



# Delivering Community Benefits from Wind Energy Development: A Toolkit

A report for the Renewables Advisory Board and DTI

**MAY 2007**



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## **Foreword from Lord Truscott, Parliamentary Under Secretary for Energy**

I am pleased to endorse this report, part of a suite of reports, commissioned by the Renewables Advisory Board (RAB) on community involvement in wind energy developments.

'Delivering Community Benefits from Wind Energy Development – A Toolkit' provides information on the options for taking action to negotiate and potentially realise meaningful benefits for local communities.

The other reports, being published alongside this one, are:


- The Protocols for Public Engagement with proposed Wind Energy Developments in England;
- The Protocols for Public Engagement with proposed Wind Energy Developments in Wales; and
- Bankable Models which enable Local Community Wind Farm Ownership;

These reports provide useful and practical guidance for local planning authorities, communities and wind energy developers. They are all available from the DTI website via the following link -

<http://www.dti.gov.uk/energy/sources/renewables/policy/renewables-advisory-board/planning/page34406.html>

All of these reports should assist local planning authorities, developers and communities in making the most of the opportunities that the development of wind farms present.

Working together we can make our renewable energy targets a reality.



**Lord Truscott**  
**Parliamentary Under Secretary for Energy**  
**Department of Trade & Industry**



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# 1 Introduction

*“The routine provision of meaningful benefits to communities hosting wind power projects is likely to be a significant factor in sustaining public support and delivering significant rates of wind power development.”*

Community Benefits from Wind Power: Policy Makers Summary  
Report to Renewables Advisory Board and DTI, Centre for Sustainable Energy & Garrad Hassan, 2005

Wind energy developments can produce significant benefits – financial, environmental and social. They also produce impacts, most obviously on the local landscape.

Questions have been raised as to whether the communities which host these impacts are participating sufficiently in the benefits of developments. Compared with many other forms of development (like new housing, shopping, or commercial buildings), the benefits of wind energy developments tend to be much less concentrated in the area around the development. For example, the benefits of reduced carbon emissions are global and the contribution of wind energy to improving the security of energy supplies is nationwide.

There are also concerns over whether there is a sense in some local communities that wind developments are ‘done to them’ by outside forces which may be fuelling antipathy towards proposed wind farm developments.<sup>1</sup>

There are no simple answers to these questions. A study published in 2005 for the Renewables Advisory Board concluded that more significant benefits were routinely accruing to communities hosting wind farms in those EU countries which have enjoyed much higher rates of deployment than the UK (specifically Spain, Germany and Denmark). It also revealed that these benefits were the result of country-specific policies relating to local taxation, local and regional procurement and/or opportunities for local ownership. However, these policies were not obviously transferable to the UK.

The study concluded: *“This overseas evidence points to a need to make meaningful community benefits more routine and systematic in UK wind power projects if future rates of deployment are to grow.”*<sup>2</sup>

## What this Toolkit is for

This Toolkit is designed to help to make meaningful community benefits more routine and systematic in UK wind energy projects. It sits alongside activities to support improved public engagement in the wind farm planning process (see the Protocols for Public Engagement here) and to identify specific approaches to enabling local ownership which fit with typical financing structures for commercial wind farm developments (see here).

The Toolkit starts from the premise that there are no ‘entitlements’ – either to develop a wind farm in a particular location or to gain financially from someone else doing so ‘on our doorstep’. It simply provides information on the options for taking action to negotiate and potentially realise meaningful benefits for local communities.

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<sup>1</sup> This concern is not, however, supported by opinion polling evidence which routinely exposes higher levels of support for wind energy amongst people living near wind energy projects

<sup>2</sup> Community Benefits from Wind Power: A study of UK practice & comparison with leading European countries. Report to the Renewables Advisory Board & the DTI by the Centre for Sustainable Energy and Garrad Hassan, 2004. Available at [www.cse.org.uk/pdf/pub1049.pdf](http://www.cse.org.uk/pdf/pub1049.pdf)

This toolkit is designed to help wind energy developers, local authorities and local communities understand better:

- the range of ways in which 'host communities' can benefit from wind energy developments
- the possible justifications for ensuring greater local benefits
- the factors which may influence the nature and scale of benefits available to host communities
- the options for managing the delivery of benefits locally
- the role each of them can potentially play in securing local benefits.

### **What this Toolkit is not for**

This Toolkit is not aimed at community organisations seeking to lead their own wind energy development. There are other guides and support available for such activities.<sup>3</sup> The focus here is principally on wind farm developments driven by commercial companies; these currently represent the significant majority of wind development activity in the UK.

This Toolkit is also not designed to provide a case for the development of wind energy. Its purpose is to ensure that, if a development is permitted, the opportunities for positive local gain have been explored and, through good understanding and effective public consultation and engagement, optimised.

### **What this Toolkit means by 'community' and 'benefit'**

It is important to have a reasonably clear and shared picture of what is meant by both 'community' and 'benefit'. This is not easy – even the Government has concluded that *"whatever it is that makes a group of people into a community is elusive and fluid."*<sup>4</sup>

Research often distinguishes between **community of locality** (based on a geographical location) and community of interest (i.e. with a shared outlook with regard to faith, politics, social interaction, ethnicity or common interests). There can therefore clearly be communities of interest within communities of locality.

This Toolkit is focused on communities of locality – with the locality defined in relation to the wind energy project and including all people living there. It is therefore talking principally of **local** benefits.

However, the geographical extent of the 'locality' in terms of **where benefits accrue** is harder to define. It depends largely on the inhabitants' collective sense of belonging and shared purpose – and this may change depending on the nature of the benefit in question (see also discussion in Section 5)

For example, benefits relating to the value of 'local' factories providing some of the components of the wind turbines may actually be defined as 'local' on a county or regional basis or even national basis. On the other hand a fund donated by the developer to improve local communal facilities may only be perceived as a benefit in relation to the project if it is restricted to the villages within viewing distance of the project (or even closer). This issue is explored in more detail in Section 5.

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<sup>3</sup> See, for example, information at [www.energy4all.co.uk/yourproject.php](http://www.energy4all.co.uk/yourproject.php), [www.awelamantawe.org.uk](http://www.awelamantawe.org.uk)

<sup>4</sup> ODPM, Sustainable Communities: Building for the Future, Feb 2003, [www.communities.gov.uk/index.asp?id=1163452](http://www.communities.gov.uk/index.asp?id=1163452)

Similar clarity is needed for the definition of what should be considered a 'benefit'. The benefits from a wind farm development in the UK which can potentially arise within the local community include:

- The use of locally manufactured content
- The use of local contractors during construction
- Buying shares or other investment opportunity for local residents and businesses
- Potential involvement in the development process by local landowners, groups or individuals
- Land rental to the local landowner(s)
- Local community facility improvements
- Lump sum or regular payments into a fund for the benefit of local residents
- Employment of local people in the operation and maintenance of the wind farm
- Improvements to local environment and wildlife habitats
- Visitor centres and tourist facilities
- Education visits and school support
- Sponsorship of local groups and teams

Clearly, there is a question over the extent to which members of the local community universally perceive each of these as a benefit (for example, a local contractor or local landowner may not be perceived as part of 'the community' by other local people). Similarly, different local people may well have very different views about what constitutes a benefit (or, indeed, an impact).

In addition, some of the potential benefits are difficult to influence or enhance for a community through actions around a particular wind farm by the developer, local authority or community organisation. These include the ownership of the land upon which the project is sited (and therefore who gains the land rental) and the location of manufacturing plant for wind turbine components.

The focus for this Toolkit is therefore on those potential benefits which can be directly influenced and which are likely to be widely considered to be 'of benefit to the local community', rather than few specific individuals within it. These are:

- **Community Funds:** receiving a lump sum or regular payments into some sort of fund for the benefit of local residents
- **Benefits in Kind:** where the developer directly provides or pays for local community facility improvements, environmental improvements, visitor facilities, school and educational support etc.
- **Local Ownership** of shares in the project by local people, either through their own investment or through a profit-sharing or part-ownership scheme designed to tie community benefits directly to the project performance.
- **Local Contracting** and associated local employment during construction and operation

This Toolkit explores the issues associated with each of these. It is designed to answer questions like:

- Why should community benefits be considered? (Section 2)
- What are the costs, risks and rewards of wind energy and how do community benefits fit into this picture? (Section 3)
- What is the relationship between community benefits and the planning process? (Section 4)
- What are the different ways community benefits can be offered? (particularly Section 5 and Section 6)
- Who should benefit and how should this be controlled and managed? (Section 7)
- What agreements can and should be put in place to secure these benefits? (Section 7)

The Toolkit also examines options for local ownership within commercial developments (Section 8) and issues associated with securing the involvement of local contractors in the construction and operation of a wind energy project (Section 9).

Guidance about how negotiations about community benefits might work and who should be involved is provided in the Protocols and Guidance for Public Engagement with proposed Wind Energy Developments [here](#).

