

Supporting Community Investment in Commercial Renewable Energy Schemes

Summary Report

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1. Supporting Community Investment in Commercial Renewable Energy Schemes: *Summary Report*

The Scottish Government has world-leading targets for the generation of renewable energy¹. It also intends that communities should be given the opportunity to invest in developments and have a direct stake in the energy being generated². This summary report presents the analysis of a research project, commissioned by Scottish Government Onshore Renewables and Community Energy Team, exploring the factors which support and limit the ability of communities to invest in commercial renewable energy schemes. A full report is also available; this report summarises the key findings and recommendations.

The research had four parts: a review of policy and previous research relating to community investment; a survey of developers, community representatives and other stakeholders regarding experiences of community investment; a deliberative workshop and focus groups with developers, community representatives and other stakeholders; and a review of case studies of community investment and international comparisons.

2. Current context

In Scotland, there are currently 12 operational commercial renewable energy projects that have seen some form of community investment³. Taken together, these projects account for just over 21 MW of current operational Scottish renewables capacity. This limited experience was reflected in our survey, where only a quarter of our respondents reported

¹ <http://www.scotland.gov.uk/Publications/2011/08/04110353/0>

² <http://www.scotland.gov.uk/Resource/0045/00457876.pdf>

³ Energy Archipelago Database, May 2014. The total number is 13 if Housing Associations are counted as communities.

any substantial experience. We do however find a real interest in developing community investment opportunities.

Our research identifies a number of benefits from community investment. For communities, these include anticipated financial revenue for the community, which can help to make other community projects more resilient, and provide a guarantee of income that is not dependant on public-sector grants. There is also the potential benefit of capacity building and empowerment of communities. Community investment facilitates local control relating to energy production, and the process of development can become more open and transparent for community members than a solely commercial project.

For developers, there are also a range of potential benefits. Respondents felt that community investment could increase the likelihood of planning success, and lead to a quicker planning process. It has previously been found⁴ that projects with community investment are indeed more likely to achieve planning success, and more quickly, than commercial projects. Community investment provides communities with the opportunity to get fully involved in the development of project and can be a way of improving relations between communities and developers, and for developers to demonstrate a commitment to engagement with the community⁵. In addition, there may be a wider impact than on just the particular project: the image of renewables more generally could benefit from greater community investment by increasing public acceptance through addressing the perceived imbalance between inter/national benefits and local disbenefits of renewable energy developments⁶. Indeed, one respondent to our survey said that the impact of community investment on the development of renewable energy was such that it could be “*potentially transformational*”.

Balancing benefits and costs

Our research finds support for community investment but also some hesitancy and concern. For communities, the complexity of the process might either deter them from participating, or even become a divisive issue for them. For developers, concerns were raised about the added complexity, a protracted decision-making process due to a need to get a group consensus among the community or its representatives, and increased costs as a result. Our analysis suggests that the problems perceived by developers were related to their views about the community, and the timing and amount of involvement that they should have.

⁴ Haggett, C., Creamer, E., Harnmeijer, J., Parsons, M., and Bomberg, E. (2013) Community Energy in Scotland: The Social Factors for Success. Report commissioned by ClimateXChange for the Scottish Government

⁵ Aitken, M., Haggett, C. & Rudolph, D. (2014) Wind Farms Community Engagement Good Practice Review. Report commissioned by ClimateXChange for the Scottish Government

