Net Zero Technology Centre, the Acorn Carbon Capture and Storage project, the Moray Hydrogen Strategy, and the S5GConnect Hub in Aberdeen. The energy transition clearly has the greatest global innovation potential for the North East and Moray, but they are well placed to take advantage of a range of opportunities across sectors, from sustainable food and drink production to space. The creation of the North East Scotland Investment Zone should offer further support, including targeted investment, tax reliefs and other incentives, for business innovation.

Government, industry and education should continue to invest and build on the



strategic collaborative partnerships that are working well in the North East and Moray. Prosper is concerned about the possibility that research, innovation and skills funding may be cut, and that there will not be sufficient grant funding to progress pilot projects.

The North East and Moray have strong entrepreneurial communities. To take advantage of the opportunities from innovation and demonstrator projects and across sectors to support a just transition, it will be important to nurture the innovation and entrepreneurial ecosystems. This should include increasing the diversity of those participating in these communities and encouraging business purpose which aims to find profitable solutions for the problems of people and planet. Scotland CAN B will be working with Moray businesses on a pilot place-based approach to business purpose.

6. Did the ScotWind leasing round and the commitments to the supply chain give industry the certainty in needs to plan for the transition, and how well placed are Scottish businesses to take advantage of these opportunities?

The successful ScotWind leasing round and the commitments to local content in the Supply Chain Development Statements increased confidence in the energy transition. Offshore wind developers have been increasing engagement with Scottish businesses on the supply chain opportunities and on their readiness to take advantage of them. However, it is clear that there a range of significant hurdles for projects, which create uncertainties about their delivery, and key contracts will not be offered for some time. While developers are working together to support investment in the key enablers of port capacity and facilities, there is still a level of risk for their owners and operators. Major barriers for ScotWind project development at this stage are consenting/planning, grid connections/regulations, skills shortages/gaps, and supply chain capacity. Government and industry actions to tackle them would substantively bolster certainty.

In Prosper's recently-published update to the report by our Rural Commission, we proposed additional resources for planning departments to improve their capacity and skills to engage constructively with developers and determine planning applications within agreed target times, mechanisms to uplift and make the most efficient use of funding, and extra capacity in public sector organisations to respond quickly to queries. This would also help to unlock the supply of housing needed for workers on projects. We believe that access to grid connections should be reformed to accelerate projects with strategic socio-economic benefits and/or that are ready but later in the queue.

In Prosper's response to the Scottish Government's draft Energy Strategy and Just

Transition Plan we raised concerns that, with intensifying global competition for the energy supply chain and skills, the proposed presumption against new oil and gas exploration would reduce the availability of profitable business activity and increase the risk that businesses will relocate rather than wait for renewables activity to expand.

The loss of investment, skills and assets would hinder Scotland's ability to be a global leader in development of offshore wind, Carbon Capture, Utilisation and Storage, and hydrogen. This would not represent a just transition for the economy and workers. The transition that is essential will be more successful and more just with industry anchored in Scotland and able to invest across oil and gas and renewables opportunities. The UK Government has since committed to further oil and gas licencing rounds to support energy security, which will continue to be subject to a climate compatibility test.

In Prosper's submission, we also highlighted that while ScotWind projects will create very significant opportunities, these should be delivered by the first half of the 2030s and the supply chain requires greater visibility and certainty about the opportunities that will be available in the following years. This could be delivered by the Scottish Government also setting a target for offshore wind deployment in Scotland by 2035. The level of these ambitions should be set following further consultation with industry. Therefore, the delay in finalising the Energy Strategy and Just Transition Plan and its delivery plan does not reinforce business confidence and this may delay investments.

7. How can we measure whether the transition in the North East and Moray is achieved in an 'just' fashion – what data will need to be collected so progress can be measured?

Prosper agrees that it will be important to measure whether the transition in the North East and Moray is being achieved in a 'just' fashion. There are many different indicators that could be tracked which would provide useful information on progress for policy-makers. However, Prosper believes that a key focus should be to create a dashboard of measures which provides a strong sense for people and organisations outside government, about aims, performance and the current rates of progress. This will strengthen transparency and accountability, and support partnership working. While additional data may also be captured and measured, it would be preferable to design and agree a dashboard which publicly displays the key performance indicators. Employees and employers should be involved in the development of the dashboard.

A focused dashboard of key performance indicators would help to align public and private investments, and help businesses to measure and maximise the social

impact of their operations and projects, including those delivered by supply chain partners.

These key performance indicators should support the delivery of the outcomes in the refreshed National Performance Framework, the National Strategy for Economic Transformation and the regional economic strategies for the North East and Moray. Given the priorities of a 'just' transition, it would be expected that they would include measures of regional GVA, fair work and employment, regional poverty and regional emissions. There would be focus on whether the energy sector is being anchored in the North East and on whether the sector is making progress in the energy transition, but the impact of the transition on other industries and jobs would also be measured. Returning to the inquiry's first question, it will be essential to measure the private capital that is unlocked by public investment, particularly by the Just Transition Fund.