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Scottish Communities Finance Ltd

Development Trusts Association Scotland
A Thriving Community-led Network

Community Energy Scotland
Empowering Communities

SCOTTISH COMMUNITY COALITION on ENERGY

A Fair Energy Deal for Scotland

Increasing Uptake of Community Shared Ownership Opportunities

Introduction

In April 2024 in our Fair Energy Deal for Scotland document we called for more of the vast financial gains being generated from our natural resources of wind, water and sun to be captured and retained in Scotland and shared equitably and fairly across all our communities.

This is one of a series of more detailed papers from the Scottish Community Coalition on Energy setting out the practical steps by which these goals can be achieved and calling on government, communities and industry to work together to deliver the full potential of community energy in Scotland. **This paper sets out the key changes needed to deliver an improved system to enable more communities to take up shared ownership of commercially-owned renewable assets.**

Background

Scottish Government Policy Landscape

Community shared ownership of private renewable energy has been a recognised Scottish Government ambition since 2014 and forms a key objective in the Scottish Government's Energy Strategy and Just Transition Plan.

The Scottish Government reiterated its commitment to shared ownership in their 2017 Onshore Wind Policy Statement stating: *"Our ambition remains to ensure that, by 2020, at least half of newly consented renewable energy projects will have an element of shared ownership. Shared ownership will form a key part in helping to meet our targets of 1 GW of community and locally owned energy by 2020, and 2 GW by 2030."*

WHAT IS COMMUNITY SHARED OWNERSHIP?

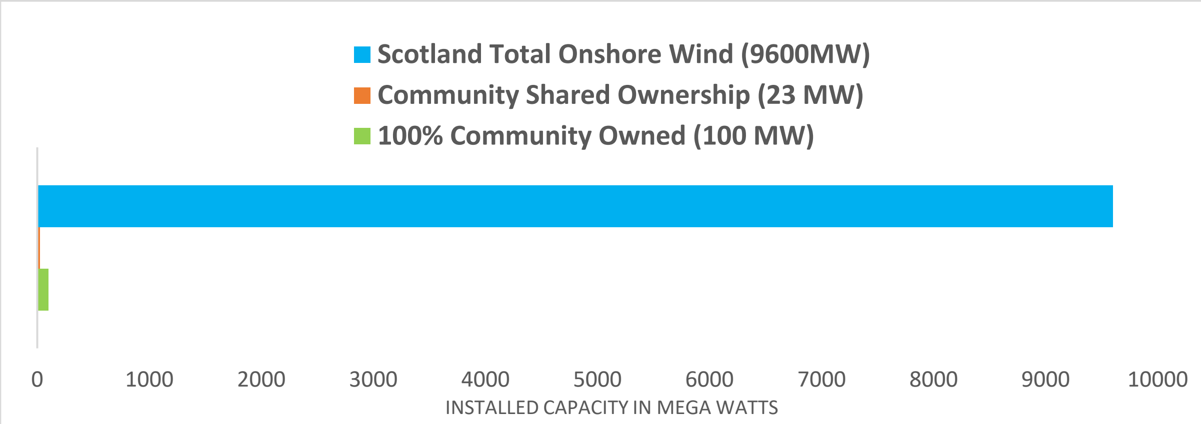
"any structure which involves a community group as a financial partner over the lifetime of a renewable energy project."

from "Scottish Government Good Practice Principles for Shared Ownership of Onshore Renewable Energy Developments"

Most recently, in their Onshore Wind Policy Statement 2022 and the Onshore Wind Sector Deal 2023, Scottish Government reconfirmed their ambition *"to encourage the renewables industry to consider, explore and offer shared ownership opportunities as standard on all new renewable energy projects including repowering and extensions to existing projects"*

Shared Ownership Progress

To date, 20 community bodies have entered into a community shared ownership arrangement with a commercial developer. In the context of Scotland's 9600MW of total installed onshore wind this equates to only 23 MW- **only 0.2% of Scotland's current wind power is owned by communities through a shared ownership arrangement.**



Given that shared ownership has been a Scottish Government focus since 2014, 0.2% of current installed capacity is falling significantly short of ambitions.

Development Pipeline

According to Local Energy Scotland there are a further 137 community shared ownership opportunities in their support pipeline. The majority of these opportunities are at an early stage (87%). 18 groups (13%) are in their 'priority pipeline' – that is, fully consented projects engaged in shared ownership discussions.

These 137 pipeline opportunities present a huge opportunity and a huge challenge. **It is therefore essential that the correct support and development structures are in place to ensure the pipeline is converted to completed community shared ownership deals.**

Current Support for Communities including Gaps and Capacity Issues

Local Energy Scotland provides impartial support to communities and project developers via the Community & Renewable Energy Scheme (CARES), including grants and loans for legal, financial, technical, etc. advice. LES also have a shared ownership manager and specialist to provide expert advice during the shared ownership journey. Local Energy Scotland is NOT authorised to provide investment advice – it can only provide educational information.