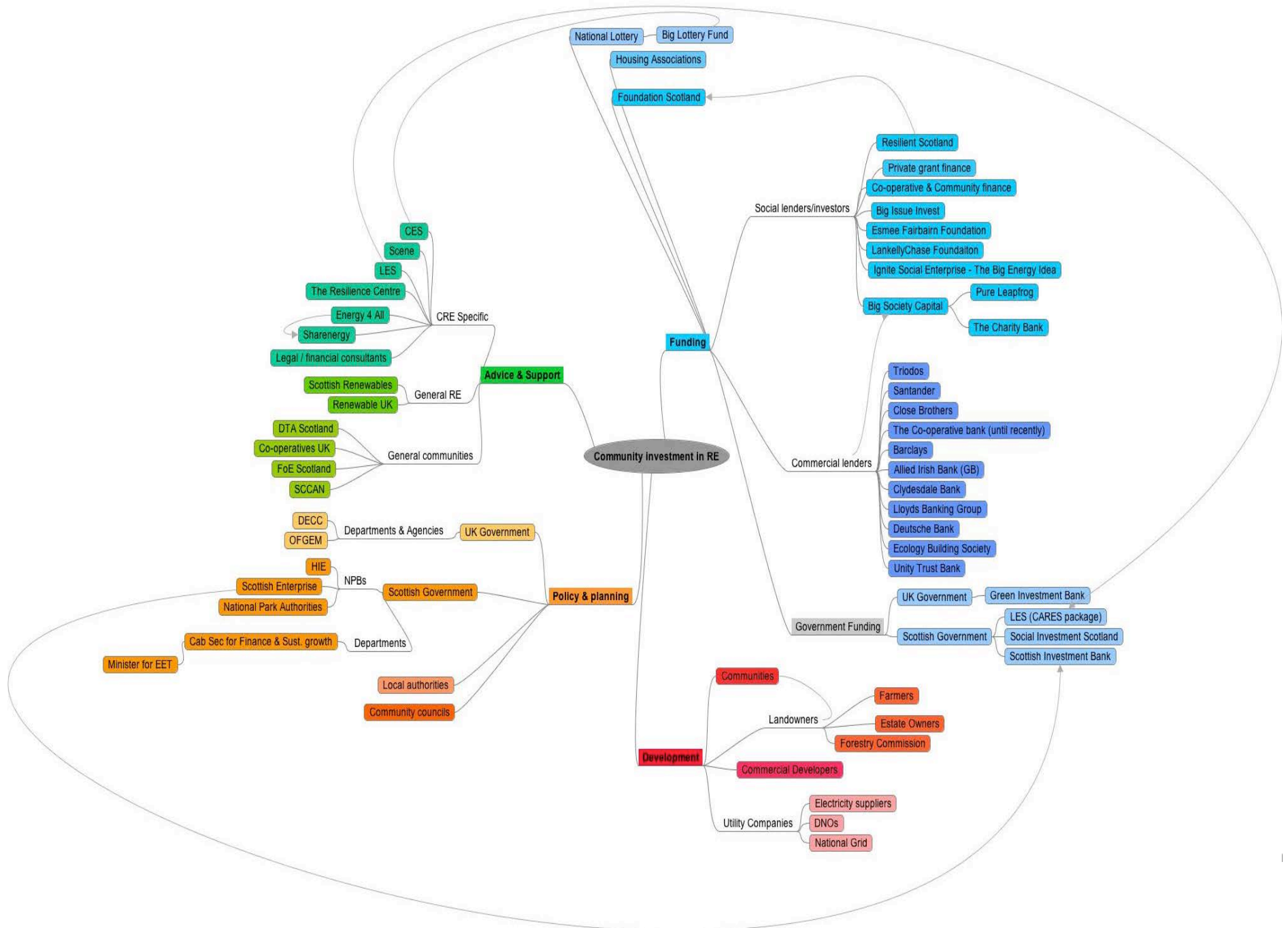
⁶ Aitken, M. (2010), Wind power and community benefits: challenges and opportunities. Energy Policy, 38(10): 6066-6075; Walker, G., Devine-Wright, P., Hunter, S., High, H. & B. Evans (2010), 'Trust and community: Exploring the meanings, contexts and dynamics of community renewable energy' Energy Policy 38 (10): 2655-2663.

Developers who valued the role of communities in general were more likely to accept any difficulties as part of the overall process. Developers placing less of an emphasis on the community viewed the process differently, and as a potential difficulty.

Sources of Support Currently Available

Given that community investment in commercial renewable energy schemes in Scotland is relatively novel, the landscape for accessing support or funding is still developing. As illustrated in Figure 1, there are a number of organisations with interests and relevant expertise in this area, however these have varying roles to play at different stages of the planning, development or operation of renewable energy projects.

