



Scottish Council for  
Development and Industry

## POLICY SUBMISSION

# THE SCOTTISH GOVERNMENT ON SECURING THE BENEFITS OF SCOTLAND'S NEXT ENERGY REVOLUTION

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SCDI is an independent and inclusive economic development network which seeks to influence and inspire government and key stakeholders with our ambitious vision to create shared sustainable economic prosperity for Scotland.

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## **Securing the Benefits of Scotland's Next Energy Revolution**

1. SCDI is an independent membership network that strengthens Scotland's competitiveness by influencing Government policies to encourage sustainable economic prosperity. SCDI's membership includes businesses, trades unions, local authorities, educational institutions, the voluntary sector and faith groups.

### General questions

#### **How can Scotland benefit fairly from the opportunities which will be created by the development of our renewable and low carbon energy sources?**

2. For Scotland to benefit from the opportunities which would be created by the development of its renewable and low carbon energy sources its immediate priority is its global competitiveness in attracting the significant and sustained investment amounting to billions of pounds which this development will require. Scotland's resources and the UK's existing regulatory incentives have created a world leader of an offshore wind market in the UK, but developments will not simply happen. It must continue to offer the support and long-term stability which investors and developers are looking for in a highly competitive, yet relatively immature industry, market its comparative advantages globally, and identify sources of public and private funding for investment in infrastructure, facilities, engineering and technical skills, the supply chain and research and development. Economic diversification, inward investment, a globally successful supply chain and new jobs in installation and operations are the greatest potential benefits.
3. In its *Blueprint for Scotland*, SCDI proposed the creation of a Register of Assets for Scotland. Its key purpose would be to enable mechanisms which capture a share of the value of the development of Scotland's renewable and low carbon energy sources for investment. We therefore welcome this consultation paper.

#### **How can we enable local communities to enjoy substantial, long-term and tangible returns?**

4. As explained above, national and local competitiveness in attracting investment, along with supporting a strong local supply chain, is the most significant way of enabling communities to benefit from the transition to a low carbon economy.
5. Community energy projects (often supported by publicly funded loans and advice), part ownership and community benefit mechanisms are all being used successfully to create substantial, long-term and tangible returns for communities. New proposals in this consultation paper are addressed below.

#### **To what extent can these issues be addressed within the range of legislative powers currently held by the Scottish Parliament? Which changes to those**

**powers are desirable if Scotland is to grasp the opportunity to the fullest extent possible?**

**In what ways can the legal framework within which the Crown Estate Commissioners operate be reformed to ensure greater accountability for the management of the Crown Estate to the people and government of Scotland?**

6. SCDI members have differing views on whether there is a need to reform the legal framework within which the Crown Estate Commissioners operate. The consultation paper focuses on offshore renewable energy and Carbon Capture and Storage, but this is an issue which is of interest to a range of important industries e.g. the ports sector which has an essential role if Scotland is going to maximise its economic potential from the opportunities which will be created by the development of its offshore renewable and low carbon energy sources.
7. SCDI appreciates that there can be real community concern about accountability.
8. The Scottish Government's priority is increasing sustainable economic growth. The greatest potential prize for Scotland and its communities is in maximising investment and job opportunities in key sectors such as energy and aquaculture. The legal framework needs to have a fully functioning and positive approach to leasing the seabed for economic development, irrespective of structures. Feedback from business in a range of sectors suggests that they are, broadly, content with the improvements which have been made in their relationships with the Crown Estate and, so far as increasing sustainable economic growth is concerned, they do not believe that a strong case for change has been made.
9. The question of reform of the legal framework for the Crown Estate may be considered separately from the question of retention of its Scottish revenues.

**How could the administration of the Crown Estate in Scotland be made more accountable to Scotland's people, the Scottish Government and the Scottish Parliament?**

10. It is widely recognised that the Crown Estate has improved its accountability in Scotland in the last five years. It now publishes an annual Scottish Report which is presented to the Scottish Parliament and its Edinburgh office has strengthened communication with MSPs, local authorities, industry and organisations such as SCDI. The office has also established a Scottish Industry Liaison Committee.
11. It would be worth considering whether the administration of the Crown Estate in Scotland could include an Advisory Group on community benefit. The Crown Office and local authorities could draw up joint community benefit action plans.

