

Section 7: Securing community benefit from commercial renewable energy developments – private, commercial and mixed ownership

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7. Securing community benefit from commercial renewable energy developments – private, commercial and mixed ownership

This section will discuss commercially owned projects which deliver a financial ‘benefit’ to local communities either through providing some income or through shared ownership options. It provides some basic information on this topic, outlining the development control process, some key points on commercial wind farm development and how to go about negotiating a benefit arrangement. Further detailed information on securing community benefit from commercial schemes can be found in ‘Delivering Community Benefit from Wind Energy Development: A Toolkit (May 2007 – A Report for the Renewables Advisory Board and DTI).

[BIS: Delivering Community Benefits from wind Energy Development: a Toolkit](#)

7.1 Role of commercial renewable energy developments

On shore wind developments are set to become more common and an important contributor to Scotland’s low carbon energy mix. By 2010, there could be as much as 3,400 MW of installed onshore wind generation. Currently, there is just over 1,400MW of installed wind generating capacity in Scotland. The majority of these installations are in commercial wind farm developments. These wind developments are key to Scotland meeting its renewable and carbon reduction targets. There are a range of options available to communities if they wish to gain benefit from a wind farm or other renewable technology installation in their locality. The development of large wind farms can also help the local economy as a result of local firms gaining work during construction, local businesses and accommodation benefitting from construction teams in the locality and a local maintenance crew being established. It should be recognised also that commercial wind developments usually result in the site landowners gaining some form of rental payments, which can be re-invested in their local businesses and subsequently back into the local economy.

7.2 Private commercial ownership with financial community payments

Commercially developed projects often instigate a payment to a local community so there is some community wide benefit from a development. It should be recognised that there is no legal obligation to do this, but it is however becoming established as a norm and is generally known as 'community benefit' payment. It typically involves payments to a local representative body to fund initiatives and actions that will benefit the whole community. Taking the simplest form of community benefit payment as a guide (say £2,000 per MW installed) this could mean that by 2010, there could be a potential total revenue of over £6,800,000 pa flowing into communities in Scotland from onshore wind farms. This represents a significant opportunity for communities to benefit from commercial wind farm developments. In comparison with a community owned and developed project, the income for the community from a commercial benefit payment could be significantly less, but it also comes with much less risk, and much less work required by the community.

7.3 The development control process

As discussed in section 6.7 on planning permission, projects under 50MW (under 1MW for hydro, wave and tidal) are determined by Local Authorities under the Town and Country Planning (Scotland) Act 1997, whereas projects of greater capacity are determined under section 36 of the [Electricity Act 1989](#) by the Scottish Ministers.

The law requires a strict separation between the planning process through which a wind farm application must pass to gain consent, and any negotiations regarding community benefit. Due diligence must be observed when dealing with community benefit discussions with local authorities and all interested parties must declare if there are any conflicts of interest.

It is essential that community groups investigate what their local authority policy is on community benefit payments.

However, for a community to gain benefit from such a development, it is vital to be well informed about the nature of commercial wind farm development and the planning process. It will be important to approach negotiations with a developer in a professional way and, critically, be able to express clear reasons why and how your community should benefit from the development. These points are covered in turn below. A community liaison group could be established to advance negotiations with the project developer and to ensure good communication with the wider community.

7.4 The nature of commercial wind farm development

Commercial wind farm development is largely undertaken by businesses which can spread their risk across a range of projects and who can gain economies of scale across the project development cycle. As with community wind farm development the pre planning phases are the riskiest and a project developer will need to focus on the project's financial viability to offset the costs and risks involved in bringing the project to successful operation.

For a commercial developer choosing to develop a site will depend on three main criteria, just as a community seeking to develop a site. Please refer to the wind specific sections in Section 6 on generating and selling electricity for further detail.

- A good wind resource
- An economic grid connection
- Planning consent

Community engagement by the wind industry is being integrated into Scottish planning guidance.

<http://www.scotland.gov.uk/Publications/2007/03/22084213/20>

It is important to get effective community engagement, especially around the potential significant environmental effect of a project, at the earliest possible stages irrespective of any separate initiative to agree community benefit payments.

Some wind farm developers will engage in community benefit negotiations prior to any planning decision being made. Other developers have a policy of not engaging in such discussions until a project is consented.

7.5 Establishing a community benefit payment scheme

7.5.1 Engage in the development process

Entering into a dialogue with a large developer will require some time commitment from a community group but the benefits could be significant – many developments are now over 20MW installed capacity and payments can therefore be significant. It is important that the community shows an interest in the development and avails of the opportunity to engage in open days and public meetings with the developers as and when these are organised. It is also important to establish if the developer has a policy on community benefit payments and whether discussion can be initiated on this before planning consent is in place.