Case studies illustrating different aspects of community benefits development and/or delivery are referenced throughout this Toolkit. Because some of the case studies illustrate more than one aspect, all of the case studies have been placed at the end of the text (Case Studies), with hyperlinks to them within the text (and from them back to the text).

## 2 Why Community Benefits from Wind Energy Projects?

There are various reasons presented by different people as to why wind energy projects should provide benefits to local communities in the UK.

### **“Being a good neighbour”**

Many wind developers see their provision of community benefits as simply a ‘good neighbour’ gesture that fits with their commitments to corporate social responsibility. In this context, a wind energy project is like any other type of new development which should seek to engage with its host community.

### **“Paying compensation”**

At the other end of the spectrum, some communities and their representatives see the case for the developer making payments as ‘compensation’ for the impact of the wind farm on the landscape and local amenity and the inconvenience caused by the construction process.<sup>5</sup>

At the same end of the spectrum is a point of view which sees wind energy as an example of a development which typically leaves little benefit specifically for the locality in which it is based. This contrasts with housing or commercial building developments which are likely to bring some continuing benefits of employment and services. Specific payments to correct this situation are, it is argued, therefore justified.<sup>6</sup>

### **“Sharing the rewards”**

Somewhere between these two perspectives is a view that, since the wind is a ‘common’ which no one owns, local communities should share somehow in the rewards reaped from farming the wind blowing across their locality.

### **The lessons from international experience**

Comparison with European countries with high levels of wind energy development – notably Spain, Denmark and Germany – also provides a justification for community benefits being provided routinely within UK wind developments.

Communities in these countries typically enjoy some of the benefits of local wind farms as a matter of routine. Local benefits are effectively built into the fabric of any project, usually taking the form of the local tax payments, jobs and economic benefits from regional manufacturing, and, for Denmark and Germany, opportunities for local ownership.

In these leading EU countries for wind energy development, which have enjoyed far higher rates of wind energy development than the UK, the concept of a voluntary contribution or a community fund is unfamiliar; benefits are already accruing without the need for developers to volunteer additional payments.

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<sup>5</sup> In one area of Germany, there is a statute which requires the owners of ‘vertical’ structures to pay annually into a local fund an amount related to the height of the structure in the landscape. This applies to wind turbines, pylons and other structures above a certain minimum height.

<sup>6</sup> See, for example, page 22 of Planning Guidelines from Highland Council at [www.highland.gov.uk/NR/rdonlyres/DA6EF327-46B5-4904-8E1D-CD622B103C77/0/hresmay2006.pdf](http://www.highland.gov.uk/NR/rdonlyres/DA6EF327-46B5-4904-8E1D-CD622B103C77/0/hresmay2006.pdf)

This overseas evidence establishes a strong case for making meaningful community benefits more routine and systematic in UK wind energy projects if future rates of deployment are to grow and public support sustained. However, much of what is done in these other countries is not directly importable to the UK to achieve this since it would require significant changes to planning practices, renewable support mechanisms and local taxation systems.<sup>7</sup>

In this situation where other policy measures are not available, there is a case for placing greater reliance on the developer making specific effort to deliver local benefits from a wind project by negotiating financial and other contributions to the local community.

### **Community benefits are justified**

All of these perspectives offer good justifications for the provision of community benefits from a wind energy development. Such provision – and any offer of community benefits by a developer – should not therefore be seen as ‘bribes’ or attempts to ‘buy planning permission’. They are a fully justifiable component of a wind energy development and its relationship with its host community.

Of course, whatever the justification for providing community benefits, the question remains as to what constitutes a ‘fair’, ‘reasonable’ or ‘meaningful’ level of benefit for the local community. This is examined in Section 3.

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<sup>7</sup> This is examined in more depth in *Community Benefits from Wind Power: Policy Makers Summary*, Report to Renewables Advisory Board and DTI, Centre for Sustainable Energy & Garrad Hassan, 2005 ([www.cse.org.uk/pdf/pub1051.pdf](http://www.cse.org.uk/pdf/pub1051.pdf))

### 3 The costs, risks and potential rewards of wind energy

It is important to understand the commercial realities of wind farm development in the UK. Without knowledge of the costs, risks and potential rewards of a wind farm, it is possible that discussions of community benefits will be based on unrealistic expectations and incomplete understanding.

This section examines the costs and financing structure of a typical wind farm development and the risks and potential rewards involved.

It also shows how different factors can influence the commercial success and profitability of a wind farm. These range from general national and international factors like the price of wind turbines or the bank interest rate, to site-specific factors like wind speed and grid connection costs.

#### **'Debt' and 'equity'**

A typical wind farm financing structure involves a mixture of equity, provided by the owners of the wind farm development, and debt provided by a bank.

Equity investors – the shareholders in the project company – will share any profits between them through dividend payments.

In a typical wind energy development, bank debt will be used to fund 70 – 80% of the total cost of the project development and construction.

The bank debt is repaid with interest (like a mortgage on a house), typically over 10 years. The bank does not share in the profits of the project – just as a mortgage company does not gain from any increase in the value of a home. Bank debt is relatively low cost (typically 2-2.5% above base rates) and tax efficient – unlike dividends, repayments and interest on bank loans are paid before tax.

Bank debt is not, however, without risks. If the project does not earn enough income to make the bank repayments, the project will either be financially restructured (with a reduction in income for shareholders) or, in the worst case, the bank will take ownership of the project and the shareholders could be left with nothing.

This 'gearing' of equity with debt is common across many different projects and business sectors and is used to reduce the investment required from shareholders. The level of gearing heavily influences the returns earned by shareholders. In general, shareholders benefit from a 'highly geared' project (with a high proportion of debt) as the returns per £ invested will be higher (see Box for example).

The financial value of any project for its owners can therefore only be properly understood if the proportions of equity and debt in the project are understood.

## The shareholder benefits of 'gearing' equity with debt

- **100% equity funding**

A £10 million pound project which makes £1.5 million profit each year will make a return of about 8% for shareholders on their £10 million equity investment over ten years.

- **20% equity 80% debt funding**

The same £10 million project which is funded with £8 million of bank debt (at 6.5% interest rate) and only £2 million of equity will make a return of 16% for shareholders.<sup>8</sup>

And, because the shareholders have only needed to invest £2 million to own the £10 million project, they still have £8 million to invest in something else equally or more rewarding!

*Health Warning: Note that this is a simplistic analysis for purely illustrative purposes*

## Understanding the risks of wind energy development and investment

There are three main phases for a wind farm development from a financing point of view, each of which has risks of very different magnitudes. These are explored in more detail below.

**Development and planning** – undertaken by a developer using only equity provided by the development company shareholders.

This is a highly risky phase since there is no income earned and no certainty that the project proposed will be viable or receive planning permission. Costs can be high with site surveys, engineering assessments, environmental impact assessments, legal fees and public consultation. £150,000-300,000 and more is not unusual.

A further £150,000-£200,000 can be added to these costs if the project has to face a planning inquiry where a developer chooses to challenge what it feels is a poorly justified decision by a local planning authority to reject a planning application.

In this phase, shareholders are investing their own money in the hope that planning permission will be granted. At that point they may want to sell the project to someone else at more than their cost of developing it to this 'permitted' stage. Or they may want to build the project and potentially profit from its successful operation. If planning permission is not granted, the shareholders will have nothing.

**Construction** – construction of a wind farm carries some risks, though these are well understood and can be managed and, in some cases, insured against. While there is no income earned during this phase, banks will often lend towards the costs of construction once the required equity investment (e.g. 20%) from shareholders has been made. However, if the construction process is seriously delayed by poor management or unexpected site conditions, shareholders may be forced to invest more equity or, in the final resort, the banks may decide to take over the project.

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<sup>8</sup> This is because the profit left for shareholders after paying for the bank loan is larger per pound of the £2 million of equity invested than when all the money is provided as equity.

**Operation** – operating costs of wind farms are relatively low and the risks well understood. The main risks at this stage are that: (a) the value of the electricity generated is much lower than expected (which, for wind energy projects in the UK, is principally down to political decisions about market support mechanisms for renewables and how these affect the market value of renewable electricity); (b) the turbines experience technical difficulties (though there are typically warranties in place for the first 5 years of operation), or; (c) the wind does not blow as much as predicted. The potential impacts of these factors on profitability are explored in more detail below.

### **The importance of the risk-reward relationship**

This analysis shows that, by the time a wind farm is up and running, some people will have invested a considerable sum of money, with a high risk that they could have lost it all. They also face a continuing risk that they will not make as much money as expected.

As with all businesses, people invest this money at risk because they believe the potential profit from the project will make the risk worth taking (and make a better return on their money than investing it in some other initiative).

Generally speaking, the higher the risk involved in an investment, the higher the rewards need to be to secure the investment.

