SCOTTISH COMMUNITY COALITION on ENERGY

Proposal for A Scottish Community Wealth Fund

A - Fund Purpose

To utilise the natural capital assets of Scotland to deliver long term transformational benefit for the people and communities of Scotland via the creation of a Scottish Community Wealth Fund (SCWF).

The Fund would be seeded from additional payments from Scotland's renewable revolution – a revolution that needs to see benefits shared with all those impacted to ensure a **Just Transition to Net Zero.**

The Fund would be akin to a sovereign wealth fund, building over time.

Income from the fund would be used to support community acquisition of revenue generating assets (property, businesses or investments in renewables or other natural capital assets). This will create and sustain long-term community wealth across Scotland, vesting profit generating assets **in the people of Scotland**. This would be via the provision of capital and capacity building revenue grants and/ or patient capital such as low interest loan funding to communities for specific eligible projects.

The evidence is strong that ownership of revenue generating assets by communities **builds stronger places**, builds local capacity and **reduces dependence on public finance for the delivery of key local services and facilities.**

This would be a **new** source of funding to ensure all of Scotland's communities can benefit from the renewable energy revolution. Taking a legacy funding approach, it would be seeded with funds from Scotwind and then grow over time with **new benefit payments** (additional to local community benefits) raised from renewables, storage and transmission developments. This would sit alongside **ongoing contributions from democratic finance (e.g. community shares and bonds) and returns on Community Wealth Fund investment.**

The Fund will be **independent from the Scottish Government, Local Authorities and developers**, being managed and controlled by an independent Board representing the community sector, grant/charity funding bodies with relevant expertise secured from the public and private sectors.

The Fund will be 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 ~~s~~cale up the tried and tested model of community empowerment and agency seen across urban and rural Scotland. 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.

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, and be controlled by, the ***people of Scotland***.

B - Who are the Scottish Coalition on Community Energy

This proposal has been developed and is being submitted for discussion by the Scottish Coalition on Community Energy. The SCCE is an alliance of membership-based organisations, representing hundreds of rural and urban community members. The SCCE Alliance and its core founders – Community Land Scotland, Development Trusts Association Scotland and Community Energy Scotland – have a **national reputation but local mandate.**

This proposal for a Scottish Community Wealth Fund sits alongside a range of other policy proposals around shared ownership of energy, increasing community ownership of energy, repowering opportunities and changes to community benefit payments.

Scottish Communities Finance also contributed to the development of the SCWF due to their expertise in democratic and community finance.

C - Why is the Scottish Community Wealth Fund needed now?

2025 is an incredibly important time in the delivery of the Just Transition for Scotland. As renewables and transmission projects begin to finalise delivery options and secure local mandates and approvals, it is crucial that the voice of communities being directly impacted by developments, are not lost in the clamour for funding by Local Authorities and Development Agencies.

The divergence in approaches by developers and the public sector risks the continuation of the current community benefit landscape of uncertainty and inequity. Where developers can refuse to pay long established responsibilities for community benefit or offer derisory rates. Where communities have little or no say in the distribution or eligibility for funding. And where current community benefit investments can be poorly directed or used. Against a backdrop of reducing public sector funding for key services, **the opportunity must be**

taken now to build equity, fairness and certainty into the system of community benefits from renewables and transmission developments in Scotland.

D - Delivery against Scottish Government Policy Objectives

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, 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 the unique once in a lifetime opportunity that exists. It would reflect lessons learned from the fossils fuel revolution and onshore wind projects.

E - How would the Fund work?

1 - Fund income

It is proposed that the Fund receives **additional benefit payments** principally from the planned offshore wind and transmission upgrade developments but would likely be added to by new hydro and storage 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 contributing developers and receiving communities.

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 MW as is currently recommended for onshore renewable energy developments in the Scottish Government's Good Practice Principles, or on 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 MW 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 community benefit into the Scottish National 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 or sustainable development and community wealth building.

In addition, to the above there is an opportunity for the fund to complement and add value to democratic finance opportunities, specifically community shares. Working alongside local community share offers and the associated citizen investors the SCWF can support local enterprises and assets reach their potential. This could be further enabled by the anticipated Scottish Booster Fund.

2 - Fund distribution

Fund allocation would be via three separate distinct strands:

Strand 1 - The Local Strand

The Local Strand would be prioritised and focus on local community benefit funds. Where local engagement has not achieved agreement for any reason, and as a result there is no local distribution, the equivalent community benefit funds should be directed into the Wealth Fund. This lack of local agreement may reflect a lack of capacity or willingness of a local community to be involved in the set up and management of a local Fund. In such cases the alternative mechanism of the Scottish Community Wealth Fund could act as a backstop and ensure those local communities could apply to and be prioritised for investment in individual projects.

Effectively this mechanism allows local communities to continue to receive prioritised local community benefits for local projects, without the need to set up and manage local Funds. Or lose a percentage of those Funds to intermediary Fund managers.

This approach would also 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. This could be in the form of grants or patient capital loans.**

Strand 2 - The National Strand

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 demonstrate the **Common Good** of the renewables revolution for Scotland. As Ofgem funding arrangements require that all consumers bear a share of the cost of the renewables revolution, so all consumers across Scotland should have the opportunity to benefit via community owned, long term revenue generation projects. Again, this could be in the form of grants or patient capital loans.

Strand 3 – The Legacy Strand

A legacy fund that would be ethically invested, in pre agreed asset classes (which could focus on renewables investments) 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.

This **three tier** Fund allocation approach ensures that communities that are directly impacted by developments contributing to Scotland's journey to Net Zero will continue to receive priority 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.

3 - 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 help deliver the emerging local governance review agenda and 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 and assets 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 great, 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.

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 Scottish Community Wealth 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.

4 - Fund management

The Fund would be managed by an independent body to avoid any issues with public subsidy and ensure decisions are responsive to community need across Scotland. The independent funding Board could be appointed through the Public Appointments process, and should be led by community representatives, and include on the Board COSLA, developer representatives, fund management expertise and financial experts. Fund

[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-the-climate-emergency/]

priorities could reflect SG priorities but with individual decision making delegated to the Fund Board.

The Fund 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 or by another appropriate organisation with relevant experience in community development and fund management

F - 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 long term income for that community. These assets could be land, buildings, investments in local businesses, natural capital investments or renewables investments. The key criteria would be the securing of a financial return from the investment to support the work of the community organisation, and other local community-based organisations, in the future.

Ownership of this type of asset by communities creates a significant multiplier effect, in terms of local jobs being created, wealth retained locally, population growth and positive demographic change. This is in addition to the income directed straight into communities to help them deliver local need.

Annex A

How would the National 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 significant 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.

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

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.

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*

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

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.