We acknowledge the shared ownership support delivered by Local Energy Scotland and have received some good feedback from communities in receipt of this support. However, it is essential to stress that the community organisations progressing shared ownership opportunities tend to be **very** high-capacity Development Trusts or community-led organisations with paid staff who have an interest in and knowledge of renewable technologies. Even with this inhouse resource and capacity it often takes several years of detailed backwards and forwards negotiation to reach an agreed shared ownership arrangement with a developer. This emphasised the need for long term support at different points in the process.

The high-capacity community led organisations who have progressed or completed a shared ownership arrangement to date represent a very small percentage of the community led movement in Scotland. The majority of community led organisations in Scotland are led by busy volunteers facing significant challenges including lack of capacity and knowledge, competing priorities and access to funding. These challenges present a significant barrier to implementing a complex shared ownership arrangement.

If we are to meet Scottish Government's significant growth ambitions for shared ownership in Scotland PLUS ensure equity in accessing the benefits of shared ownership we need a significant step change in shared ownership support for communities. The current shared ownership support through CARES is a good start but will rapidly reach capacity if the Scottish Government ambitions for shared ownership are prioritised. This additional support must focus on a practical, hands-on service for all communities to engage with shared ownership and build capacity at every stage of the journey.

Credible Shared Ownership

The two most common 'models' of shared ownership currently being offered are Joint Venture and Shared Revenue. The Joint Venture model is a more credible approach to shared ownership as this builds in community representation on the trading board or governance structure of the renewable development. This offers the community decision making powers and a democratic say in the development at all stages of operation, including end of life, repowering, or a decision to sell.

However, Joint Venture is often not the preferred approach of developers- either due to limitations of their commercial structure or reticence around the cost and time implications of offering minority ownership stakes.

Increasingly, a Shared Revenue model is the more common approach – whereby communities are not offered any legal ownership but instead an opportunity to purchase a share of future revenue. Where Shared Revenue is the only option on the table, communities must be supported to get the best deal possible and embed community control where possible – for example ensuring that rights to financial and other significant information are included in shared revenue agreements.

CASE STUDY

FINTRY DEVELOPMENT TRUST, Stirlingshire

Fintry Development Trust established commercial arm (Fintry Renewable Energy Enterprise) to take ownership of one fifteenth of developer led Earlsburn Wind Farm in 2007. Their £2.5m loan to finance their shared ownership was fully paid off in 2023 and they now have a considerable income from the arrangement.

POSITIVES

- Able to support the community with grants during fuel and cost of living crisis
- Providing employment for three staff and other consultants
- Not reliant on grant funding for other community projects
- Freedom to think outside the box and push boundaries for environmental solutions in the community

CHALLENGES

- The responsibility on volunteer Trustees
- Addressing the financial governance needed to manage our income safely and responsibly.
- Decision making on what would benefit our community most

Key Barriers and Actions Required

1. Proactive mapping and early-stage awareness raising

There is a huge lack of awareness across Scotland of the potential opportunities and benefits from shared ownership. This lack of awareness extends to communities, developers and funders. There is also significant inconsistency across the renewables sector in terms of how and when shared ownership opportunities are offered to communities. In some instances, shared ownership is not being offered at all by developers.

Actions needed:

- Create a publicly available, up-to-date map to flag planning applications for renewable developments – to include stage of development and contact details for the developer's community liaison. Community support intermediaries (primarily Local Energy Scotland and Scottish Community Coalition on Energy organisations) must continue to be proactive, rather than reactive, in flagging developments to appropriate community-led organisations and supporting them with early-stage negotiations.
- Due to statutory regulations shared ownership opportunities are currently flagged to Community Councils in the first instance – as CCs cannot undertake shared ownership due to their legal structure an onward referral process to new or existing appropriate community led bodies must be established.
- Coordination of a national awareness raising campaign for shared ownership, with case studies of successfully implemented case ownership cases. The campaign must have buy-in from Scottish Government and key developers. To be led by the Scottish Community Coalition on energy with support from Local Energy Scotland to complement their good practise awareness raising activity to date.

2. Clarity on Scottish and UK Government shared ownership policy and targets

Scottish and UK Governments must proactively meet ongoing demands from communities and developers for more explicit guidance on shared ownership policy and targets. In particular, Scottish and UK Governments must consult on making it mandatory for developers to offer 10-20% shared ownership and report on any shared ownership offers. This can be progressed through development of appropriate secondary legislation of the 'Community Electricity Right' as written into the Infrastructure Act (2015).