It is therefore important to the continued availability of investment funding for wind farm development activity that the financial rewards available are felt to be adequate reward for the risks involved.

Clearly, if these risks reduce – such as more predictable positive planning decisions or more long-term stability in renewable electricity prices – the rewards will not need to be as great to sustain investment in future development activity.

However, if the financial rewards are significantly reduced by, for example, increases in project operating costs or by prolonged planning processes, there is a possibility that wind energy development activity will slow or cease as investors move to more financially rewarding initiatives in other types of business.

### **What factors make what difference to wind farm profitability?**

There are many different factors which affect how profitable a wind farm is likely to be.

Some of these are specific to the particular site – like average wind speed, grid connection costs, ground conditions, etc.

Some relate to the costs of construction or operation – like wind turbine prices, bank interest rates, or the need to take the project through a planning inquiry.

Some relate to the income earned by the project – like the price earned for electricity generated by the project, the actual turbine performance and reliability and the amount of wind which blows each year.

To examine how changes in these factors alter the profitability, they have been tested on a simple financial model of a 20 MW, 10 turbine wind farm. The results are shown below.

Factor	Relevance	Sensitivity test	Impact on profitability <sup>9</sup>
BASELINE	<ul style="list-style-type: none"> <li>• 20MW 10 turbine development</li> <li>• 80% debt and 20% equity</li> <li>• development and build cost of £800 per kW</li> <li>• 30% capacity factor</li> </ul>	N/A	11.8% return to shareholders
Interest rate	Interest and repayments on bank loan can be 75 – 80% of typical annual earnings	+ 1 per cent on bank base rate for 10 year duration loan	Reduces to 9.5%
Turbine costs	The major component of project construction cost is the wind turbine	+15% cost increase in turbine prices	Reduces to 7.5%
Price earned for electricity output	Heavily dependent on continuing strength of government-driven renewables market and value available from energy suppliers in power purchase agreements (Baseline price is £62/MWh)	20% lower price 10% lower price 10% higher price 20% higher price As baseline price but 20% lower prices from year 10	Project loses money Reduces to 4.2% Increases to 18.8% Increases to 25.6% Reduces to 11.7%
Grid connection costs	More remote locations tend to have higher grid connection costs	+ 40% grid connection costs	Reduces to 11.0%
Extra planning costs through appeal planning decision	Planning inquiry adds £150 – 200,000 to the build cost	+ £200,000 to fund public inquiry	Reduces to 11.1%
Wind speed		1 ms <sup>-1</sup> lower average wind speed	Reduces to 2.2%
Turbine performance	Could be poor due to low levels of wind in a year or due to technical problems	90% of predicted output (throughout lifetime of project) 90% of predicted output for first 2 years	Reduces to 4.2% Reduces to 9.6%

*HEALTH WARNING: The numbers in this table are very rough and should be used for illustrative purposes only. This table is designed to show how sensitive a wind farm's profitability is to relatively small variations in some key factors. The shown 'impact on profitability' is not intended to be 'typical' or 'real' since this is a simplified analysis. The changes should NOT be added up or multiplied (twice the change may not produce twice the impact).*

This analysis shows that there are factors – notably electricity price, power output (either from level of turbine performance or site wind speed) and interest rates – that can have a significant impact on the financial viability and profitability of the project.

<sup>9</sup> The 'profitability' is expressed here as the 'internal rate of return' or 'IRR'. This is not quite the same as an interest rate earned on an investment in a savings account, but that gives a helpful comparison in thinking about 'what's it worth?'

This is particularly true of the price earned for renewable electricity which is very heavily dependent on political will to shape a market which provides renewables with a price premium. Uncertainty over the long-term reliability of this political will creates risk, and higher risk justifies higher returns for shareholders.

In Section 5, the impact of different levels of financial contribution to the community is also tested on the same 'model' wind farm.

### **Additional observations on wind farm 'economics'**

- Smaller projects (particularly below 5MW) are less likely to be able to afford community benefits because the fixed costs of development and operation take up a greater proportion of the income, leaving less 'spare' for returns to shareholders and payments to community funds (or other community benefits).
- Projects in higher wind speed areas are often more remote and therefore have higher grid connection and other construction costs. The higher construction costs will partly offset the benefit of greater production outputs from the windier site.
- Extended planning decision-making processes, particularly where a project faces a public inquiry, increases developer costs and reduces returns.

This analysis is relevant when considering what constitutes a reasonable level of community benefit.

Developers can not be expected to agree to the provision of local benefits that may jeopardise the financial viability of a scheme. Clearly if, by providing community benefits, a project were to become uneconomic or returns drop below those needed to secure investment, it would not be built and all the benefits would be lost.

However, communities may take the view that they should not be expected to host a development which alters "their" landscape unless they see some of the rewards benefiting them.

Indeed, the implication from international experience is that the provision of meaningful benefits to host communities is one of the keys to sustained public support for wind energy in general.

## 4 Community benefits and the planning process

There is a strict principle in the planning systems in all parts of the UK that a decision about a particular planning proposal should be based on planning issues; it should not be influenced by additional payments or contributions offered by a developer which are not linked to making the proposal acceptable in planning terms.

Current planning legislation also prevents local planning authorities from specifically seeking developer contributions where they are not considered necessary to make the proposal acceptable in planning terms. This is to ensure that unacceptable development is never permitted because of unrelated benefits being offered by the applicant. To put it simply, planning permission can not be 'bought'.

This approach means that community benefits, such as those explored in this Toolkit, are generally considered to be not relevant to the decision on granting planning permission (though see box below).

Of course, communities can still ask for benefits and developers can still offer them. And local authorities can still play a role in facilitating the process provided that they ensure that officers or councillors directly involved are not in a position to influence the planning decision (see below).

The relationship between the planning system and community benefits is examined in more detail in this section.

### Planning decisions must be based on planning issues

If planning decisions must be based on planning issues, what are the relevant 'planning issues'? This has been defined partly by legislation and also by test cases in the courts.

Fundamentally the planning issues – or 'material considerations' – must be related to the development and use of land in the public interest. This will include the number, size, layout, siting, design and external appearance of the proposed development, the means of access, together with landscaping, impact on the neighbourhood, and the availability of necessary infrastructure.

Any planning proposal must fit within the local planning authority's own planning policies. Government planning and renewable energy policies and, in England, regional planning policy statements can also carry significant weight in the decision-making process.

In this context, community benefits are generally not considered legitimate material considerations within the planning decision making process as they do not relate to planning issues nor directly to the proposed wind farm.

### A grey area for community benefits in the planning process?

Recent new national planning policies for renewable energy across the UK state that the economic benefits of a renewable energy project should be given significant weight in planning decisions.<sup>10</sup> Although payments to a community fund could possibly be defined as one of the economic benefits of the project (since it is a direct result of the economic operation of the project) and identified as such in an Environmental Statement, they do not currently count as material considerations. While not yet tested in public inquiry or the courts it is possible that the status of such benefits may, in time, change as a consequence of a change in planning policy. Such policy could advise that, in giving weight to the "wider benefits" of wind energy projects in planning decisions, Local Planning Authorities could take into account community benefits.

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<sup>10</sup> and the 'wider environmental' benefits

## **Actions necessary to make a development ‘acceptable’**

Community benefits should be considered as separate and different from those actions and contributions from the developer which are necessary to make a proposed development acceptable in planning terms. This is particularly relevant to the consideration of ‘benefits in kind’ in Section 6 of this Toolkit.

For a wind energy development, ‘necessary actions’ may typically involve providing additional infrastructure (e.g. widening access roads), correcting losses to amenity (e.g. correcting for TV interference) or restoring or recreating wildlife habitats (to make up for any impact caused by construction or operation). A local authority can seek these contributions (either in kind or as payment toward the cost) and the provision of them is a relevant factor in the planning decision.

In the context of this Toolkit, these necessary actions should not be considered as community benefits since the development has created the need for them (e.g. to mitigate an impact).

As detailed below, these ‘necessary actions’ can be enforced through planning conditions (where they are ‘in kind’) or agreed through planning obligations (so called Section 106 Obligation or, in Scotland, Section 75 agreements).

## **Beyond ‘necessary’ actions**

There is also potential for using planning obligations<sup>11</sup> to include developer contributions which go beyond ‘necessary actions’ but which are generally related to land use and ‘planning issues’ as identified above.

These may include wildlife habitat enhancement, amenity improvements (such as additional footpaths or waymarked walks or improved telecommunications provision) and infrastructure improvements (such as a lay-by to allow members of the public to stop to view the wind farm). These types of community benefits ‘in kind’ are explored further in Section 6

There is currently no legal framework available within planning law to secure and enforce the provision of financial community benefits. Section 7 of the Toolkit explores other ways to achieve this.