Figure 1: Map of the Sources of Advice, Policy and Financial Support for Community Investment in Commercial Renewable Energy Projects



3. Models of Community Investment currently used in Scotland

The Scottish Government has stated that it wishes to encourage new models of community investment in commercial energy projects⁷. As shown below, there is a range of factors which characterise projects:

Characteristic		Types	Examples
1	Method of raising community finance	Gifted to community	Fintry DT, South African Community Trusts
		Community body	Local development organisations
		Individuals	Co-operatives ('share raises'), crowd-funding ('debentures')
2	Legal structures	Of project vehicle	SPVs ('Standalone Special Purpose Vehicle'); LLPs ('Limited Liability Partnerships')
		Of community entity	Development Trusts, charities, private limited social enterprises, bona fide co-operatives, community benefit societies
3	Respective roles	Community leads	Neilston, P & L Turbines
		Intermediary leads	Energy4All
		Developer leads	Fintry, Stewart Energy
4	Timing of community investment	Pre-planning	P & L Turbines
		Post-planning	'Energy4All model', Stewart Energy
		Through 'community warrants'	Several in development

Table 1: Overview of key characteristics of community investment models

Additionally, there is a range of different ways in which communities can invest. Some commercial energy projects involve communities as a traditional investment partner ('Community Co-Investment'), where community organisations buy shares in a project vehicle, and receive a dividend from the sale of electricity. Even amongst the few projects of this kind in the UK, large diversity exists in the legal arrangements and business models used. Projects also differ in other important respects, such as *how* the community raises finance for its stake in the development, *when* the investment opportunity was made available to the community, and when the actual investment was made. In Scotland, shares in projects are usually held in trading companies that are fully-owned subsidiaries of parent community organisations. The latter are typically some form of local development organisation, such as a Development Trust, limited by guarantee and often with charitable status.

Other models are less common or unique to particular projects, such as the 'Fintry model', (named after an agreement struck between Falck Renewables and the Fintry Development Trust on the 35 MW

⁷ <http://www.scotland.gov.uk/Resource/0045/00457876.pdf>

Earlsburn Wind Farm in Stirlingshire in 2007⁸), where the developer loaned the community the capital to be able to invest; and a 'wind-crofting' model, similar to traditional co-investment models, but with a simple financial instrument called a 'community warrant', whereby communities are given the right but not the obligation to invest before a planning determination is made.

Because of their legal status, it is problematic for some community organisations to own equity *sensu strictu* in renewable developments. In such cases, contractual arrangements can be made which entitle community organisations to a share of revenues flowing from the projects. Such 'revenue-sharing arrangements' are commonly used where community organisations are incorporated as Industrial and Provident Societies ('ISPs', commonly called co-operatives). An initial investment is made by selling shares to 'co-op' members. Once the development is up and running, a proportion of revenues from the project flows to the co-op, which distributes it to its members.

Methods for communities to raise finance for investment

This section focuses on some of the means through which communities are able to raise the money to allow them to invest:

Debentures: This method works by selling debentures to members. These debentures effectively act as loans, with both interest and principal (the original amount invested) wrapped into repayments. The debentures will have a fixed term, over which repayments are made – this can range from a few years, to the entire project lifetime. Surplus profit remaining after members are paid flows to the community body itself.

Co-operative Equity: This method of raising community finance works by selling shares to members, which entitle them to a certain percentage of profits flowing from wind farm projects. In this arrangement, co-operative members act as the community, and are responsible for setting the rules as to what happens with project income. Profit may be distributed amongst the shareholders, or it might be used for more charitable purposes, or possibly a mixture of the two.

Loans and grants: Figure 1 lists the range of different sources which may provide funding to allow community groups to invest in a commercial energy project. The most important of these is the financial support offered through CARES⁹, currently administered by LES¹⁰. Two key sources of finance are available to communities; a start-up grant of up to £20,000 which allows communities to investigate the viability of investing; and a pre-planning loan of up to £150,000 which gives communities the opportunity to progress beyond feasibility, covering up to 95% of a community's pre-planning costs. If a project achieves planning permission, communities can apply to the Renewable Energy Investment Fund (REIF), which is delivered on behalf of the Scottish Government and its enterprise agencies by the Scottish Investment Bank. There is a wide range of other potential sources of funding; however, many of these may be hard to access for communities, particularly commercial banks.