It is essential that a community investigates the local authority policy in relation to community benefit payments – some of the Scottish Local Authorities have a local fund and policy in place that developers have to channel funds through, and so this would remove some of the need for communities to become heavily involved in discussion with the developer. Communities are advised to contact their relevant Local Authority for their policy on community benefit payments.

In order to improve the chances of getting the best deal it's important that all dealings are dealt with professionally, with a clear consistent approach towards negotiations. It may be beneficial for community groups wishing to enter such negotiations to contact other communities that have gained community benefit payments from a wind development owner to establish the levels of payment and gain an overview of the processes involved. Some community benefit payments are based on a figure per MW installed – as a guide

windfarm developers may offer in the region of £2,000 per MW installed per year, and may link a variable payment to the benefit. This variable element would be linked to the actual fortunes of the wind farm, based on actual performance measured in Mega Watt hours or MWh or, for larger wind farms, Giga Watt Hours or GWh (1GW = 1000 MW – see Energy Basics in Section 1), or ROC income. In highly productive years, benefit payments will be greater and vice versa in less windy years. For example, if there is significant down time (e.g. for significant maintenance or damage repair), payments will be less.

A developer will want to see some worthwhile projects benefitting from the funds, and a simple scheme to deliver benefit payments. They will also need to be certain the group representing the community is open to all the community and is capable of undertaking projects and actions that will benefit the community as a whole.

7.5.2 Make clear contact with the developer

A clear, positive professional approach is required from the start. Establish the contact within the company developing the project in your area and write to them stating clearly who you represent and your desire to discuss the development / potential benefits to the community.

7.5.3 Investigate options for managing community benefit payments

There are different models currently in use that relate to the administration and spend of community benefit payments from commercial windfarms. If the local authority does not have a policy of local authority managed funds then the options could be

- Community Trust – where the community themselves receives payment directly from developer and takes on the administration and responsibility of maintaining a trust body and assessing and administering benefit payment spend
- Third party involvement – where the community and developer liaise with a third party to act as banker and administrator of the fund, where decisions on fund spend are made by the community
- Developer as grant maker – where the developer provides resource to manage the fund and assess and decide what the benefit payment can be spent on

Community trust

If a community group wishes to negotiate and control community benefit payments check with the local authority, community council, other community organisations and the local enterprise authority to see who wishes to be involved in discussions. It is advisable to form a consortium or liaison group with members from all groups to present a single coherent opinion and prevent division. This group will need to be able to objectively gauge local opinion, effectively represent the views of the local population and negotiate with a clear community remit. There will also be administration and resource requirements to maintain a community trust and service a committee, and responsibilities for assessing and managing spend of the community fund.

Third Party involvement

Communities should also be aware of the service provide by the Scottish Community Foundation (SCF) which currently provides a service for many communities and developers in managing the benefit payments related to windfarms. The Scottish Community Foundation enables a fund for a specific community to be established, and manages and distributes the charitable gift to the community. Decision making on the fund spend is retained by the community, and the SCF can help in setting up a community panel. The SCF provides an administration role and monitors the fund reporting to both the developer and the community. This service is provided at a charge by the SCF, which is related to the size of the fund and the level of involvement needed to establish and maintain the programme. The costs of establishing a fund with the Foundation are normally less than setting up a new charitable trust.

More information is available here <http://www.scottishcf.org/helping-you-give/developers-and-community/> and here <http://www.scottishcf.org/helping-you-give/developers-and-community/grants-programme-in-partnership/>

Developer as grant maker

This is an approach that has been seen from some commercial developers where they are involved in decisions on the spend of a community benefit fund. This could encourage close liaison between developer and community, but would require a lot of resource from a developer and skills in assessing community projects eligible for funding.

7.5.4 Organise formal meetings to negotiate community benefit

Most developers will be happy to meet well organised local groups to discuss community benefit funds, although some developers may have a policy of waiting until planning consent is available until initiating such discussions. All groups involved should be represented at the meeting, and the local authority invited. Minutes of the meeting should be taken and distributed to all involved soon after. Current communities' experiences show that the presence of strong negotiation skills and a good development plan within the community serve to secure a good level of benefit payment. It is however critical that all participating community groups have the same consistent, joint approach to the development.

7.5.5 Community benefit payment processing and a community organisation

Developers want to see a well organised group who, once established, are capable of delivering local benefit without difficulty. If it is a community trust approaching a developer, it is important to promote any previous work the community group has delivered, state the potential support the group can offer and show a clear framework for delivering the funds once they are secured.