## **How local authorities can be involved in discussions on community benefits**

The local planning authority has a duty to safeguard the impartiality of the planning process. In determining whether a planning application should be approved or rejected, planning decisions must be taken in accordance with Regional Planning Guidance, the appropriate Development Plan as well as relevant National Planning Policy Guidance Notes and Statements.

Because community benefits sit outside the material considerations of the planning decision, this gives rise to two options. The local authority must either (a) not become involved in discussions about community benefits until after it has resolved to grant planning permission or (b) separate the planning process from discussions about community benefits and run the two in parallel with different officers and/or councillors involved.

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<sup>11</sup> Section 106 of the Town and Country Planning Act 1990 (for England and Wales) and Section 75 of the Town and Country Planning (Scotland) Act 1997 (for Scotland)

The second 'early involvement' approach is promoted as good practice by the Protocols for Public Engagement with Proposed Wind Energy Developments (see here). Separating the processes means that any local authority officers and councillors who are involved in any discussions about community benefits from a proposed wind energy development must not become directly involved in the planning decisions on the proposal.

The best approach would be for other relevant officers, such as an economic development officer or sustainability manager, or councillors outside the planning committee, to lead the local authority's involvement in community benefit discussions. This proactive and planned approach already happens in some local authorities and is recommended in the Protocols.

The same approach applies to members or officers of parish councils and community councils. While these bodies do not have decision-making powers, they will be consultees in relation to the planning application. Like the local planning authority, their response to such consultation should focus on consideration of planning matters; it should not be influenced by the potential of community benefits.

There are separate issues about whether either the developer or the local community wants the local authority involved in discussions, but, with care and forethought, there are no procedural or probity-related obstacles to this happening.

**CASE STUDY: See [Argyll & Bute Council](#)**

## 5 Financial contributions: community funds

The most obvious and most common way for wind energy developments to provide community benefits is for money to be paid into a fund for the use of the community.

This section examines the different ways this is typically done and other issues associated with deciding who should benefit and how the money should be used. Section 7 examines the possible structures for establishing and managing the fund.

### Different ways to link the payment to the project

Developers may wish to fix the total payment amount without creating any obvious link with the size or operation of the wind farm. However, it is more common for contributions to be related to the scale of the project.

- An **annual payment per megawatt (MW)**, either for every year or some years of the project

Annual payments linked to the MW capacity of the project are simple, low risk for the community, and predictable for the project owner. They create an ongoing fund which can support initiatives over a long period. Such payments are sometimes, by agreement, index linked.

- A **lump sum payment** when the project starts operating or at some point thereafter

Lump sum payments can be significant sums of money, which is particularly relevant where there are large and immediate funding needs within a local community (e.g. new community building programme etc). However, without such immediate needs for the money, they carry the risk of 'burning a hole' in a community's pocket and require an investment strategy to manage the money if an ongoing income is wanted.

- An **amount linked to the revenue** generated by the project

Linking the amount paid to the 'success' of the project reduces risk for the wind developer (because they pay less if the project produces less income). It also creates the strongest link between the community benefits and the benefits being generated by the wind farm. However, it also exposes the community to the risks of poor performance or low renewable electricity prices, raises additional auditing and monitoring costs to check the amounts, and may cause concerns over commercial confidentiality for the project owner. Some of these risks could be addressed by establishing a minimum payment level.

- Some **combination** of some or all of these.

There are examples where a lump sum payment has been made (for example, to fund an upgrade to a local school) and then more modest annual payments per MW made to provide ongoing revenue to the community.

## What can a project afford to pay?

Section 3 explored the financial realities of wind farm development and operation – the costs, the risks and the potential rewards.

That analysis shows that there are no simple generalisations which can be made about the level of community benefit which a project can afford to pay.

Research undertaken in 2004-05 of UK wind farms which were in operation indicated a typical contribution was £800 – 1,000 per MW per year.<sup>12</sup> More recently, there is evidence that these figures have increased, in some cases quite substantially. Some local authorities, particularly those with good wind resources, have made public indications of the levels of contribution they are expecting.<sup>13</sup>

Whatever the evidence, averages and expectations, the actual amount which can be contributed by a particular wind farm has to be arrived at through discussion and negotiation. This is likely to involve the wind energy developer, representatives of the local community (potentially self-identified as a liaison group from a public meeting or members of the parish or community councils and other community groups), possibly with the local authority or a local energy agency providing support and advice (see here).

Using the model project detailed in Section 3 of this Toolkit, the possible impact of different levels of community benefit can also be illustrated. As with the impact of other financial factors, these numbers come with a significant ‘health warning’. They are illustrative of the particular example modelled and should not be applied literally to any other case.

Factor	Relevance	Sensitivity test	Impact on profitability (11.8% baseline)
Community fund contribution	“Sharing in the rewards of harvesting the local wind” (or other justification, see Section 2) Baseline no contribution	£1,500 per MW per year £5,000 per MW per year £1 million lump sum contribution	Reduces to 11.5% Reduces to 10.7% Reduces to 8.2%

Developers can not be expected to agree to the provision of local benefits that may jeopardise the financial viability of a scheme, particularly if other factors (such as increased planning or construction costs) have already reduced returns. If demands for community benefits made a project uneconomic or dropped returns below those needed to secure investment, it would not be built and all the benefits would be lost.

<sup>12</sup> Centre for Sustainable Energy and Garrad Hassan (2005), op cit

<sup>13</sup> In some cases, local authorities have indicated expectations of up to £5,000 per MW per year. However, these are typically in areas with exceptional wind resources with potential for large wind developments. They are not indicative of the affordability or reasonableness of such payments from any individual project either within these districts or elsewhere.

## Which communities should benefit?

The geographical distribution of benefits will vary depending on circumstances local to the wind farm. Some of the issues which are relevant to discussions and decisions about which communities (and therefore which people) benefit locally include:

- Proximity to the development
- Visual impact from the development (since the nearest residents may have less of a view of the wind farm than those living further away but with more direct sight lines)
- Level of disruption and nuisance caused by construction activity and traffic
- How the location is used for work or recreation by the wider community
- The number of residents in the area – or the level of benefit per resident (since some wind farms are in very remote locations and so have very few 'local' people)

In making decisions about the geographical distribution of benefits, it may well be relevant to ignore existing administrative boundaries (e.g. Parish or Community Councils or local authority areas) since the relevant 'community' may well span several 'administrations'.<sup>14</sup>

These questions can give rise to contentious issues and difficult tensions. To assist this:

- Developers may wish to consider developing a company policy on how they will approach geographical distribution of benefits to any of its wind farms.
- Community organisations may wish to seek guidance from the local authority or an independent organisation to help facilitate agreement.
- Local authorities may wish to resource facilitation activities, either directly themselves or through an appropriate local agency, such as an energy agency or local council for voluntary services or equivalent.
- All parties involved should seek to establish some clear and objective criteria to judge the fairness and appropriateness of different proposals for the geographical distribution of benefits.

Deciding at an early stage what the money should be used for may also help indicate an appropriate geographical distribution.

## CASE STUDY: See [Novar](#)

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<sup>14</sup> It is not uncommon for wind farms sites to span more than one administrative body simply because suitable sites are often between village communities, as are parish or community boundaries.

## What should the money be used for?

There are different perspectives on the extent to which limitations should be put on the use of the funds beyond a catch-all purpose such as 'for the benefits of the [nominated] community'

On the one hand, there is a view that if the fund is 'for the community's benefit' it is up to the community to define what it considers to be a benefit.

On the other hand, there is a view that there is unlikely to be a consensus within the community, partly because at early stages some local people may be more focused on expressing their opposition to the proposal.<sup>15</sup> Therefore it may be argued that the developer, as the provider of the money, should pre-determine its purpose.

There is a strong school of thought that the money should be dedicated to supporting further sustainable energy initiatives within the local community (see box). This has the appeal of linking the purpose to the primary benefit of the wind farm, which is to generate sustainable, carbon-free electricity.

By definition, the concept of community benefits is principally about providing gain for the community as a whole, rather than enriching individual members within it. If the chosen purpose for a fund can involve direct financial benefits to individuals, it is important to ensure that the reasons are clear and consistently applied.

The fund could be used to develop a 'community asset' such as affordable housing, new recreation facilities or access to land, or a community energy initiative. It can also potentially be used to raise additional 'matched' funding from other sources (see Section 7)

An important question to examine in discussions and negotiations is how much to determine the purpose of the funds as the fund is being set up. The benefit of being more specific at this stage is that it reduces the potential for disagreement later.

Being clear and specific at the outset also reduces the difficulty of the task for those given the responsibility to manage and distribute the funds – they will have fewer options to examine. The potential to change these purposes, and how changes can be made (e.g. by local referendum), should be written into the documents which set up the fund.

## CASE STUDY: See [Windy Standard](#)

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<sup>15</sup> An individual or organisation's opposition to a proposed wind farm should not stop them from being involved in discussions over community benefits. They will, after all, still have to 'live with' the project if it does receive planning permission. Indeed, since they represent a particular perspective in the community, their involvement should be encouraged to ensure decisions take account of a wide range of views.