**Should the revenue stream enjoyed by the Crown Estate Commissioners as a result of offshore renewable energy and future Carbon Capture and Storage projects in Scottish waters be retained within Scotland?**

12. SCDI would support retention of this revenue stream in Scotland, whether or not the legal framework in which the Crown Estate Commissioners operate changes.
13. It would be helpful if there was greater clarity and transparency about the Crown Estates accounts - revenues, profits and investments - in Scotland. The Crown Estate has said that the size of the surplus revenue delivered to HM Treasury for the year to 31 March 2010 was £210 million of which under £9 million was generated in Scotland. In the consultation, the Scottish Government quotes a figure of £13 million for the Crown Estate's revenues in Scotland for 2009/10.
14. The highest priority for economic, employment and environmental benefit is investment in Scotland's low carbon energy sector. The Crown Estate has committed to £123 million over the next 10 years from its UK-wide portfolio, mainly property, for future investment in the initial stages of the offshore renewable energy programmes. It has also developed expertise to support the development of the industry. Scotland is expected to benefit significantly from this funding. SCDI would ask for information on how these plans compare with the funding which would be available for the Scottish Government to invest if the Crown Estate's revenues and expenditure in Scotland were to be fully devolved, to understand whether there is a risk of any near-term reduction in investment.

**Do you agree that the revenues from the Crown Estate in Scotland should be used to benefit Scotland at both a national and local level? How should the revenue be used to support local communities?**

15. Yes. One of the lessons from the Norwegian and the international oil funds highlighted is that to maximise the benefits of these revenues, they should be targeted and not spread too thinly. They should, generally, be used to support long-term, sustainable economic and community development and not to fund general public services. If the revenues become relied on to top up budgets, there is a risk that the cost of leases would be increased to cover shortfalls and, as a result, disincentivise investment and job creation by industry. The use of these revenues should be genuinely additional to core funding from government.
16. At a national level, SCDI welcomes the proposal to create a long-term legacy through investment in low carbon infrastructure, including skills infrastructure.
17. In the case of offshore renewable energy and Carbon Capture and Storage, there is a difficulty in defining which local communities are impacted and should benefit. SCDI would support the view that those directly impacted through construction, proximity and/ or visually should have some community benefit. In keeping with the national level, SCDI believes that energy generation and efficiency schemes (including community ownership of stakes in renewable energy developments) should be high priorities for the use of these revenues.

**Do you believe that the time is right to create a Future Generations Fund?**

18. SCDI supports the principle of capturing a share of the value of developing offshore renewable energy and Carbon Capture Storage to create a long-term legacy for Scotland. This was a recommendation of our *Blueprint for Scotland*. We welcome the Scottish Government's thinking on a Future Generations Fund. In relation to timing, what the Future Generations Fund would contain, how it could be maintained in the future, SCDI would make the following comments:
19. As the consultation paper implicitly recognises, the emerging offshore low carbon energy sector will, at best, be marginally profitable initially and requires significant public investment and support. To seek a share of some of these revenues at this stage would be moving public money around the system rather than returning some of the profits for national and local benefit. Over the course of the next decades, the offshore low carbon energy sector will move towards greater levels of profitability and more substantial benefits can be safely secured. Creation of the Fund at this time would, therefore, be mainly a signal of intent.
20. SCDI strongly supports transfer of the Fossil Fuel Levy monies to the Scottish Government, but SCDI is uncertain about the benefits of then transferring this and existing Scottish Government funding streams which support renewables and low carbon developments, to the Future Generations Fund. This appears to be re-badging resources which would ultimately be used for the same purpose.
21. The Scottish Government is right to consider the lessons from oil and gas funds around the world, but there is no reference to plans for renewable energy funds. It should take cognisance of whether other countries which are competing for investment in offshore renewable energy are proposing to create similar funds. Scotland and the UK are currently ranked very highly as attractive locations. In seeking over the course of the next decades to secure a share of the profitability of the low carbon sector, the Scottish Government must be careful not to disincentivise investment in Scotland, which would reduce the economic and employment benefits for Scotland, make it harder to achieve Scotland's climate change targets and limit any financial benefits from the Future Generations Fund.
22. SCDI is supportive in principle of the creation of an oil fund, but is keen to hear more detail about the options, especially the impact on intra-UK financial arrangements and on the fiscal regime for a mature and highly-taxed province. In the interests of UK energy security and the economic benefit of the industry to Scotland and the UK, SCDI believes that the current fiscal regime is unsustainable in the medium term and that the priority should be phasing out the supplementary tax on the industry. The revenues generated for an oil fund should therefore not be from additional taxation, but from the hypothecation of taxes which would otherwise flow. The structure of an oil fund should be such that the fund and potential income from it do not distort the domestic economy.

### **On what basis could the Fund best be established?**

23. Investment to expand Scotland's low carbon energy sector would be an appropriate long-term purpose for the Future Generations Fund. The Scottish

Government has highlighted skills development, loans for community renewable projects, the supply chain base and technological innovation. Renewable energy generators are already making significant investments in these areas and there is a risk that if the Scottish Government seeks an excessive share of any profits that this will reduce their ability to do so. The Scottish Government should carefully consider: whether it is better-placed to make decisions about investment in the supply chain base and technological innovation than utility companies; whether it would be these same companies which would often, in effect, be bidding back to the Future Generations Fund for a share of their own revenues; and the implications of renewable energy generators being required to provide investment for commercialisation of technology, for example wave and tidal energy, which may be in competition with their own or their partners' device(s).