⁸ www.fintrydt.org.uk/

⁹ <http://www.scotland.gov.uk/Resource/0045/00457861.pdf>

¹⁰ <http://www.localenergyscotland.org/funding-resources/funding/applying-to-cares/>

Different funding models are available to, and being used by, communities investing in commercial energy projects, and the choice is likely to be determined by the particular project, the role and response of the developer, and access to funds available. Despite the range of models and *potential* funding sources available, a key issue that arose throughout our research was the difficulty of accessing the requisite finance. Indeed, this was often cited as a key reason why community investment does not move forward.

4. Challenges

Despite enthusiasm for increasing community investment in commercial energy projects, our research highlights a number of challenges to be overcome:

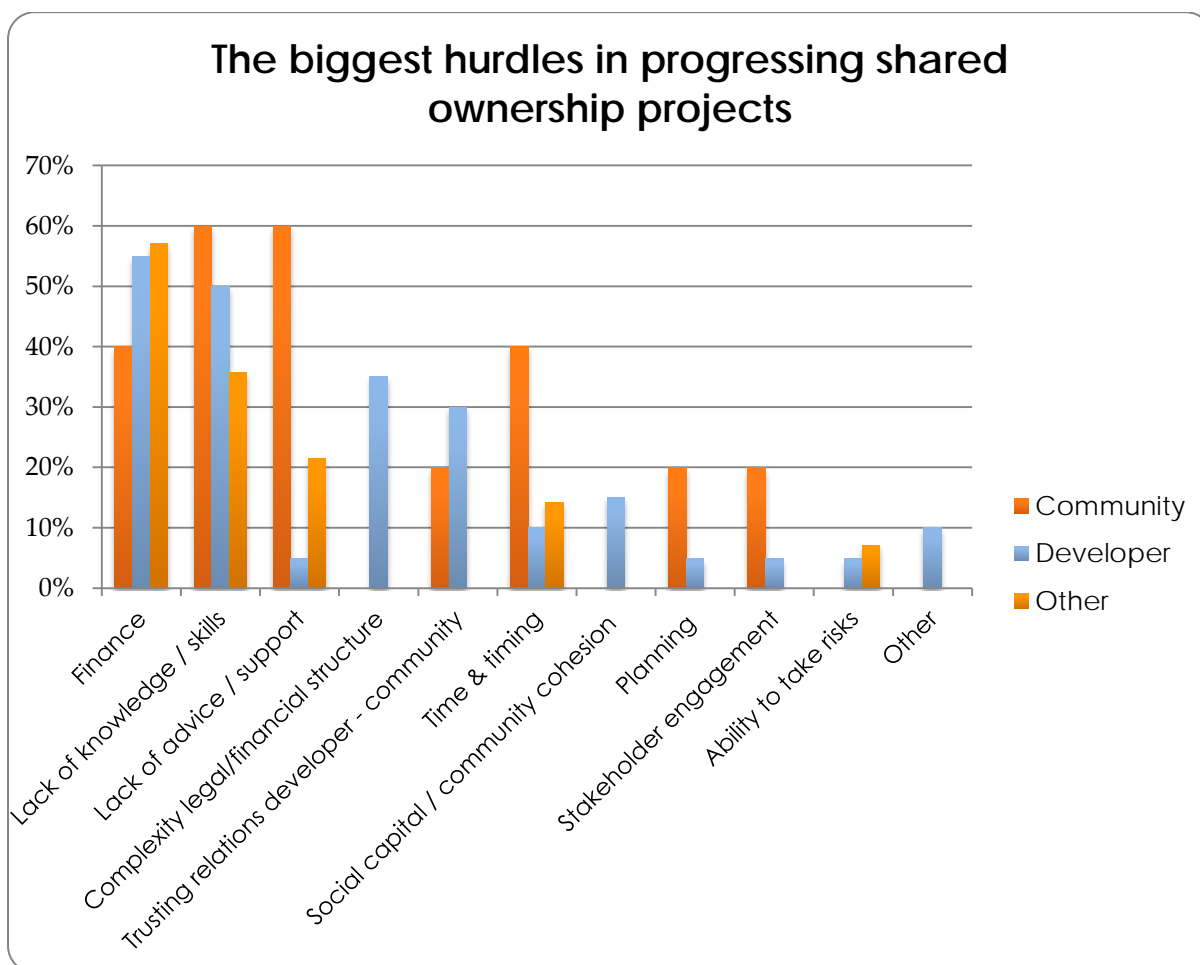


Figure 2: Hurdles in progressing community investment projects

The key challenges are:

- The ability to invest:** we presented a map of the wide range of funding sources available; however, lack of finance for communities is still a critical issue, particularly at the early stages of a project. For some communities, this was an insurmountable hurdle; because of the difficulties or perceived riskiness of taking out a large loan, some communities preferred to accept community benefit payments and receive a guaranteed income without the risks that community investment

involves. Even if communities are willing to raise the finance to invest, our research highlights the perceived lack of knowledge of how to go about doing so.

- **Information, knowledge and skills:** significant challenges were identified by respondents about locating and accessing useful information, and being able to draw upon the requisite expertise. Although there is a variety of information sources available to community groups, some indicated that this information is not sufficient; others said that the signposting to the various forms of information and assistance could be better. The picture that emerges therefore is not necessarily one of too little information; but that it needs to be clearer and more accessible. There is also a significant issue of (a lack of) community capacity and skills. In order to be successful community groups require a mix of skills (including community engagement and consultation; financial and accounting skills; project management and delivery; business planning; monitoring, evaluation and impact assessments)¹¹. Moreover, community groups are faced with the challenge of maintaining the motivation of volunteers throughout lengthy and uncertain planning phases¹².
- **Advice and support:** developers, community representatives, and all other stakeholders identified the need for more advice, tailored to the specific project. They noted that the advice, tools, and models given to communities needed to be in a format such that they didn't feel overwhelmed. Respondents consistently suggested that this advice should be offered by an independent third party, who would need to be clearly identified, and well supported.