Actions needed:

- The Scottish Government Good Practice Principles for Shared Ownership of Onshore Renewable Energy Developments must be updated as soon as possible to clarify Scottish Government ambitions for and recommended approach to shared ownership, as outlined in the Onshore Wind Sector Deal. More explicit guidance regarding shared ownership is required, particularly its bearing on planning application decisions and how developers should approach project valuation and the investment offer.
- A specific target for community shared ownership should also be established- as part of the target for 2GW of community and locally owned energy by 2030. It should be mandatory for developers to offer 10-20% shared ownership and report on any shared ownership offers and arrangements using the Local Energy Scotland Register. The onshore wind sector has already

committed to updating existing community shared ownership agreements within this register on an annual basis in the Onshore Sector Deal.
- Shared ownership should be offered on all types of energy projects, not just wind, including other renewable electricity and district heating/renewable heat projects.

3. Community capacity building

A significant step change in shared ownership support for communities is needed to convert pipeline developments to completed shared ownership deals. Currently only very high-capacity community organisations are negotiating or securing shared ownership arrangements. If this continues the gap between wealthy and poor communities will continue to widen.

Actions needed

- Support for communities must be significantly widened and deepened. This support must be hands-on and in-depth – focusing on building community capacity and establishing appropriate and robust governance and finance models. The CARES programme team should be supported by the Scottish Community Coalition on Energy organisations (DTA Scotland, Community Energy Scotland, Community Land Scotland) to provide the assistance with extensive community capacity building.
- Standardised models and frameworks for shared ownership must be developed. The framework to support shared ownership proposed within the Onshore Wind Deal (to be published in 2024) must be developed in consultation with representatives from the community sector via the Scottish Community Coalition on Energy.
- Authorised financial advisors should be available to advise community groups to ensure they make properly informed decisions. Similarly legal expertise should be available to ensure appropriate governance structures are established.
- Available expertise from legal and financial advisors must be ramped up. Focused on not just obtaining the advice, but interpreting it and making informed decisions.
- More training and awareness raising on shared ownership for support agencies (SCC on Energy, TSIs, SCVO) to ensure a more holistic support for community groups.

Credible Community Control

Where shared ownership is offered, it is essential that the community organisation taking forward the offer is truly and democratically representative of that community. This means…

- ✓ Open and accessible wide community membership
- ✓ Democratic and transparent Board elections led by the members
- ✓ Great practise community engagement and regular member communication
- ✓ Profit used for wide community benefit and not individual gain

4. Community access to finance

The financing landscape and market for community shared ownership is very limited and needs significant development. The recent Local Energy Scotland CSO Market Engagement Report observed that currently very few lenders are offering debt that is affordable and patient enough for shared ownership to be commercially viable. The withdrawal of the Scottish Government's Energy Investment Fund ("EIF") has left a considerable gap which has not been filled.

Actions needed

- Bespoke, affordable and patient financing products must be created for the community shared ownership market.
- Communities should be encouraged to consider democratic finance models (particularly community shares and community bonds) to match any debt finance. The newly formed Democratic Finance Scotland programme (DTA Scotland and Scottish Communities Finance) can provide this support.
- An approach must be made to large-scale lenders (GB Energy, Triodos, SNIB, Better Society Capital, etc) to develop a bespoke product for a portfolio of shared ownership projects to complement the finance raised through community shares and bonds.
- The role of government at local, national and UK level in offering investment support (eg loan guarantees or booster investment programmes) will derisk CSO investment and bring forward cheaper investment.
- Developers must recognise that for a shared ownership investment to be commercially viable the community's return on investment must exceed its cost of funding. This must be considered when structuring and pricing their offer to communities.
- A National Community Wealth Fund must be created (with income from Dormant Assets and surplus community benefits payments from planned offshore wind and transmission upgrade developments) to provide grants and affordable debt for communities exploring shared ownership.

5. Fairer investment opportunities for all

Many communities across Scotland are not in a qualifying proximity to renewables developments to receive benefit payments or shared ownership opportunities. While communities closest to developments should be prioritised, we suggest partnership working between local and non- local communities, where appropriate, could increase capacity in terms of resource and investment potential.

Action needed

- First priority for shared ownership should be offered to local communities. However, where local communities do not want to take up any or all of the shared ownership offered, this offer should be publicised more widely, to open up the opportunity to other community groups not in proximity to renewables developments.
- Communities all across Scotland should be supported to work collaboratively and form partnerships to take forward shared ownership opportunities. The Scottish Community Coalition on Energy can play an active role in establishing partnerships through our community-led networks
- Collaborative working is particularly relevant in the context of shared ownership of offshore wind developments where the scale of investment will be greater and the geographical link less strong.