SCOTTISH COMMUNITY COALITION on ENERGY

A Fair Energy Deal for Scotland: Proposal for A Scottish Community Wealth Fund

Background

In March 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.

In pursuit of that aim we called for:

- A roadmap of support to accelerate growth in the community energy sector
- A tenfold increase in 100% community-owned renewables in Scotland to 1,000MW (i.e. 1GW) by 2030
- A short life working group to be created to address opportunities and challenges arising from repowering
- A credible system to enable communities to take up shared ownership of privately-owned renewable assets
- Mandatory reporting on community benefits for all privately-owned renewable schemes
- An urgent update of the Scottish Government's Good Practice Principles for Community Benefits
- **Creation of a new Scottish Community Wealth Fund, financed from revenue raised from energy generation, supply and infrastructure.**

This is one of a series of more detailed papers setting out the practical steps by which these goals can be achieved and calling on government, communities and industry work together to deliver the full potential of community energy in Scotland. This paper sets out the proposal for a Scottish Community Wealth Fund for Scotland.

Introduction

The natural capital assets of Scotland should be utilised to deliver long term transformational benefit for the people and communities of Scotland via the creation of a national Community Wealth Fund.

This would be a new source of funding to ensure all of Scotland's communities can benefit from the renewables revolution. Taking a legacy funding approach, it would be funded through the planned community benefit contributions from developers leading Scotland's renewables upgrade to meet Net Zero – offshore wind (and other offshore renewables), transmission grid upgrades, and onshore renewables.

It could be seeded by the new community wealth strand of the Dormant Assets fund and would make long term investments in the economic, social and human resources of Scotland's communities and community organisations.

It will build both a **sovereign wealth legacy fund** and also provide **long term independent revenue generating investments for local communities** that build their sustainability, allow them to deliver more and reduce their dependence on public finance. Our approach is both **hyper local** – continuing to recognise the direct impact that Scotland's journey to Net Zero has on certain communities. And it would be **national** – recognising the contribution that all consumers in communities across Scotland are making via energy payments to Scotland's journey to Net Zero.

It would scale up the tried and tested model of community empowerment and agency, to build local ownership of revenue generating assets - land, buildings or renewables investments. The mainstreamed asset lock model would ensure the investments are held in local democratic ownership in the long term and all receipts are utilised to build local community wealth.

The Scottish Community Wealth Fund (SCWF) would contribute explicitly to the realisation of the following Scottish Government policy objectives:

- Building community wealth through the acquisition and development by communities of revenue generating assets, the income from which is used to further local sustainable development
- Enabling communities to scale up their contribution to climate mitigation and adaption measures.
- Give communities financial independence to meet their own needs via the creation of legacy funds.
- Facilitating greater diversity in landownership, including more community ownership
- Enabling a just transition through the climate emergency and out of the Covid 19 pandemic, ensuring that the benefits of transition and realisation of Net Zero are shared equitably across all communities in Scotland
- The progressive realisation of economic, social, cultural and environmental human rights (e.g., housing, food, employment, good health and a clean environment)
- Greater social justice and equity in building sustainable wealth at the local level.
- Sustainable place making, including strengthening local community anchor organisations and enabling greater subsidiarity of decision making to the local level
- Strengthening locally designed and delivered services
- Supporting community-led urban regeneration, including the acquisition and redevelopment of vacant and derelict urban and rural land and the creation of local economic activities and job creation opportunities.
- Repopulating rural communities in Scotland
- Creating dynamic new partnerships between the public and community sectors to deliver the above

The Fund would build long term legacy wealth that is replenishable via reinvestment and loan repayment, recognising this as a unique once in a lifetime opportunity. It would reflect lessons learned from the fossil fuels revolution and onshore wind projects. Our proposal has three strands:

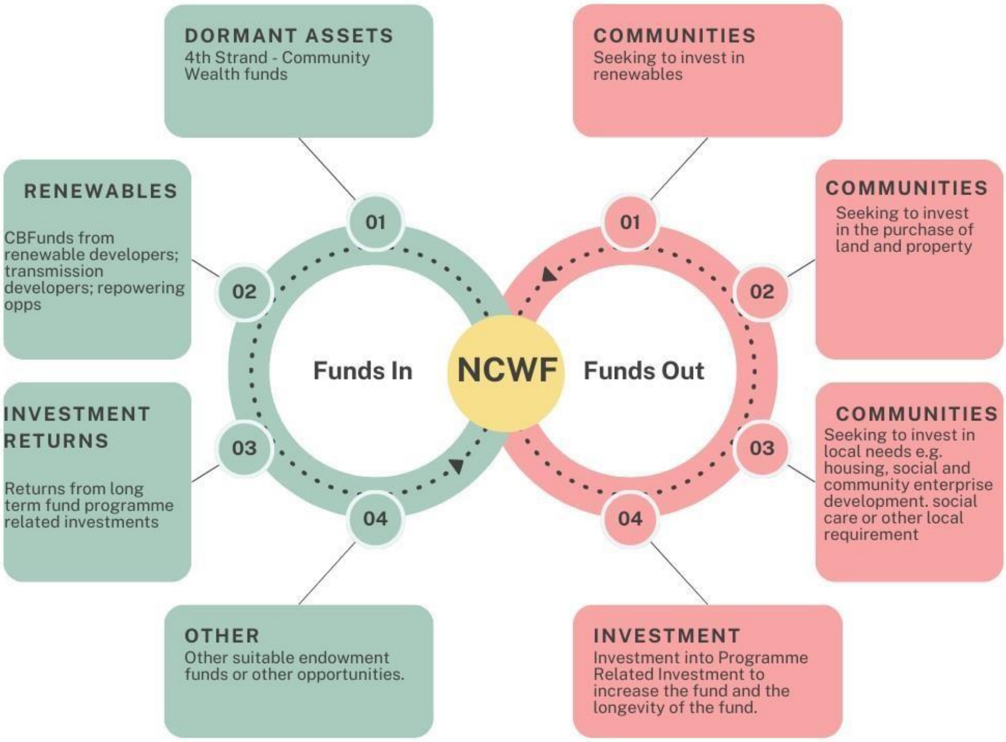
1. The first strand would prioritise those communities directly visually or physically impacted by renewables developments, including communities along the lines of transmission upgrades. This strand might be implemented directly by developers engaging with and coming to arrangements with impacted communities, or they might choose to contribute this sum to the Fund, in which case it would be ringfenced/prioritised for the communities affected.
2. A percentage that will be invested for the long term, building a legacy fund that will remain long past the lifetime of current community benefits.
3. The final strand will be dispersed annually on a national basis for **all communities across Scotland** to ensure the benefits of the renewables revolution is spread nationally.

This approach ensures that communities that are directly impacted by developments contributing to Scotland's journey to Net Zero will continue to receive benefits. It also ensures that everyone across Scotland, all of whom are contributing to the Net Zero journey via energy payments, will also have the opportunity to benefit longer term.

An independent funding Board should be appointed through the Public Appointments process, and may comprise community representatives, COSLA, fund management expertise and financial experts. Fund priorities could reflect SG priorities but with individual decision making delegated to the Fund Board.

This approach would enable community wealth to be built from the bottom up for the future benefit of all of Scotland. Use of the Fund in this way should be seen as an **investment** in the future wealth of Scotland, (rather than a grant to a community.) It will help secure Scotland's land and land-based assets within locally democratically accountable organisations who will use the wealth generated to support community empowerment and resilience. The resources and revenue will stay with the **people of Scotland**.

Scottish Community Wealth Fund (SCWF)– the Model



The main objective of the Fund is to make it easier for communities to access finance to build long term wealth creation legacies.

It would be a fund to which bids from communities would be received for either full or partial grants or affordable finance, the format of which could vary (repayable investment/blended investment/bridging loans/loan guarantees etc) depending on the economic circumstances of communities and the business model of their proposed scheme.

