

Scottish Community Wealth Fund – a feasibility study by The Centre for Local Economic Strategy
Summary document

Context

Scotland's transition to a net zero economy presents a historic opportunity to ensure that the benefits of renewable energy are shared equitably among communities. Building on the Scottish Government's commitment to Community Wealth Building (an economic model aimed at tackling wealth extraction and instead bolstering local economies), a Scottish Community Wealth Fund would be a bold, transformative and internationally unique proposition which puts communities at the heart of a national wealth funding model.

The guiding principle is to ensure the financial rewards from clean energy developments (including renewables, storage and transmission) and land use industries are equitably shared, stay with the people of Scotland and are used to build community wealth from the bottom up.

The establishment of a Scottish Community Wealth Fund would in no way remove existing local community benefit arrangements, or cease these from taking effect in the future. Instead, the national fund would take additional payments from renewables projects (and other land use sectors over time), be seed-funded by Scotwind lease money and provide strategic alignment with national outcomes. This would create a more equitable system where communities across Scotland could benefit from the just transition to net zero and ensure enduring legacy benefits for local people. Local communities impacted by developments would have access to both their existing (and improved) local community benefit funds as well as the national Fund.

The Fund would be used to seed-fund community-led wealth building projects around the country, securing long-term, independent revenue for communities. The Fund would also have an investment arm so that a portion of income is invested for future returns to secure the life of the Fund beyond additional contributions from the renewable and other land use sectors.

CLES were commissioned to undertake research into the feasibility of this Fund being established and initially financed from a proportion of renewable energy income.

Methods

The research used a mixed methodology including a literature review (looking at comparator funds and national policy informing strategic outcomes) and interviews with fund providers and renewable energy developers.¹

¹ The interviews included Foundation Scotland; Shetland Charitable Trust; Scottish Renewables; Scottish Power Ltd; Scottish and Southern Energy; Nadara Ltd; RWE Renewables UK Ltd.

Detailed quantitative forecasting was undertaken to review and synthesise existing research and reports on the current installed capacity, pipeline and projections as well as research industry averages for revenue by development type. Modelling was then undertaken to quantify the percentage available to a potential fund based on different scenarios.

The research was limited in scope and time sensitive. Future investigation will be required to develop the findings more fully.

Findings – comparison with other funds

The proposal for the Scottish Community Wealth Fund is unique, both in its ambition to establish a national wealth fund financed by contributions from renewable energy developers, and to ensure that communities both benefit directly and have a voice in how the funds are allocated. Nonetheless, a number of lessons can be learned from other models:

- The need to be codesigned and produced with communities to develop a governance model which enables local voices to be amplified through its structures
- **A fair and transparent allocation mechanism – which** allocates funds justly across Scotland’s diverse communities and utilises regional opportunities and looks beyond contributions solely from the renewables sector
- **Balancing needs of current and future generations** – through combining investment with grant making.
- **Clarity around organisational purpose-** success will depend on securing buy-in from developers, politicians and communities. A clear strategic purpose will be essential to communicate the fund’s vision, inspire confidence and guide its activities.

Findings – forecasting capitalisation of the fund

Due to limited resource the research focused solely on the onshore and offshore wind sectors – however the expectation is that other renewable generation/transmission would contribute.

The renewables sectors’ reliance on private sector investment and global capital flows means that data which would enable more detailed financial modelling is not publicly available. Despite these data gaps, the report demonstrates opportunities for a fund of this nature.

Wider investment from the public sector (e.g. through ScotWind monies) and other private enterprise sectors of Scotland’s natural resource economy would lead to a strengthened model of funding.

Key findings included:

- The potential to create substantial flows of local community benefits as well as contributions into the proposed Scottish Community Wealth Fund each year by the end of the decade, as new capacity ramps up in onshore and particularly offshore wind – with **annual payments of almost £36 million for onshore and £484 million from offshore**
- Transmission charges are set to increase to high levels and risk the profitability of projects in rural Scotland
- Renewable energy developers have considerable nervousness about additional asks due to the need to compete for global private investment, uncertainty over important coming policy decisions and cost inflation among several key inputs.
- There is a lack of public data on hurdle rates, development costs and profit margins to fully analyse what payments into a SCWF may be feasible. 5% of project revenue to be split between local benefit funds and SCWF payments may not be feasible, but increased benefit payments to £7,500/MW for onshore and £2,500/MW for offshore may be more viable. Greater transparency of data is needed.

Conclusions

- There are concerns from developers about local and global factors of costs, investment and policies which are impacting supply chain and confidence in developments going ahead. However, the sector is still growing with the pipeline for grid connections full, expanding with new planning applications and new licences and is still seen as an attractive investment option.
- The indicative modelling shows that a significant amount of money could be raised for a SCWF to seed fund community-led local economic development
- The SCWF raises fundamental questions about who profits from our natural resources, where should it go and who should it benefit
- A SCWF would be unique. A global first for a national wealth fund that positions communities at the front and centre, not just as beneficiaries, but also as strategic agents of change in their places.
- There will need to be action from the Scottish Government to show their commitment to the fund and its principles by providing seed funding and legislative context that impels sectoral contributions, but also from multiple sectors to get behind the opportunity that presents itself right now
- The renewables industry has an opportunity to pioneer a national approach that reduces inequity and fosters community wealth building.

Next steps

This research is merely the first step in a long journey to explore, establish and deliver a Scottish Community Wealth Fund. Next steps would include, although not be limited to:

- More data and greater transparency over the financial realities of renewable energy/transmission projects
- Further develop and refine a clear articulation of the proposed funds purpose and principles, having consideration to the findings of this report
- Further research exploring the specific mechanism points from different funding models which could be adapted to the Scottish Community Wealth Fund.
- Additional modelling which explores a range of floor and ramp options.
- Assess and model the potential role of wider energy infrastructure, including transmission and battery storage, to contribute to the fund.
- Assess and model the potential contributions to the fund from sectors that utilise other natural resources such as oil and gas, forestry, mining, fisheries and land.
- Establishing political consensus over the need for the establishment of a Scottish Community Wealth Fund.
- Setting up a steering group from across sectors to enable greater collaboration in the development of the Scottish Community Wealth Fund and its governance processes, initial strategy and levels of capitalisation.
- Exploring the potential to align any future research with other campaigns from other organisations with similar aspirations, e.g., Community Energy Wales.