- **Lack of trust:** there is a challenge in establishing trust between the community and developer, although this varies significantly, depending in part on the approach to community engagement undertaken by the developer. Some community representatives were worried that developers were only pursuing community investment to further their commercial interests, and a requirement for communities to invest up front without immediate returns was identified as a further source of distrust. In addition, developers suggested that community groups often do not understand the commercial constraints facing developers, and that this creates unrealistic expectations about developers and potential investment projects. Thus, a key reason why there might be a lack of trust between the community and the developer is a lack of understanding on both sides regarding the challenges and constraints that each of them experience.
- **Timing:** we found that developers often find it difficult to identify the best time to involve the local community. Knowing when best to engage with a community, and a disjuncture in the speed with which different community groups and developers are able to proceed, was raised as an important challenge. It was suggested that a suitable solution could be for a dialogue to start between developer and community early on in the process, but to only fully involve the community at a later stage. However, developers will need to be aware that if a community perceives that it is being excluded from the process this could undermine trust between the two parties and hamper co-operation at a later stage. There is unlikely to be a single 'right' way for developers to engage with the local community. The extent to which communities can be involved throughout the process will also be dependent on their capacity and finances.

¹¹ *Ibid*; Haggett, C., Creamer, E., Harnmeijer, J., Parsons, M., and Bomberg, E. (2013) *op cit*

¹² Willis R. and J. Willis (2012) Co-operative renewable energy in the UK: a guide to this growing sector.

- **Community cohesion and defining communities:** knowing with whom to engage, and how, and whether ‘community’ encompasses a geographically local community or wider groups and individuals was also seen as a significant hurdle. Communities are not homogenous, and very disparate interests and views can co-exist within them. This can create practical difficulties for progressing community investment projects. The developers in our research said it can be difficult to define and negotiate with communities near a proposed development. Involving non-geographic individuals and communities can lead to greater awareness, investment, and support. However, it might hamper the capacity building efforts of local people, with the benefits of community investment being limited to those already more capable.