There is compelling evidence that many community groups are already playing a leading role in building community wealth through ownership of land, property and natural assets, such as renewables, affordable housing, high street renewal or carbon assets[1]. Related community led initiatives have included the provision of affordable housing, fuel poverty alleviation or environmental education, provision of much needed services e.g. operating shops/post offices where there is market failure due to geographical remoteness or fixed income areas and also providing employment and training opportunities.

The envisaged Fund offers the prospect of a step change in approach to facilitating community empowerment by enabling a new proactive approach to speed and scale of land and land-based asset acquisition and development, together with potentially new models of governance that make the best use of the skills and experience that exists in the public and community sectors.

[1] Community Land Scotland. (2020). Community Landowners and the Climate Emergency. [www. communitylandscotland.org.uk/2021/03/new-report-reveals-leading-role-played-by-community-landowners- in-tackling-theclimate-emergency/]

Fund income

Income from the Community Wealth strand of the Dormant Assets Fund, which will be devolved to Scotland, would be used to initially capitalise the fund. This will in turn leverage in additional funds.

Further income to the fund would principally come from community benefits payments from planned offshore wind and transmission upgrade developments. However, new or repowering onshore renewables could also contribute if developers and communities agree. Existing community benefit payments – or a proportion of them - could migrate to the Fund over time if agreed by the contracting parties.

The overall contribution made by developers of offshore (and onshore) developments would of necessity be a national discussion between Scottish Government, developers and representatives of the community sector and could be based on £ per MWh as is currently recommended for onshore renewable energy developments in the Scottish Government's Good Practice Principles , or as a percentage of turnover. Turnover contributions could have a base 'rent' plus profit to ensure risks are shared between developer, Scottish Government and the community. A base rent plus profit would need to be calculated based on a higher overall contribution than a £per MWH or standard turnover – reflecting the risks to guaranteed income.

In terms of transmission infrastructure, the contribution could be made per km or in relation to the size and cost of the installations. Inclusion of transmission infrastructure into the Scottish Community Wealth Fund would create long term sustainable income for communities, instead of time-limited reductions in fuel bills regardless of household income, and/or payments for one-off projects., neither of which is good practice in terms of community benefits.

Fund management and distribution

An Independent Funding Board would be established and could include community representation, COSLA representation, fund distribution expertise and financial investment expertise. Three year funding strategies would be agreed by the board to ensure fund priorities reflected the prevailing Scottish Government policy agenda and local community needs. The Fund would be allocated under three strands

1. Local community benefit funds. Where a developer chooses not to directly engage with and distribute their own community benefit funds directly to impacted local groups, a percentage of that developer's total contribution to the Wealth Fund would be directed to those communities directly impacted by the developments. This would ensure local acknowledgment of the funds and developers and ensure directly impacted communities were prioritised for distribution. It would recognise the contribution these communities are making to Scotland's journey to Net Zero. This could include a specific allocation per community or a prioritisation mechanism for those communities that can demonstrate impact. Funds would be used to support properly constituted community organisations to support local development. These funds could also be used to support those communities to **buy long term revenue generating assets that would underpin the financial sustainability of the community organisations and the services they deliver.**
2. National community benefit funds. These would be available to any community across Scotland where a properly constituted community organisation wishes to **buy long term revenue generating assets that would underpin the financial sustainability of the community organisations and the services they deliver.** This strand would ensure that the renewables revolution in Scotland serves the common good and achieves a just transition. As Ofgem funding arrangements require that all consumers bear a share of the cost of the renewables revolution, this would ensure all consumers across Scotland also have the opportunity to benefit from this transition to greener energy via funding for community owned long term revenue generation projects.
3. A legacy fund that would be invested to provide long term income for the Fund beyond the lifespan of the individual community benefit schemes. Annual income from the legacy Fund investments could be reinvested back into the Fund or used to top up Strands 1 or 2 above. Equally it could be used to smooth income disparities between years.

A critical approach for the Fund would be to ensure alignment and complementary / leverage with other funding mechanisms such as the Scottish National Investment Bank and Scottish Land Fund.