## **Why community funds for sustainable energy initiatives are a 'natural fit'**

A number of wind energy projects have contributed to funds which have a tightly focused purpose of supporting sustainable energy initiatives within the locality, often through a particular energy agency. This may include improving the insulation levels and heating efficiency of local dwellings and public buildings, installing small-scale renewable energy equipment such as solar water heating, solar PV, micro-wind and biomass (wood) boilers. Energy advice and education activities can also be included.

The rationale for taking this approach is that it magnifies the environmental benefits already being delivered by the wind farm and represents genuine sustainable development. It also supports local employment and prevents the community from deciding to do anything which might have negative environmental impacts.

The tight focus also limits the potential for disagreements about what to do with the money once the fund has been established.

### **CASE STUDY: See [Burton Wold](#)**

#### **Securing financial benefits**

Section 7 addresses in more detail some of the issues which need to be addressed to ensure the agreed intentions of all the parties are realised in practice. This highlights in particular that:

- It is good practice to document the agreement as a legal contract between the wind farm owner and the community body which has been chosen to be responsible for the funds
- The agreement should be tied to the project and sustain the benefits even if the project changes ownership
- The purposes to which the funds are to be put should be as focused as possible at an early stage and built into the agreement to simplify fund management and avoid problems at later stages.

### **CASE STUDY: See [Farr](#)**

## 6 Benefits in kind

Instead of, or in addition to, contributions to a fund, there may be local improvements which are easier, cheaper and less contentious for a developer to deliver directly as part of the construction process.

These might include improvements to local facilities, environmental improvements, tourism or recreational provision, telecommunications improvements etc.

These are worth considering because they may be added to wind developer's planned building contract at relatively low cost and undertaken by the appointed contractors.

Such 'benefits in kind' need to be considered as separate from those actions which the developer needs to deliver in order to mitigate an impact of the development (e.g. correcting TV interference or providing alternative wildlife habitat) or to provide for a need created by the development (e.g. road improvements). These are the 'necessary actions' described in Section 3 to make a proposal acceptable in planning terms.

### Identifying the 'benefit in kind'

Many communities will already have lists of improvements they want to achieve in their area, through their community or parish councils or other community interest groups. These may be described within an existing parish or community development plan and may include:

- **Local community facilities**  
Village hall improvements, new or improved sports facilities, community gardens or landscaping, church building repairs, etc
- **Tourism, recreational and educational provision**  
Footpath improvements, way-marked walks, nature trails, parking and information centre for visitors, viewpoint information, school visits and education materials, etc

### CASE STUDIES: See [Altahullion](#) and [Deeping St Nicholas](#)

- **Amenity improvement**  
TV or mobile phone signal strengthening (i.e. more than necessary mitigation of interference), road and/or verge repairs, provision of pavements, etc
- **Environmental improvement**  
Restoration of 'derelict' land (e.g. unrestored forest clearance), landscaping, hedge or dry-stone wall repairs or reinstatement, tree-planting

### CASE STUDY: See [Cefn Croes](#)

- **Wildlife habitat improvements**  
Specific additional habitat creation and/or improvement (either at the wind farm site or elsewhere locally)

### CASE STUDY: See [Beinn an Tuirc](#)

The issues identified in Section 5 on 'which communities should benefit' are also relevant here.

## **Issues to consider about 'benefits in kind'**

An offer of, or request for, 'benefits in kind' needs careful thought by all parties since it may involve significant expenditure, require ongoing maintenance requirements, and be of limited benefit to many in the community. The following questions should therefore be considered by the developer, the community, and, if it is involved, the local authority:

- Is the 'benefit' something the community wants?
- How is this known?
- Who benefits and in what way?
- Are the developer and their contractors the best people to provide the benefit (or would a financial contribution of equal value be more sensible)?
- Is the specification for what is being offered clear and realistic?
- Is there a clear timetable for provision of the benefits?
- Are there resources available to maintain the benefit after it has been provided? If not, can these be provided through a community fund contribution of some kind?
- Who is going to be responsible for looking after the 'benefit in kind' after it has been provided?
- How is the provision of this benefit going to be guaranteed to the agreed specification and timetable (including if the project changes hands between planning permission and construction)?

## **Securing 'benefits in kind'**

Planning obligations known as Section 106 or, in Scotland, Section 75 Agreements can potentially be used to document and then enforce provision of in-kind benefits of the types detailed here. This is because they are generally related to planning issues even if they are not strictly necessary for the project to be acceptable in planning terms.

Generally such agreements are made between the local planning authority and the developer with the input of the community, with all three 'stakeholders' as parties to the agreement.

Otherwise, it is possible for the developer to make an agreement with a relevant community body. This will need to address the same issues identified within Section 7 of this Toolkit for agreements for payments into community funds. It will also need to include detail about the specifications for the works to be undertaken and a timetable.

## 7 Securing benefits and administering funds

Successful community benefit schemes have:

- clear and enforceable agreements about the provision of the benefit by the wind farm owner
- a mechanism for ensuring that the scheme continues irrespective of who owns the wind farm
- a clearly defined purpose for the funds
- a well-defined, reliable and accountable approach to managing and distributing the funds involving local representatives and clearly documented procedures.

This section examines different approaches to achieving this combination.

### Securing the benefits

There are a number of ways in which the provision of community benefits can be secured.

As mentioned in Section 6, for 'benefits in kind' it may be appropriate to use a planning obligation to formalise the agreement. The local planning authority will need to be involved in this process (though need not be a party to the agreement).

Otherwise, the agreement to provide the community benefits should be set out in a legal document. This will minimise the risk of future disputes and protect both the developer and the community from the risk of misunderstanding.

A solicitor should be involved in drawing up the document, to ensure it is robust and legally binding. The agreement should cover, at the very least;

- Who the agreement is between (e.g. the wind farm owner and the chosen community organisation)
- The payment that will be made and what, if anything, it depends on (e.g. installed MW)
- Whether the payment is subject to an annual increase and, if so, in relation to what (e.g. retail price index)
- If the payment is related to electricity production, how this will be confirmed, by whom, and on what time table each year (e.g. owner's auditor)
- When the payment will start and end (e.g. upon first production, when generation ceases)
- How payment should be triggered (invoices etc) and what happens if payment is late (interest to be paid on late payment)
- What the fund may be used for (and not used for) and who has liability for its management once paid over
- Clarity that the agreement does not create any project-related liabilities for the community organisation
- Whether the agreement is exclusive or whether other community bodies could have similar agreements
- How disputes about the agreement should be settled and which law applies
- What obligations (reporting and auditing etc) the community body has to the wind farm owner in relation to the funds
- Mechanisms for binding future owners to same terms (including legal security over the project to guarantee this right)

This is not a complicated legal document so the legal costs involved in drawing it up should be modest. Investing in establishing a clear and binding approach will pay dividends in avoided disputes and misunderstandings later.

## **How to manage community funds**

Community funds need to be controlled and managed by an organisation that is, in some way, rooted in or answerable to the local community. The sums of money can be significant so the organisation must have robust, transparent and impartial procedures that put it above suspicion.

These should be explored in discussion across the community. It is legitimate for the developer to take a keen interest in these discussions since they will want to be reassured that the money they are paying is going to be well managed.

Local authorities wishing to participate in the management of the funds should consider carefully the extent to which they have a clear picture of the host communities perspectives and wishes.

## **Structuring the fund – who gets to decide?**

The management and control of the community fund needs an organisation.

In many cases, a new community organisation is set up specifically to receive, manage and distribute the fund. In others, an existing body, like an energy agency or council for voluntary services may be appropriate.

There are several different potential structures for a community body to manage the funds, including a charitable company, a trust, and a community or charitable interest company. National umbrella organisations for voluntary and community organisations produce helpful guidance on these different options and the issues to consider in choosing between them.<sup>16</sup>

In considering the approach to be taken, the following questions should be considered:

*Is there an existing organisation which has the remit and representative nature which could take up the task?*

A parish or community council is an existing local representative body but may not have the remit or capacity to take up a substantial new role managing a fund. A local energy agency, with a charitable remit and community representation on its board of trustees, may be appropriate if the fund is focused on supporting energy initiatives.

If an existing organisation is used, the mechanisms for 'ring-fencing' the community fund money need to be clear and auditable so that it can only be spent on the agreed purposes.