5. International Comparisons and Learning Points for Scotland

Our review of international experiences with community investment in commercial energy projects identified diverse experiences and approaches. The countries included in our review embrace a wide range of institutional conditions, reflecting different stages of community investment possibilities. The selected countries are: *Denmark* and *Germany*, due to their mature community renewables sector, and community-driven rise of renewable energy projects; *Canada* and *Australia*, due to their similarly immature but nascent community renewables sector under changing (Canada) and unfavourable (Australia) institutional conditions; and *South Africa*, due to its immature renewables sector and unique planning regime based on procurement and demanding community -engagement and –benefit requirements. A comprehensive description of community investment in renewables in these countries can be found in Appendix 1 of the full report. Some key learning points from the international case studies are:

- *Novel arrangements* may be required to bring about a big uptake in community investment – including new ownership models, policies and funding programmes - ensuring that communities can generate revenues from renewables and that local benefits are shared among the communities. In some of the countries studied, a very clear steer and policy change from government has been required to generate interest in community investment.
- *Generating public interest* and awareness is key, both locally and in general. All the case study countries demonstrate that a favourable commitment from policy-makers in order to achieve a successful and thriving community energy sector needs to go hand in hand with public interest and awareness of possibilities. This is reflected in the slowly emerging community energy sector in Canada, where the public interest in community renewables was addressed by regional support instruments increasing the viability of small-scale projects for communities. Likewise, the rather unfavourable and geographically fragmented conditions in Australia indicate how difficult it can be for communities to achieve their ambitions if complementary and sympathetic policies and programmes are not in place. In addition, awareness of community energy options and an interest in environmental issues are also important factors that shape the emergence of interest in community energy in general and investment in specific projects in particular. National level policy therefore needs to be accompanied by efforts to generate interest on the ground.

- There are *different business models* to allow communities and individuals to participate in community investment, some of which have already been adopted in Scotland. The most common business models are embedded in the idea of co-operatives raising equity from shareholders, which then usually work as limited liability companies to protect their members. The equity capital raised within a community is then used to develop community-led and community-owned projects or to buy in to commercial projects. The cooperative approach reflects the original idea of community energy as practiced in Denmark and Germany, however initial community projects in Scotland include examples of both approaches.
- *Early support programmes to secure early project financing* are critical. In addition to guaranteed and stable revenue streams through feed-in tariffs or power purchase agreements with electricity suppliers, the provision of support programmes to secure early project financing during the more risky early planning stages is key. Even though equity capital is often raised through shareholders, community groups require start-up capital for preliminary and feasibility studies before shareholders come into play. As the international case studies indicate, this can include bank loans for collectives and individuals participating in a co-operative or different support programmes or funds from charities to provide more financial security for community groups at the beginning before any investment can be undertaken.
- *The potential benefits* to communicate to the public are wide-ranging, and include local control and revenue, and environmental benefits. The international case studies demonstrate the importance of capacity building for communities, and the necessity of thorough support programmes, accessible knowledge, steady advice and funds, and guidance from umbrella organisations to provide this.
- The *time gap* between up-front investments and the flow of revenues once the project is operational and debts are paid off may be significant. Community investment (even with shareholders providing equity) usually necessitates debt finance and the repayment of debts before any revenues become noticeable for community members. Immediate investments in a community by the developer can contribute to overcome this time gap of community buy in, so that people experience an immediate impact of the development in their community before any revenue flows happen, as required in South Africa.
- *Local acceptance* may be increased by community investment. As reflected in the historical development of renewables in Denmark, the evolution of grassroots community-owned projects can consolidate local acceptance of renewables in comparison to solely commercial projects from external developers, and there is some evidence of a causal relationship between community ownership benefits and local acceptance. However, examples in Germany show that this cannot be taken for granted.
- *The role of non-local and remote investors* can be delicate in terms of the distribution of costs and benefits emerging from a development, as seen in Denmark. Non-local private or co-operative investors bear the investment risks but also equally benefit from individual dividends and revenues; moreover, the geographical community may not receive any of these benefits but bear the possible costs of living in close proximity to the development.