Strands 1 and 2 could be delivered via contract by existing specialist fund distribution mechanisms such as the National Lottery Communities Fund, Foundation Scotland, Inspiring Scotland, the regional Development agencies etc or by another appropriate organisation with relevant experience in community development and fund management

Fund eligibility

It is suggested that eligible applicants should be properly constituted community organisations as these contain appropriate asset lock and governance mechanisms to protect investments in the long term. They also have local credibility and reach. They also understand the needs of local communities, ensuring this is a **bottom up approach to addressing need.**

It is important that some of the Fund is open to communities across urban, rural and semi-urban/semi-rural Scotland, all of whom contribute to Scotland's Net Zero journey through bill payments. The needs of urban communities may differ, but their remoteness from the assets generating the revenues in this context should not be a barrier to them benefiting from a Fund of this nature. In important respects, urban communities can be doubly disadvantaged; their need can be greater but revenue opportunities of this nature (and renewables developer contributions) rarely occur in the urban context. The concept of an economically disadvantaged community in, for example, Glasgow, receiving investment from a share in the revenues of an offshore windfarm is a strong one, and would demonstrate the ability of Scotland to use all of the nation's natural resources to benefit all of its people in socially and economically progressive ways.

What would a long term revenue generating asset look like?

The SCWF would be designed to support communities of place to acquire or develop revenue generating assets that create legacy funds – which could be include land, buildings, natural capital investments or renewables investments. The key criteria would be that a financial return can be secured from the investment to support the work of the community organisation in the future. Additional criteria could include local social, environmental or other economic benefit.

Appendix A: How would the Scottish Community Wealth Fund support the development of Community Wealth in Scotland

How land and its associated natural capital and renewable potential (our most important natural asset) is owned and managed is perhaps the most important foundation upon which any Community Wealth Building strategy rests. Community Wealth Building is a relatively new approach to economic development which seeks to redirect wealth back into the local economy, and place control and benefits into the hands of local people. In place of an extractive and unequal approach to economic development – through which inequalities in, for example, class, gender, and race, as well as regional imbalances, can be exacerbated – Community Wealth Building seeks to build a community centred approach through physical and financial asset transfers to local economies and communities. It is a model rooted in sustainability and redistribution that seeks to build power from the ground up through democratic ownership, handing communities more self-determination and enabling greater levels of participation. Rather than modifying the margins of a model driving the accumulation of wealth and power in the hands of a few, Community Wealth Building aims to develop economic systems change at the local level. Community Wealth Building is centred on five key principles

1. Socially just use of land and property: Land is an expression of economic power, and concentrated ownership of land and property continues to be a key driver of inequality. If stewarded through more equitable forms of ownership and management, land and property can be a source of local wealth generation centred on climate and environmental stewardship and social justice.
2. Plural ownership of the economy: Central to the vision of Community Wealth Building is scaling generative businesses - like small enterprises, community-led initiatives, co-operatives, worker owned firms, and social enterprises - in which the wealth created is shared broadly between owners, workers and consumers, allowing wealth to flow through to local people and places, and flows back to them, rather than being extracted.[2]
3. Making financial power work for local places: The financial power principle of Community Wealth Building is focused on increasing flows of investment within local economies by harnessing and recirculating the wealth that exists, as opposed to focusing on attracting external capital.
4. Fair employment and just labour markets: Community Wealth Building aims to increase employment opportunities as well as noticeably improving the quality and pay of jobs in a local area.
5. Progressive procurement of goods and services: Community Wealth Building aims to develop dense local supply chains of businesses likely to support local employment and retain wealth locally.

The strong commitment to Community Wealth Building (CWB) at both the national and local level in Scotland means that it can and should play an important role guiding Scotland's transition towards net zero. As one of the five pillars of the CWB approach, transforming how land is owned and managed will be key to delivering a CWB centred approach to the climate and environmental crisis. The five pillars are:

i. Place-based

Among the many models of ownership, ownership of key local assets – land, buildings and natural capital and renewables - exhibits the strongest most robust commitment to place. Community groups such as the Langholm Initiative (major estate ownership) or Galson Estate (major renewables ownership) are required to have a clear definition of the geographical community to which the group relates, have as their main purpose the furthering of sustainable development in the local area, and be locally led and controlled. In contrast, corporate owners and asset managers such as Standard Life and Gresham House have little connection to local communities in Scotland. They operate around the world and aim to serve the interests of their shareholders rather than any particular place.