24. The Scottish Government should ensure that investment for the Future Generations Fund is investing in activity which would otherwise not be supported.

**Should part of the revenues from the Crown Estate in Scotland be invested in the Future Generations Fund?**

25. Yes, SCDI would support a share of revenues from offshore renewable energy and future Carbon Capture and Storage projects in Scottish waters being invested in the Future Generations Fund. The Scottish Government should be careful to avoid revenues from the ports industry being used via the Future Generations Fund to subsidise renewable energy related developments at competitor ports, as this would be unfair and likely to infringe EU state aid rules.

**Should a community benefit register, covering all renewables technologies, be placed on a statutory footing?**

26. SCDI supports the publication of a community benefit register covering all renewables technologies. However, we would ask whether it is necessary for this to be placed on a statutory footing. The onshore wind industry has a long track record of agreeing community benefits on a voluntary and discretionary basis.
27. It should be clear that community benefits will vary depending on the project and there is no "going rate". The funding available for community benefits is inevitably lower if developers costs are higher, for instance if they have been faced with the additional expense of a public local inquiry. As onshore wind-farms sites become more marginal, the funding available for community benefits will also be reduced. SCDI would not wish them to become a disincentive to low carbon investment.
28. While SCDI supports the provision of appropriate community benefits, it should be acknowledged that making these compulsory and the subject of arbitration between developers and negotiators would lose an element of the 'good neighbour' and community involvement that has been key to successful projects.

**Which specific aspects of a development should it make reference to?**

29. The register should make reference not only to any financial agreement, but to the wider community benefits of a project, such as economic, employment and environmental, or engagement with schools. A commitment may be made by a developer to local sourcing of employees and services. At some sites, community benefit could include provision of a visitor centre which would significantly benefit the local economy. Investment in a port facility due to an offshore asset benefits a coastal community. Listing financial benefits alone would be a crude measure.

**Should information on existing community benefits flowing from operational onshore wind-farms be covered by these proposals for a register?**

30. SCDI would support this proposal if both providers and recipients of these existing community benefits are content. Incorporating these benefits would show how community benefits from onshore wind-farms projects have grown over time.

**Can the present arrangements within the planning system be developed to secure the benefits of Scotland's next energy revolution in a more creative way whilst maintaining the impartial and legal requirement for sound planning decision-making?**

31. The principle of impartiality in the planning system must not be undermined. Community benefits are immaterial to the decision-making process because they do not have a planning purpose and are not related to the development proposal. This is a question worth asking, but there are risks in blurring these distinctions.

32. It may be possible to consider linking community benefit statements to marine licensing of offshore renewable energy and Carbon Capture and Storage projects, if the existing separation of licensing and marine planning is maintained.

**Is there merit in seeking to introduce a Statement of Community Benefit to accompany planning applications for wind-farm developments?**

33. There is merit in this proposal, but the Statement of Community Benefit must be separate from the planning application to preserve the impartiality of the latter. However, while this would indicate a commitment to community benefit, the actual community benefit could only ever be provisional and would depend on the final economics of the project, including the costs which the developer may have incurred if there have been objections which led to a public local inquiry.

**How can the public estate better be exploited to ensure greater community benefit from onshore renewables? How best can this process be taken forward?**

34. SCDI, COSLA and SLAED, in association with Aberdeen City Council, are organising a conference on this theme in Aberdeen this June to identify how best to take this process forward. We will be inviting the Scottish Government shortly.

35. Low carbon energy generation on the public estate is a potential source of new revenue for public bodies, as well as contributing to Scotland's renewable energy

and climate change targets. At present, 0.01% of UK electricity generation is by local authority-owned renewables. In Germany, the equivalent figure is 100 times higher. Joint Ventures between public bodies and between a public body and an adjacent community could be potential models. Announcements so far by public bodies suggest that partnerships with commercial developers are likely to be the best way of exploiting low carbon energy opportunities on the public estate.

**What other options are there for securing community benefit from renewables and other low carbon energy developments? Where should the revenue generated be directed and how should it be used?**

36. Communities secure a wide range of benefits from renewables and other low carbon energy developments. These include local supply chain expertise and jobs benefits, and may also include local assets such as a visitor centre. Sustaining high levels of investment and continuing to secure these benefits by maintaining an attractive market for development must be the over-riding priority in consideration of whether there are any further options for revenue generation.

**The Scottish Government must ensure that any policies that it implements do not unduly discriminate against persons defined by age, gender, disability, sexual orientation, race and religion and belief. We would welcome your views on whether you believe that any of the propositions set out in this consultation paper will unduly impact on any of these groups mentioned.**

37. No comment.

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