

# **A Fair Share for Shetland**

**A report by the Energy Transition Task Force**

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## Foreword

I was delighted to be asked by Shetland Islands Council to chair the independent Energy Transition Task Force (ETTF). Our work was prompted and driven by the unprecedented concentration and scale of renewable energy activity and a pressing need for these developments to be better understood, managed and stewarded effectively. This work and report is about being on the front foot in exploring community wealth and ensuring that renewable energy activity delivers a 'fair share' for Shetland. We have also created a framework from which to take forward more detailed work.

The context of renewable energy development is fast moving, with huge opportunities and challenges, involving many local, national and global players and stakeholders. There is complexity. However, as our work progressed it became increasingly clear that Shetland must work with a focused set of intentions and boldly assert its own position in relation to these developments. The goal of a fair share for Shetland is and must be the guiding star.

Throughout the work, I was struck by the strength and depth of Shetland's history, culture and identity. Shetland is a special place, with different communities having a deep abiding attachment to their social and economic traditions, the land, the sea and nature. However, Shetland is not backward looking, but sees inevitable change and necessary progress through the prism of what has gone before and the need to protect and nurture for generations to come. As such, I was acutely aware that the huge scale of these energy and associated developments comes with significant perils and pitfalls. And that any failure to effectively mediate could damage Shetland's uniqueness and weaken the prospects for future generations.

In taking forward this task force, we were clear that it should live up to the values of respect, inclusion and democracy. We were ambitious, while recognising the need for reasonableness and feasibility. As such, I am extremely grateful to the experienced and knowledgeable members of the task force. There were at times robust and varying perspectives reflecting the breadth of the group and opinion, and we discussed and debated ideas. We did not always agree. However, there was always conviviality, a Shetland solidarity and sense of purpose, and all the task force members were clear and intentional in that we must get the best for Shetland and its communities.

As our deliberations progressed and as detailed in this report, a number of elements to achieve a fair share were surfaced and now should be pursued: significant community benefits; forms of local, community or shared ownership; compensation; indirect benefits and market gains; fiscal and regulatory measures. All pathways to community wealth that must be mindful of significant environmental considerations.

This report comes at an opportune and important moment. Shetland, Scotland, the UK and the world stand at a crossroads, an inflexion point, transitioning from an energy dependence on fossil fuels towards a sustainable, secure and resilient new energy source. For Shetland, the energy developments offer new economic opportunities and, through a fair share of the wealth being produced, offer a clear path to ending the longstanding issues of inequality and fuel poverty.

What is laid out here are starting principles or guide rails with a menu of live possibilities. Moving forward, this report and the elements set out within it require consideration, additional capacity, more resources and investment. The work to achieving a fair share for Shetland has now begun, but there is still much to do.

Neil McInroy

Chair of the Energy Transition Task Force and Global Lead for Community Wealth Building at the Democracy Collaborative



# 1. Energy Transition Task Force

## 1.1 Introduction

This is the final report from the Energy Transition Task Force (ETTF). We include overarching outcomes and outline various elements that would contribute to Shetland achieving a fair share from renewable energy developments, while being acutely aware of the potentially negative environmental, social and cultural impacts.

This work does not seek to elaborate at length or provide expansive granular instructions as to the next step actions, or who should take them. What is laid out here are starting principles or guide rails. Moving forward the suggestions in this report require consideration, additional capacity, resources and further work.

The ETTF was set up by Shetland Islands Council in response to an identified need to explore how Shetland could maximise value and community wealth from renewable energy activity in Shetland. It sought to do this by inviting a number of Shetland stakeholders to discuss and, drawing on their experience, advise on future direction. The independent task force met five times between July and October 2024. The task force was voluntary, and operated in an informal, non-binding advisory capacity as regards the Council, and other public, commercial or third sector organisations within Shetland.

Membership drew upon expertise from Shetland Islands Council, the Shetland Net Zero Forum, Highlands and Islands Enterprise, NORN Shetland Engineering Alliance, VOAR, Hjaltland Housing Association and UHI Shetland. Shetland's two Members of the Scottish Youth Parliament were also invited to engage where possible. (See Appendix One for the full list of participants). It was chaired independently by Neil McInroy.

The energy transition agenda and other developments in Shetland are emergent, fast moving and complex. This involves significant financial and commercial players, all framed by Scottish and UK national policy, legislation, political agendas and debates. The task force sought to provide some clarity, some fixed points and explored how Shetland could be more on the front foot with clear direction. This includes Shetland collectively growing its voice and effectiveness in feeding into debates rather than being subject to, or being recipient of, agendas set and decided elsewhere.