[2] https://cles.org.uk/wp-content/uploads/2020/10/Community-Wealth-Building-2020-final-version.pdf

ii. Local, broad-based ownership

Community ownership is the only ownership model that exhibits a clear commitment to local, broad-based ownership. In order to acquire ownership of land, membership of community groups is required to be open to any member of that community; and at least 75% of all members should be drawn from the organisation's defined 'community'. Community groups must also be non-profit distributing, which means that profits are reinvested in the local community rather than extracted, which ensures that money recirculates locally.

iii. Large local multipliers

Community ownership ensures all profits are reinvested back into the local community, which limits leakage and supports a higher local multiplier. In addition, because community owned initiatives are required to have the furthering of sustainable development in the local area as their main purpose, they are likely to spend and invest much of their resources locally. As a recent study examining community ownership of energy in Scotland concluded that:[3]

> *"private local ownership results mostly in income effects which leads to rapid leakage, but this is unlikely to be the case where development trusts reinvest proceeds in local projects. The enhanced impact of community development trusts arises because trusts' objectives are place-based and focussed on community development. Local expenditure of revenues thus ensures a higher local multiplier."*

iv. Collaborative decision making

Community ownership exhibits a clear and robust commitment to open collaboration. As mentioned above, in order to acquire ownership of land community groups must be locally led and controlled, and membership must be open to any member of that community. Community groups are generally governed democratically on the basis of one member one vote, which provides a mechanism for ensuring that local residents and other stakeholders can influence decision making.

v. Inclusive, well-paid jobs

Community owners have a long track record of creating inclusive, well-paid jobs. The Langholm buyout has already seen jobs on the land rise from zero to six, and the growth of initiatives such as ecotourism are expected to generate more employment as well and new training and volunteering opportunities in the years ahead. This experience has been matched elsewhere: a study examining 12 community owners published by Community Land Scotland in 2014 found that in just a few years direct employment increased by 368% to over 100 jobs.

A Scottish Community Wealth Fund that supports communities of place to acquire, manage and derive long term revenue from land and land based assets could sit at the centre of the CWB model in Scotland.

[3] https://www.sciencedirect.com/science/article/pii/S2589791820300116#bib15

Appendix B: Opportunities for Partnership acquisition

In such cases where the community required additional support, the Fund could provide the resource and the initial ownership could be the public body or NGO, or a JV Co with the public body, NGO and community, with the community leading on the ongoing ownership and management function. In this sense the `acquiring body' function is seen as essentially temporary and in order to enable more rapid acquisition of land, and provide initial management support if required. This approach would enable acquisitions at scale and speed and a step change transformation in community ownership and land reform in Scotland.

During the temporary ownership the public body would hold the legal ownership through a `golden share' arrangement limiting their interest and interventions to matters in *extremis,* and thus able to and be seen to protect the public interest in the investment.

It might be possible to envisage a continuing state ownership of the asset through a hands-off form of `golden share' option with the community operating the land as if owner and accessing all such benefits through a long-term arrangement.

As the purchase would be provided for by the Scottish Community Wealth Fund with the explicit purpose of building community wealth and contributing to a range of public policy goals, there would be no leasing arrangement with the state nor any cost to full asset transfer to the community.

There is precedent for such land purchase interventions by the state under the Land Settlement Acts of the early part of the 20th century, where the state acquired the asset. In more recent times communities have taken over control from the state.

This partnership approach could be achieved by:

1. Outright purchase by the public body/ NGO and long-term lease to the community at nil value
2. Outright purchase by the agency and onward sale to the community within a fixed timescale
3. A joint venture purchase by the agency and community working together, with communities having majority ownership and control (as per Eigg)