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<sup>16</sup> See for example, NCVO's guidance at [www.ncvo-vol.org.uk/askncvo/legal/index.asp?id=107](http://www.ncvo-vol.org.uk/askncvo/legal/index.asp?id=107); a useful table of options at [www.sbs.gov.uk/SBS\\_Gov\\_files/socialenterprise/LegalTable.pdf](http://www.sbs.gov.uk/SBS_Gov_files/socialenterprise/LegalTable.pdf); and SCVO's guidance for Scottish organisations at [www.scvo.org.uk/scvo/Information/TertCategories.aspx?from=SS&al=t&SCatID=40&CatID=12&PageName=Guide%20to%20Constitutions%20and%20Charitable%20S](http://www.scvo.org.uk/scvo/Information/TertCategories.aspx?from=SS&al=t&SCatID=40&CatID=12&PageName=Guide%20to%20Constitutions%20and%20Charitable%20S)

*If a new body is needed, how are its 'trustees' going to be selected as representatives of the local community?*

The advantages of using an existing body are that its relationship with the local community – and how it seeks representation from it – is already established. For a new body, these decisions need to be made and people selected, appointed, or elected. The governing document should make clear who makes decisions and on what basis.

*Does the chosen structure allow the fund to raise additional money from other sources (e.g. government and European funds, or the lottery or charitable foundations, or energy supplier schemes)?*

The choice of organisation type can limit the possibility of using the community fund as a 'match' for other sources of funding. However, in most cases, a genuine community organisation using a recognised legal structure is very likely to meet the funding criteria of possible other sources.

For a new body, its constitutional documents should define its purpose, methods of control, selection (and deselection) of 'board' members and, importantly, procedures for changing the constitutional documents. These documents should be drawn up with legal assistance.

### **Pros and cons of new vs existing organisations to manage community benefits**

<b>Approach</b>	<b>Pros</b>	<b>Cons</b>
<b>Set up new organisation</b>	<ul style="list-style-type: none"> <li>• Clear single purpose related to the development and use of community funds</li> <li>• 'Fresh start' – no legacy or existing liabilities</li> <li>• Opportunity for others in community to become involved</li> </ul>	<ul style="list-style-type: none"> <li>• Need to establish new local accountability and representational structures</li> <li>• Additional organisation requires its own audit, management systems etc. so may be duplication</li> </ul>
<b>Use existing organisation</b>	<ul style="list-style-type: none"> <li>• Established relationship with local community</li> <li>• Community representation already in place</li> <li>• Can reinvigorate existing organisation with new funds and new local interest</li> </ul>	<ul style="list-style-type: none"> <li>• Likely to need to ring fence community fund from other funds (and may have existing liabilities)</li> <li>• Organisation may need to change remit, status or powers to manage and distribute funds</li> <li>• Existing financial controls may not be suited to levels of funds</li> </ul>

### **Controlling and managing the money**

Establishing clear systems for the control and management of the money is important. There are a number of questions which need to be answered:

- Who can decide to spend the money and on what basis?
- How are potential conflicts of interest handled (if, for example, a board member will gain disproportionately from a particular decision)?
- Who authorises payments from the bank account and how is this monitored?
- What record-keeping and audit procedures are in place?
- What happens to money that hasn't been spent yet? Is there an investment strategy?
- Is the day-to day administration of the fund provided by volunteers – e.g. a member of the fund management committee – or by a local accountant or other agency?

It is important that the control and management of the funds is clearly documented to avoid the risk of fraud or embezzlement. Decisions should be recorded and the system for paying funds from the fund bank account should, ideally, mirror the system for decisions and involve at least two people.

Day-to-day administration could be provided by a local accountant or other respectable local agency. Bearing in mind the sums of money involved, professional support with book-keeping and control over access to funds can avoid the stress of requiring a volunteer to provide what can be relatively specialist skills. Good practice would suggest that a different accountant should undertake an annual audit of the fund. These administrative costs should be proportionate to the size of the fund (and will typically need to be met by the fund).

**CASE STUDY: See [Cefn Croes – Trust Structure](#)**

## 8 Local ownership

Owning a share of a wind energy project is an obvious way in which an individual or a group can participate in the benefits of the project. Shareholders will typically share any profit made by the project (after all costs and bank loan payments have been paid).

Shareholders' dividends are directly related to the performance and profitability of the project. Therefore, if members of a local community own shares in a local wind farm this creates the strongest link between local benefits and the wind farm's success.

However, this is not straightforward. A distinction should be drawn between ownership which is bought through investment by individuals or groups in a community and ownership which is granted by the developer to a community group to enable the community to share in the benefits of the project.

### Ownership in return for investment

Shares are usually owned by the people who invest their money in a project. If local shareholding is to be provided on the same basis, local people will need to invest their money in the project in return for their shares.

This raises several complex issues:

- **Risk and delayed returns**

Shareholding is not a risk-free option. Shareholders stand to lose their investment entirely if the project fails to generate enough income to pay its bank loan repayments. And they may receive low or no dividends if: the project does not perform as well as predicted, or sells its electricity for less than expected, or costs more to build or maintain than anticipated, or if bank interest rates increase significantly.

Shareholders also tend to have to wait for their dividends until the bank is satisfied that the project is performing well and repayments for its loan are therefore reasonably secure. This can mean a delay of several years before shareholders receive dividends.<sup>17</sup>

- **Not all investors are equal**

The largest risks in a wind farm development are at the early pre-planning stages when the certainty of success is much lower. It therefore is reasonable for those companies and/or people investing at this more risky stage to receive more shares for their money than those who invest later when the risks are lower.

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<sup>17</sup> Dividends have been paid sooner in some examples of 'community ownership' schemes by using only equity investment (i.e. no bank debt). However, this reduces the gearing (see Section 3) and thereby the returns to shareholders.

- **Social equity**

Shareholding based on investment clearly requires people to have money to invest – and to invest in a venture considerably more risky than a bank savings account. Not all members of a local community are going to be in this situation, creating issues of social equity in which only those able and willing to make such investments would be able to participate in the benefits of the local project.

In addition, some local people are likely to feel that they should not have to invest in a project in order to benefit from it.

- **Financing cost and complexity**

Encouraging investment by members of the public in a wind farm project is, like most investments, a heavily regulated business. As a result, it tends to be quite expensive to establish the mechanisms through which individuals or community groups can invest. The administration associated with large numbers of investors is also not insignificant.

In addition, adding another group of shareholders into a project ownership structure complicates the overall financing approach and control of a project. Developers and (particularly) their financiers are therefore wary of schemes with complicated ownership structures. To address this, they may well require significant limitations on the power of individual or groups of shareholders.

These issues, and others, have been explored in a study undertaken in 2006 for the Renewables Advisory Board and DTI by TLT Solicitors. The study examined how different approaches to local ownership influenced the views of banks and investors as to the risk and simplicity (and therefore cost) of financing wind energy projects. The report<sup>18</sup> of the study provides details on different approaches.

### **Many people already own wind farms – without realising**

People who are part of private or occupational pension schemes will probably already own, indirectly, some part of a wind farm somewhere in the UK. Nearly all pension funds will hold some shares in major energy utilities who, in turn, own wind farms.

### **Individual and community ownership schemes**

Schemes do exist to enable individuals to invest in wind energy projects directly. Baywind Energy Co-operative, particularly recently through its Energy4All initiative, and Triodos Renewables Fund plc, have both raised investment from individuals and organisations to invest directly in owning or part-owning wind energy projects. Both investment opportunities have minimum investments of a few hundred pounds, which increases the likelihood that people are able to afford to invest (though certainly does not become affordable for all).

Each initiative has several thousand shareholders, in some cases concentrated in the area around the owned or part-owned wind farm. This is therefore a form of community benefit in that more of the financial benefit of the project is going to be enjoyed locally.

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<sup>18</sup> TLT Solicitors (2006) Bankable models which enable local community wind farm ownership, study report to Renewables Advisory Board and DTI, [www.dti.gov.uk/energy/sources/renewables/policy/renewables-advisory-board/planning/page35019.html](http://www.dti.gov.uk/energy/sources/renewables/policy/renewables-advisory-board/planning/page35019.html)

However, the financial benefit is in return for the investment that has been made by individuals. Strictly speaking it does not therefore fit within the definition of 'community benefit' used in this Toolkit – which focuses on financial benefits to the host community simply because of where they live, not what they have invested.

## **CASE STUDY: See [Earlsburn](#)**

### **Enabling local 'ownership' without local investment**

The focus of this Toolkit is how local communities can potentially share in the benefits of a commercial wind energy development in their vicinity.

As mentioned above, it is not obvious that providing local individuals with an investment opportunity goes with the spirit of this approach since their benefit only arises because of their investment. Of course, such opportunities are potentially valuable in themselves because increase the range and number of people with a vested interest in the continuing success of wind energy.

Nevertheless, there are potentially ways in which local communities could take part in the ownership of a local wind farm without the need for them to invest.

#### **• A 'gift' of shares or turbines**

A wind developer might offer (or be persuaded) to 'gift' shares in the wind energy company or gift one or some of the turbines in the project into the ownership of a local community organisation. The financial benefits arising from the gift would then provide funds for that organisation to distribute on local initiatives.