The formal objectives of the ETTF were to: (See Appendix Two for the Terms of Reference):

- Discuss and propose the long-term vision statement for Shetland
- Contribute to and advise on Shetland Energy Strategy redraft
- Review and consider the future scale of community and/or Shetland Council shared ownership of renewable production as a means of ensuring community wealth<sup>1</sup>
- Review and consider future community benefits of renewable developments
- Identify key capacity, skills, power and knowledge gaps in achieving the vision

To achieve a fair share for Shetland will be the work of many players and organisations, both in and outwith of Shetland. The recommendations, as laid out in the report, are ideas. They are presented

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<sup>1</sup> Community Wealth Building is an approach to economic development which has been adopted by Scottish Government and many administrations and places across the world. More detail on CWB in Scotland can be found here: <https://edas.org.uk/community-wealth-building-guide/>

as an offering. The recommendations are not directed explicitly at Shetland Islands Council, any one agency or organisation (unless otherwise stipulated).

The task force was an opportunity for the task force members with an interest and expertise in energy transition, renewables and Shetland to discuss, debate and ultimately suggest how greater community wealth and a 'fair share' from energy renewables could be more readily achieved. The task force represented a moment and process by which a degree of sifting and sorting has taken place, creating a context in which greater universal clarity can be achieved, and thus hopefully leading to a fair share for Shetland and Shetlanders.

## 2. Overarching outcomes of the task force

The task force has created a framework from which to take forward more detailed work on the elements to achieving a fair share.

### 2.1. A fair share for Shetlanders as a guiding principle

In the task force, there emerged a key overarching (and relatively simple) principle for community wealth which everyone felt conveyed a guiding ambition for all renewable energy activity in Shetland – a ‘fair share for Shetland’. This was agreed upon as a guiding principle and links back to the Shetland Energy Development Principles (2022)<sup>2</sup>.

Above all, the task force acknowledged that while Shetland has UK/Scottish net zero obligations, the energy transition must demonstrably serve Shetland and its communities, including the tackling of inequality and fuel poverty. There is ambition and an expectation that greater community wealth must be delivered by renewable energy.

However, the evident ambition for Shetland to achieve a fair share is framed by questions as to what is feasible and realisable. It is recognised that there are legislative and regulatory frames and, while these must not fetter debate and ambition, Shetland must not overreach itself and raise unrealisable expectations.

#### A Fair Share for Shetland By 2045:

- Shetland has a fair share of the value of energy production, distribution and utilisation as a means of increasing community wealth
- Shetland has access to secure and affordable renewable energy produced in Shetland
- Community benefits are maximised for all of Shetland
- Shetland has a skilled workforce and strong supply chain, building on the foundations that are currently in place
- Energy developers have been fully engaged throughout with a commitment to support the local supply chain, as well as ongoing engagement
- Shetland is continuing to share its knowledge, learning and experience with others across Scotland and the UK.

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<sup>2</sup> Part of the ETTF discussions were also rooted in the historical experiences of the oil and gas industry, and the positive foundations forged by the Zetland County Council Act (1974) and the financial and economic development gains for Shetland and Shetlanders that was achieved then. In this, it was broadly perceived that while this signature work from 50 years ago has some resonance, it was a very different economic and political era and industry to what we have today.

## **2.2. A shared understanding**

The task force (while not representative of all Shetlanders), sat within a wide range of views and opinions across Shetland. The scale of renewable energy development and its significant importance to Shetland – for this and future generations – means that the issues have already been subject to many discussions, and been aired in various places and in contexts over a number of months/years.

In our discussions, three broad future pathways surfaced. Firstly, Shetland could merely ‘go with the flow’, viewing the developments as inevitable and, while a modicum of control and gain is possible, there may be an acceptance that much is beyond the influence of Shetland. Secondly, Shetland could oppose the energy developments, perceiving them as an unwelcome threat to the environment, culture and way of life. Thirdly, Shetland could be assertive proactive players, seeking to accrue high levels of community wealth and position these energy developments as the basis to a new positive future for generations to come. None of these pathways are mutually exclusive, set or defined.

In terms of how to navigate through differences and various pathways, the task force felt that the general principle should be that information and consultation with the wider community must adhere to good democratic principles, with communities kept well informed and involved with appropriate opportunities for concerns, needs and wants to be aired and discussed.

However, it is recognised that this principle is not always easy in practice. The complex energy development arena means that community demands for full transparency is not always easy. There are many players, and some commercial sensitivity and a need for due legal and regulatory processes. It is therefore normal in times of huge change and development (as clearly is the case with energy developments), for there to be some degree of sensitivity from public bodies as to how and in what way communities or individuals will respond.

Within this context, the task force, with its diversity of participants and viewpoints, created a useful ‘safe space’ for the sharing of opinions and positions. It was felt that this was welcome and, as a result, the task force managed to create a respectful surfacing and thus mutual comprehension and appreciation of differing views. In short, a shared understanding and way forward was achieved.