- A *legal obligation* exists on developers to provide community investment opportunities in Denmark and South Africa. This may also increase local acceptance, but as the case studies from different countries demonstrate, this cannot simply be taken for granted. The potential of ownership obligations to stimulate community investment in Scotland cannot be easily inferred from these countries, due to their novelty, but also due to the different socio-economic context in South Africa and the specific motivation in Denmark, which was to use community investment obligations to stem a decline in community ownership and acceptance.

6. Suggested Resources

Our research has identified support from across different stakeholder groups for increased community investment opportunities. But we also identified a lack of experience and a number of significant hurdles. Given the relative novelty of community investment in commercial energy projects in Scotland it is clear that further guidance and support materials are needed to facilitate community investment. In particular our research suggests the need for the following:

- *Increased face to face contact and networking opportunities:* There was a strong desire amongst both community groups and developers for direct interaction. In particular, events with a variety of stakeholders (e.g. developers, community groups, financial and legal experts) present were considered to be extremely useful for all involved. In addition to face-to-face networking, the need for communities and developers to find potential partners and to explore any interest in a shared project was also identified as important.
- *Assistance, advice, and mentoring:* Many stakeholders, especially from community groups, would welcome a peer-to-peer mentoring scheme. A scheme where experienced community groups act as a mentor to help those just starting out could be one informal, but structured way of sharing knowledge and expertise between communities. It was also suggested that developers also need advice and support; some developers feel that they lack information and do not know where to go for advice, with their current knowledge either developed through in-house research or trial and error.
- *Legal and financial guidance documents:* Respondents described the need for financial and legal templates, as well as guidance documents. Generic templates were seen as potentially valuable by both developers and community groups who thought it would help streamline the process and make it easier to communicate between the various stakeholders.
- *Sharing success stories:* Both developers and community groups indicated that they would find it useful to hear about success stories and the factors that led to their success. There is some desire from stakeholders to not only include success stories, but also the stories of projects that have not succeeded – as important lessons can be learned from those as well.
- *Project managers and named contact:* Both community representatives and developers suggested that it was difficult to identify the main point of contact within the other's organisation. For developers, this might be a case of better communicating the company's structure for the community group. The structure within community groups is sometimes less clear (especially as

members are often involved in a voluntary or part-time capacity) and may impede a smooth and fruitful dialogue. Clearer identification and communication of different community members' responsibilities was seen as helpful. In addition, third party help during the process was also suggested. It was generally agreed that an experienced and independent project manager, working full-time on behalf of the community, would be helpful to pool and strengthen the capacities of communities.

- *Guidance on timelines:* It became clear throughout our research that there is a need to improve trust and understanding between communities and developers. Part of the current problem is that communities and developers do not always know what to expect of one another. Managing expectations is a first step towards enhancing this mutual understanding. One suggestion was to produce timelines that represent the different process and investment stages, and that clearly indicate key milestones: to help communities understand some of the long-term challenges, such as what skills are required to participate in a project, and at what points there would be high demands on their time.
- *Finance options:* Finance emerged as one of the key issues in our research. Suggestions were made about the role that bank financing could play if it were made available for shared projects; and more specifically that LES could work with banks to support community projects, or that the Green Bank could underwrite community projects. The accessibility of debt-finance from the banking sector in some of the international case studies was a notable difference from the situation in Scotland; and had a significant impact on the development of community investment when available.
- *Nationwide campaign to increase awareness:* Our research found a very significant lack of awareness about the possibility of community investment. In order to encourage the public to invest, strategies need to be broadened. Community investment may also provide an opportunity to raise awareness about energy generation and consumption more generally. A national campaign to encourage people to invest was identified as one potentially fruitful strategy to achieve greater civic engagement. Our international case studies demonstrate the value of efforts to raise public awareness and interest nationally as well as locally.

7. Summary and Recommendations

Community investment in commercial energy projects has the potential to have far-reaching and positive impacts. Our research has demonstrated that there is much interest in, and enthusiasm for, increasing community investment in commercial energy projects in Scotland. However, it has also highlighted a lack of experience in this area and considerable uncertainty or hesitancy. It is clear that further guidance and support materials are needed to facilitate community investment, for both communities and developers. These should reflect the different needs of these groups, taking account of varied experiences, backgrounds and knowledge levels.