Research into 'bankable' models for community ownership<sup>19</sup> shows that this is feasible from a financing perspective, provided that there are significant limits put upon the ways in which the local community could use its 'ownership'. Indeed, the local community would not be able to have any control over 'its' turbines or, if they have shares, over the company which owns the wind farm.

This is because the banks and other investors in the wind farm will need to be confident that the community interest is not going to increase their risk that the project will not perform well and lose them money. The bank will therefore need to restrict the activities and rights of the community 'ownership' in much the same way as it does the rights of the commercial owner.

#### **• Limiting the rights associated with the community ownership**

To manage this risk, the bank would insist that the community would not be able to exercise independently any rights which would usually be associated with 'ownership' rights (like painting 'their' turbine a different colour, turning it on or off when they wanted, selling it or its electricity output to someone else, etc).

It is therefore possible for the community to own part of the project without creating financing complexities, but the rights associated with that ownership would be very limited.

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<sup>19</sup> See Footnote 17

The effect of these limitations is that the local community is really being gifted a share of the profits or revenues of the wind farm, at some negotiated percentage of its total value (as mentioned in Section 5 – Financial contributions).

- **Pros and cons**

The advantage of such an approach is that the community's financial benefits will be directly related to the performance of the project – a genuine sharing of the rewards of wind farming. It should also be possible to establish a genuine sense of ownership of the wind farm within the community, even if the rights associated with it are rather limited.

However, as mentioned in Section 5, the approach also exposes the community to the risks of a project's poor financial performance. In addition, the approach does not avoid the need to consider most of the same issues detailed in Section 5 (Financial contributions) and Section 7 (Securing benefits).

More details on how to consider the legal structure of this approach to ensure that it does not additionally complicate financing arrangements for the windfarm are available in the details of 'Model 4' in the 'bankable models' research report (see here).

## 9 Local contracting: capturing the spending locally

Significant sums of money are involved in the construction of a wind farm, typically £750,000-900,000 per MW. Money is then spent every year operating and maintaining it (typically £8,000-10,000 per MW per year). How much of this is of benefit to the local community depends on who does the work, where they are based, and where the various components of a wind farm are made.

It is not allowed by procurement laws in the UK for wind developers to guarantee that they will let contracts to local companies. It is anyway good practice for tendering processes for large value contracts have to be fair and open to all companies within the European Union.

Nevertheless, there are things which can be done, both by the developer and by local authorities or local economic development agencies, which can make it more likely that more of the contracting value in a wind farm development and operation is spent locally, through local businesses and employing local people.

### Getting local value from building a wind farm

As a 'rule of thumb', approximately 20% of the cost of a wind energy development is for work which requires skills typically available from contractors found in most parts of the UK. This includes supplying and pouring concrete, laying cables and basic civil engineering tasks (e.g. tracks and hard-standing, foundations, trench digging for cables, basic construction for sub-station housing etc).

The rest of the cost of a wind farm development consists of more complex and specialist tasks (engineering consultancy, specialist craning, cables and sub-station equipment, and, most significantly, the manufacture and assembly of the wind turbines themselves). There are only a few companies nationally (or, in the case of the wind turbines, internationally) which can provide these skills or supply the components. Without significant regional and/or national economic development activity, it is unlikely that these companies will bring employment or other economic value to a given locality unless they are already based there.

Without locally manufactured content, the focus for local benefits is therefore to secure that 20% for locally based contractors using local labour, worth £150,000 – 180,000 per MW. In this context, local may mean within a local authority area or region.

To maximise the likelihood that local contractors are in a good position to win contracts for such work, there are actions which developers and local authorities may take.

Developers can:

- provide early details of a typical specification of works locally
- hold briefings for contractors in the locality of the wind farm site
- indicate to all their contractors and suppliers a preference, for sustainable development reasons, to source labour and materials locally.

Local authorities and/or economic development agencies can:

- identify contractors potentially qualified to deliver contracts
- provide, through economic development officers, active encouragement and support to local contractors to engage with the wind developers and the tendering process
- engage with the developer early to secure a commitment to encourage local sourcing of labour and materials with their contractors.

## **Operations and maintenance contracting**

Operating and maintaining wind farms is not labour intensive; it is also a specialist business. Nevertheless, for larger developments, there may be opportunities for the wind farm owners to encourage operation and maintenance (O&M) contractors to recruit and train locally for the additional staff they will need for a large new project.

## 10 Checklist

### Wind energy developers

- Have you established a clear company policy on the provision of community benefits?
- How will you go about identifying suitable community organisations to negotiate with?
- What are the issues you are willing to negotiate with community representatives?
  - Level and type of financial benefit?
  - What the funds can be used for?
  - How the funds are controlled and managed?
  - How the geographic distribution of benefits will be handled?
  - What 'benefits in kind' might the community want?
- How will you ensure that the provision of community benefits is documented and secured for the community, irrespective of who owns the wind farm in the future?

### Community organisations

- Has the developer been clear about the level and terms of any community benefits on offer?
- In considering the benefits on offer, have you assessed the value of these in the context of the size of the project and the financial realities of wind farm development and operation?
- Are there other community organisations in the vicinity who should also be involved in discussions about community benefits?
- Do you want to involve a third party, such as the local authority, to facilitate the negotiating process?
- Are there existing community trusts or organisations which could take on the role of managing the fund?
- Is there a local energy agency who could assist in developing local initiatives to save energy and increase the environmental and economic benefits?
- Have you secured legal documentation of the benefits on offer which ensures their provision is enforceable?

### Local authorities

- Have you considered establishing a standard policy towards the provision of community benefits from wind farms in your area?
- What consultation have you undertaken to be clear that communities 'hosting' wind farm developments want your involvement in the negotiating process?
- Have you established procedures for enabling specific officers and councillors to participate in early discussions about community benefits without threatening the impartiality of the planning process?
- Can you identify any 'benefits in kind' which could be written into a Section 106 Obligation, or, in Scotland, Section 75 Agreement?
- If there are several wind farms anticipated in your area, is there potential for a unified approach which pools contribution into a common fund (eg for a local energy agency to deliver sustainable energy initiatives to 'host' communities)?

## Case Studies

### Altahullion

During the pre-application stage of the Altahullion wind farm, located in Co. Londonderry, Northern Ireland, a local community group requested that tourist work be included in the development. Although not material to the planning decision, the developers of the wind farm (RES Ltd and B9 Energy Ltd) implemented a number of measures in response to this request.

The turbine closest to the main road was identified as a tourist turbine. A car park was created on site (also used for maintenance vehicles) and visitors are able to follow a footpath leading right up to the turbine. Information plaques have been put up in the car park, providing basic information about the wind farm and environmental issues. Annual school visits to this wind farm and others are run by the operations and maintenance contractors B9 Energy O&M Ltd and are proving increasingly popular. The total cost of the additional facilities – including the purchase of land – was £60,000 which included £15,000 of grant funding.

The Road Service Department has installed a road sign identifying the wind farm as a place of interest and a Sustrans cycle route also passes by the site which contains 20 turbines totalling an installed capacity 26MW. The project has been operational since May 2003.

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### Argyll & Bute Council

Argyll & Bute Council have taken a pro-active approach to proposed renewable energy projects. The council believes that harnessing renewable energy resources, and managing them in a sustainable way, can help to alleviate social and economic problems faced by people in the area. Therefore they have developed their own policy on community benefits from wind farms; to forge strong long-term relationships with renewable energy companies and achieve maximum benefits for the communities in the area.

The process is separate from the planning decision-making process and the arrangements are voluntary for the developer. The Local Government (Scotland) Act 2003 Powers of Wellbeing, is the mechanism for delivery.

Initially, Strategic Concordats will be drawn up between the Council and major utilities and renewable energy companies operating in the area. Details of the agreed Community Wind Farm Trust Fund (CWFTF) are recorded in the Strategic Concordats, agreeing arrangements that will then apply to all future wind farm developments involving the two parties.

Scottish Power UK plc was the first energy company to develop a Concordat with the Council (see [www.argyll-bute.gov.uk/pdfstore/scottishpowerconcordat?a=0](http://www.argyll-bute.gov.uk/pdfstore/scottishpowerconcordat?a=0) for details). Similar partnerships are now being sought with other renewable energy companies.

The approved principles for the CWFTFs are:

- The Council recommends that a sum of £2,000 per MW of installed capacity per year should be the minimum payment for community benefit with an additional £1,000 per MW based on the actual annual output of the wind farm
- Developers will be encouraged to split future trust funds as follows: 60% to the immediate local community through a local trust fund or equivalent, and 40% to the wide Argyll and Bute Community through supporting the work of Argyll, Lomond and the Islands Energy Agency.

Using the Local Government (Scotland) Act 2003 framework, a number of parties will be involved in the negotiation and agreement of individual Trust Fund details, namely the developer, the community, the Argyll, Lomond and Island Energy Agency (ALIenergy) and the Council.