If it is a third party in conjunction with a community both groups will need to be able to demonstrate the benefits of the proposed programme and the track record of the third party in fund administration and grant awards.

7.5.6 Finalise an agreement

Once agreement is made it is important to ensure any offer is legally binding and the group or third party have clear control over the funds for local benefit. For community benefit programmes that look to have the developer as grant maker it should be recognised by the community that it will be important to highlight and agree to a community development plan or long term strategy. Independent legal advice is advised when dealing with this stage. It is important that the whole community is involved in the decision on finalising an agreement with a developer, as the decision will affect the benefits and activities that result from any funds established.

7.5.7 Prepare a good development plan

Community benefit payments offer the local area access to a long term funding stream for community improvement and regeneration. A strong case will rest on being able to show that any payment received will be put to good use meeting actual needs in the community. Ideally, these should be needs that have been properly identified through an open process of community consultation and which are clearly supported by local residents (for more information on preparing a development plan, see Section 8 on Organisation, consultation and development planning). An agreed plan will also be helpful in avoiding any disputes that may arise in the event of success in securing benefit income. If a community trust is administering the fund it is important to have a investment policy and procedure that sits within the confines of charity and company law.

It is best to have a well structured and agreed plan for allocation of funding. In administering these funds, the community needs to develop clear assessment criteria and a scoring/weighting system to identify the merits of one proposal over another. The community also needs to ensure these criteria are made available to all and that any decision-making is fully transparent.

7.6 Shared ownership and community investment

Partial or shared ownership of wind farms has become more prevalent in recent years, and provides an opportunity for communities to become involved in a particular wind farm without the development work and associated risks involved with progressing a wholly community owned project.

7.6.1 Part ownership of the wind farm

This can take the form of part ownership of a commercial windfarm, or ownership of some turbines within a commercial windfarm.

There is currently one example in Scotland where a local community group has secured a part-ownership arrangement with a commercial wind farm developer. Fintry Renewable Energy Enterprise (FREE) owns the rights to one 2MW turbine within a commercial development of 15 in Stirlingshire. FREE worked with the developer to add an extra turbine

to the planned development of 14 2MW turbines. Finance for the Fintry turbine was secured through its inclusion in the bank loan for the main windfarm. FREE now receive an income equivalent to 1/15th of the site's net income minus the costs of the loan repayment. This means that the developer (Falck) owns the turbine, but there is an agreement which states it will consider a change of ownership (to the community group) once the loan is paid off. However, as the model does rely on substantial assistance from the commercial developers and financiers, and active, ongoing community participation in the planning, development and finance process; it will therefore not be feasible for all communities.

The annual income from the scheme is estimated at £50,000-£100,000 per annum depending on the site's performance, and to date the scheme has performed well. Fintry pursued a positive approach with the emphasis on working together, rather than viewing community consultation and benefit as an obstacle. The first funds have now been received and the group are currently working on the best mechanism to deliver local energy savings and progress the community towards a low carbon lifestyle. Fintry are currently assisting eight other groups looking to develop similar arrangements or looking to maximise community benefit funding, normally entering discussions prior to planning and working with smaller developers. To date, Fintry remain the only group to have obtained this type of deal. For more information see <http://www.frost-free.co.uk>.

There are two examples of community co-operatives in the UK owning some of the turbines on a commercial wind farm. The most recent instance is Fenland Green Power Co-op, which now owns two 2MW turbines on a site at Deeping St Nicholas, on the Lincolnshire/Cambridgeshire border, where Fenland Windfarms operates the other 6 turbines. A successful share offer raised over £2.6 million from the 1,100 members of Fens Co-op. Returns to Members of the Co-op are dependent on the commercial performance of the windfarm, but are expected to be between 8% and 12% per annum over the life of the project. A percentage of the commercial income is devoted to community projects. Information on this model is available at <http://www.fens.coop>

7.6.2 Community Share Offer for a Royalty Instrument stake in a windfarm

This approach establishes a local Co-op to raise funds from individual investors in and around the local community through a public share offer in the area around the wind farm. The fund generated is then used to purchase a share in the revenue from the wind farm. This model allows local individuals to invest in a commercial wind farm, and accrue benefits from the performance of the windfarm, without the complications of actually owning a turbine.

Co-operatives linked to commercial wind farms in Aberdeenshire (Boyndie www.boyndie.coop), Skye (Ben Aketil www.skye.coop), Inverness-shire (Invergarry www.greatglen.coop) and Sutherland (Kilbraur www.kilbraur.coop) have been established.

It is important to note that the Royalty Instrument Agreement is additional to any community benefit payments which the developer and / or co-op may elect to give.

For more information on this type of project, see www.cdscotland.co.uk and www.energy4all.co.uk.