Material considerations: Our research demonstrates a very mixed response as to whether community investment should be given material consideration in planning. We suggest that developers who engage in community investment only because of the material gain it may give them may not be fully embracing

the benefits of engaging with communities; and that communities are likely to be able to tell this. Indeed, we found a case where a community investment opportunity was deemed to be a 'bribe' by some members of the community.

Obligating developers: The related issue of whether developers should be obligated to provide a community investment opportunity is also contentious. We have drawn on international case studies where developers are obligated to provide investment opportunities for communities, although these are both very different policy and social contexts. We find that in South Africa, this context and obligation militates against small and local community groups entering into ownership arrangements, which is perhaps not what is wanted for Scotland. In Denmark, we find that obligations to provide investment opportunities do not necessarily correlate with increased social acceptance (although of course it can do). These cases therefore do not provide compelling evidence to suggest that community investment opportunities should be made mandatory in Scotland, at this stage. We have demonstrated that whilst community investment may be potentially very beneficial for communities, they may not have access to the financial resources, advice and skills to make it happen. Barriers may need to be addressed before the issue of whether community investment opportunities are mandated or made a material decision is addressed.

Defining 'communities': There is also a contentious issue about how to define communities. Again, our research reveals a very mixed response to how this should be done, particularly about whether a 'community' has to be geographically proximate. Allowing the opportunity for a wide range of individuals and community groups to invest in a project increases the likelihood of raising the requisite finance, allows a broad engagement with renewable energy, and increases the number of people with the opportunity to become involved. Making wider use of different forms of the co-operative model is a sensible option, given the current difficulties in raising finance, and the difficulties in finding community members with available time and resources. It is also a way of encouraging a wider awareness and interest in energy generation and ownership from a broader section of the public. It is not however an easy option; finance may still be required for start-up (either from loans or grants), and there is the critical issue of 'outsiders' investing in communities, from which they may be very distant. Indeed, as the Danish case study in particular demonstrates, opening up community investment opportunities to those outwith the geographic area may contribute to a weakening of public support for such projects. We therefore suggest that, while our research certainly indicates the value of a wider use of a diverse range of funding models as appropriate for each context, priority should be given to local people and community members, before those who are non-geographically proximate are invited to be involved.

Based on our research we make the following **recommendations**:

- Further guidance and support materials should be developed to facilitate community investment. These should be tailored for communities and developers and reflect the different needs of these groups taking account of varied experiences, backgrounds and knowledge levels. They should also set out what to expect when becoming involved with community investment (whether as a

community member or developer) but should enable flexibility to respond to local contexts and community needs.

- There should be more opportunities for sharing of experiences and building of networks through events or activities which connect a range of stakeholders and enable sharing of experiences and mutual learning.
- Mentoring schemes and networks through which people can seek advice and share experiences should be established.
- Guidance should include templates which can be adapted by community groups and developers; independent project managers and named contacts; guidance on timelines; and legal and financial guidance documents
- Greater access to start-up finance for communities should be made available to communities; as well as clear guidance and information on how and where they can access it.
- There should be attempts at a national as well as local level to raise public awareness and interest in community investment opportunities.
- Further consideration should be given to how 'communities' are defined and what the implications of such definitions are for community investment and also for broader public engagement with the energy sector. Our research suggests that widening the participation opportunities available, with a greater diversity of models, tailored to the specificities of each project and location is a positive way forward. However, our research suggests that geographically local communities should be given the first opportunity to invest; before this opportunity is extended to non-geographical communities and individuals.
- Whilst our research demonstrates the need for flexibility in approach and structure, we suggest that in most cases it is likely to be in the best interests of all those involved to at least engage with a community at the earliest possible stage; even if they do not become a formal part of the project and commit to investment at this stage.
- Projects should not necessarily be obligated to provide a community investment opportunity until greater access to funding and resources for communities, and to advice for developers, is available.

Please see our full report at <http://www.climateexchange.org.uk/about-us/> for more detail on all of the above.