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### **Beinn an Tuirc**

The Beinn an Tuirc wind farm, located in Kintyre (Argyll and Bute), was commissioned in December 2001 and consists of 46 turbines with a generating capacity of 30.36MW. The developer, Scottish Power, was required as part of the development to protect a pair of Golden Eagles present in the area.

Planning conditions were written, requiring the developer to submit a bird monitoring scheme, maintenance programme including details of measures to minimise the impact of maintenance works on the eagles, and to avoid carrying out construction works during the eagle breeding season. Scottish Power decided to go above and beyond these obligations by developing a £2 million habitat enhancement scheme, led by their consultant ornithologist that would benefit the eagles by increasing the availability of important prey species such as red grouse, and making the eagle territory sustainable in the longer term. In addition, the siting of the turbines was altered.

A twelve-fold increase in the forest area over the last 12 years was thought to be closely linked to a major decline in prey species and the failure of the Golden Eagles to successfully breed in recent years. 450 hectares of conifer plantation were cleared and the traditional heather moorland regenerated. Scottish Power hired a full-time ranger to manage the area and she reports to the Habitat Management committee, with representatives from Scottish Natural Heritage, RSPB and Argyll & Bute Council.

To date, the management plan has been a success – the new heather and other vegetation is re-establishing well and the productivity of the red grouse population is higher here than in surrounding areas. In addition, eagle activity has shifted away from the wind farm area.

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## **Burton Wold**

The Burton Wold Wind Farm, a 10-turbine development with a generating capacity of 20MW, was commissioned in March 2006 and is located in Burton Latimer, near Kettering, Northamptonshire. Consultation with the community revealed a desire by local residents to receive cheap power from nearby developments; however this was not possible due to complications in regulations governing the supply and distribution of electricity.

In recognition of this idea and the need to conserve energy as well as look to generate it from sustainable sources, Your Energy (project developer) designed a community fund to reduce energy use in the local community.

Your Energy decided to contribute funding for the implementation of energy efficiency and education projects in Burton Latimer. The fund will total £40,000 upon construction of the wind farm and £10,000 every year thereafter over the life of the project.

Subsequent to the planning decision, Your Energy worked with the local Energy Efficiency Advice Centre (EEAC), EST Innovations programme, and the relevant local councils (Kettering District Council and Burton Latimer Parish Council) to establish a programme. The Leicestershire and Northamptonshire EEAC will administer the fund and have just completed the proposal for its distribution. It is proposed that £25-30,000 of the initial payment will be used to provide interest free loans, offered to those households not eligible for other grant funding. Measures available could include loft and cavity wall insulation and boiler installations. It is hoped that the new loans will be available from June 2006.

The remaining money and annual payments will be used for energy efficiency and education projects that benefit Burton Latimer. Applications will be put to the council by groups and organisations in the area, with potential for the money to be used as match funding for other grant schemes.

Management of the fund proved a major problem. Initially it was thought that the local community could manage the fund but the long term nature of the project put people off. In addition, councillors, who were very supporting of establishing the fund, already had many commitments for their time and were therefore unable to help.

In the end, a legal agreement was set up between the developer and Kettering Borough Council who will hold and manage the fund.

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## Cefn Croes

Responsibility for mitigation of landscape and environmental impacts of the Cefn Croes wind farm (Ceredigion, Wales) was assumed by the developer (Falck Renewables) as an inherent aspect of the planning proposals. Therefore, this was not included as a planning condition for the development. However, a section 106 agreement was drawn up for funds to further enhance the land, through the implementation of a Land Management Plan, overseen by the Environmental Management Committee.

The 39-turbine, 58.5MW wind farm was officially opened in June 2005. Subsequent to the planning decision, the committee was established and a detailed management plan was established based on the framework agreed under the section 106 condition. The committee is a partnership of bodies including with the Forestry Commission, the Welsh Assembly, ADAS (an environmental and rural solutions and policy advisor), the Countryside Council for Wales, the RSPB, and Ceredigion Councils.

Cambrian Wind Energy (wind farm operator and subsidiary of Falck Renewables) contributes £10,000 per year for the lifetime of the wind farm (totalling £250,000) for the restoration of the site's ecological value, lost through commercial forestry and intensive agriculture. Work in the area is on-going with activities including re-wetting of the bog habitat) by raising the water table, re-seeding areas of heather to help stabilise the land and re-establish the heathland, and the re-vitalising 2 key species populations in the area; the water vole and the otter.

A trust fund committee has also been established to manage a community fund, index-linked to the generating capacity of the wind farm (about £60,000 per year), for community projects focusing on issues including energy efficiency, environmental education, conservation and environment management, tourism and community development.

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## Cefn Croes – Trust Structure

As part of the consent for the 39-turbine Cefn Croes wind farm in mid-Wales, Cambrian Wind Energy signed a Deed of Covenant stating that it would pay £1,000 annually per MW (i.e. £58,500 per year). This money is put into the Cefn Croes Wind Farm Community Trust.

This Trust has five trustees, one from Cambrian Wind Energy and two from each of the community councils of Pontarfynach and Blaenrheidol. The Trust is now a registered charity.

The funds are managed by the Trustees, who consider applications for project funding from the local communities and other charitable organisations. A Trust Deed gives details of the Trustees and their powers to allocate trust funds.

The Trust Deed states that the funds will be spent in Ceredigion with priority given to projects in the community council areas of Pontarfynach and Blaenrheidol. These are the areas most affected by the development.

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## **Deeping St Nicholas**

As part of the consultation process for the Deeping St Nicholas wind farm, Wind Prospect (project developer) set up a community liaison group of 7 people; this did not include the council project planning officer in order for them to remain an objective body. 6 meetings were held pre-application and 3 post-application.

Once the development goes online (in May 2006) school groups will be able to organise visits to the site. In addition, Wind Prospect has developed information packs for schools which currently include information on the Deeping St Nicholas wind farm, posters about renewable energy, and general information sheets not specific to the site.

The Deeping St Nicholas site, consisting of 8 turbines totalling 14MW, is one of 5 wind farms being developed by Wind Prospect in the area. It is likely that once the final wind farm has been completed (in 2007) a series of information boards will be developed and displayed at each of the sites.

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## **Earlsburn**

Renewable Development Company (RDC), with financiers Falck Renewables, are behind the 37.5 MW, 15 turbine Earlsburn wind farm in the Campsie Fells, north of Glasgow. It is due for commissioning in 2006.

Several communities within the Glasgow and Stirling catchment areas were considered as local to the wind farm. One of these – Fintry – has a particularly pro-active community group, and during the wind farm development phase requested ownership of one of the Earlsburn turbines. RDC agreed to assist the Fintry community in gaining planning permission for an extra turbine at Earlsburn.

Finance for the Fintry turbine was secured through its inclusion in the bank loan for Earlsburn. Returns after the loan repayment go to the Fintry community group. Strictly speaking this means that 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.

A traditional community fund was also proposed for Earlsburn. On grounds of fairness, Fintry will not benefit from these funds, which are to be distributed amongst the remaining local communities.

The situation at Fintry seems to have arisen from a self confident community group with the wherewithal to play an active role. The community believes the model to be replicable and even offers its services to assist other communities. However, 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.

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## **Farr**

The 40 turbine, 92 MW Npower Renewables Farr project is just off the main A road between Aviemore and Inverness. At the time of writing, it was under construction.

Highland Council maintains a watching brief on community benefit negotiations in its area. It reports on community-initiated discussions with Npower, assisted by a local councillor and a council-owned enterprise trust – Highland Opportunities Ltd. Parties reached agreement on a lump sum payment of £1 million on completion of construction, supplemented by an index-linked annual payment of £1,157/MW for the 25-year operational life of the wind farm. The proceeds are to be split 60 / 40 between two geographically distinct community organisations.

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## **Novar**

Before the 17MW windfarm at Novar received planning permission in 1996, the developer, National Wind Power Ltd, notified the Highland Council of its intention to donate to a community fund. Negotiations took place during and after the determination of the planning application, involving representatives from the three nearest Community Councils, local Council Members and the local Area Manager. The agreed sum was index-linked, beginning at £1,000 per MW per year.

Separate negotiations took place between the three Community Councils to agree the distribution of funding according to the impact of the wind farm on each Community Council area and the size of its population. The Council's local Area Manager facilitated these negotiations. They resulted in a three-way split of 36.6%, 33.3% and 30% in the allocation of funds.

*(courtesy of Highland Council)*

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## **Windy Standard**

Windy Standard (36 turbines, 22 MW), operational since 1996, is one of the UK's early wind farms, pre-dating any formalised or accepted practices on community benefits. Nonetheless, the developer, through local agents, approached local community groups and agreed a £10,000 per year fund. The community council, which administers the fund, used some of the funds as a contribution towards a co-operatively run local shop in the nearest village, Carsphairn. It is the only shop in the village and is an important contribution to the economic and social well-being of the area.

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