## **2.3. Good environmental stewardship: What we don’t want**

The task force, while clear on working toward a fair share for Shetland, also recognised that there were red lines or things it does not want. In this, there is a desire to avoid unsuitable or damaging development and for there to be significant environmental stewardship in the context of both onshore and offshore developments.

As regards onshore developments, the task force recognised that there are significant visual and local environmental impacts from large-scale onshore wind farms and their associated enabling infrastructure. Consideration, therefore, needs to be given to potentially seeking to limit further onshore wind developments, beyond existing consented sites, ongoing energy transition activity at Sullom Voe and activity commensurate to small (50MW or lower) projects.

In terms of offshore, all fishing industry sectors will be adversely impacted by the spatial squeeze of planned sites and the cabling infrastructure corridors. The task force believes there is much further work required on the suitability of any further commercial offshore wind development around Shetland and, if it has to be embraced, the adequacy of any compensation.



## 2.4 Leverage

It is recognised that Shetland Islands Council (SIC) and other public, social and commercial players in Shetland have notable leverage in discussions with energy developers and stakeholders. This comes from existing ownership of land and assets, which can be used as 'weight' in deals, and through the leasing of assets. Leverage can also come through planning control functions and development frameworks.

This is ongoing and there is precedence. Notably, leverage has been a continued priority of SIC, through the arrangements for the lease of the Scatsta site, with anticipated hydrogen refining requiring Community Benefit payments to be at a significantly higher level than land rental. Furthermore, SIC ownership of the Port of Sullom Voe means they expect to leverage direct or indirect Community Benefits through a guaranteed return on investment.

To date, other private landowners, crofters and grazing committees have preferred to prioritise direct land rental income, rather than using that leverage for any enhanced community benefit or community ownership arrangements.

In moving forward, it is evident that all the consideration of the fair share elements could be influenced by this leverage. Key in this is the continued role of EmPowering Shetland and its ongoing discussions with the energy sector.

## 3. How Shetland is to achieve a fair share

The task force has identified five key elements through which a fair share for Shetland could be realised. These are:

- Community Benefits
- Ownership
- Indirect benefits and market gains
- Compensation payments
- Fiscal and regulatory changes

All of these elements have differing legislative weight, regulatory frames and processes. And they are not fully discrete and can be combined and joined up in any specific energy development.

It is recommended that, moving forward, these elements should represent a framework for action, an equitable lens in which each energy development should be placed, and thus ensure that a fair share is achieved for all energy developments in Shetland. These elements start to create a focus for action, with each element having an existing context/activity in Shetland, and with key pros and cons.

### 3.1. Community Benefits<sup>3</sup>

These are a package of benefits (often in the form of funds) that developers provide to communities as part of a commercially owned renewable energy project.

There has been some confusion in Shetland, with people using the terms ‘community benefits’ as a generic terms for compensation and any value accrued by Shetland from energy developments. This is not what we are referring to here. By ‘Community Benefits’ we are focussed on the **formal** community ‘Benefits’ schemes linked to onshore windfarms.

Adding to this confusion is a policy and language shift from the current UK and Scottish Governments, with a change in emphasis away from “community benefit” towards “community wealth building”<sup>4</sup> and community or local authority ownership<sup>5</sup>. Maximising local economic value means maximising community ownership of energy schemes and the revenues they generate. Where full or partial ownership is not possible, community benefit payments provide a means for communities to receive a fair share of value from the energy projects they host.

The industry-standard community benefit payment of £5k per MW capacity installed per annum was established in 2010<sup>6</sup> and subsequently adopted by the Scottish Government in their Good Practice

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<sup>3</sup> In many instances (especially as regards compensation and community benefits), the language is used to describe the same thing, in part because the messages are intended for different audiences. Central government is emphasising that there is no legal compulsion, which might be inferred from the word compensation. At the same time, local government is indicating to communities that payments are recompense for “negative impact of the development”. In reality there are multiple motivations, interpretations, and mechanisms in place and different economic, legal, and institutional context have resulted in different arrangements.

<sup>4</sup> <https://www.gov.scot/publications/national-planning-framework-4/> - Part 2, p79

<sup>5</sup> <https://www.gov.uk/government/publications/introducing-great-british-energy/great-british-energy-founding-statement> - Section 6.3

<sup>6</sup> <https://forestryandland.gov.scot/what-we-do/renewable-energy-in-scotlands-national-forests/community-benefits-and-opportunities>

Principles<sup>7</sup> for onshore wind. Historically, pre guidance, this was much lower, and there is debate across Scotland because project developers tend to index-link community benefit payments to projects' first power rather than a consistent historic baseline. As such, the real value of community benefit payments has declined over time. There are strong and valid arguments to suggest that projects starting operation in 2024 should pay approximately £7.3k per MW installed per annum in community benefit if the payments were index-linked to 2010.

- **Pros:** There is an existing Scottish Government framework for this and Community Benefits have a tried and tested process and, as such, it is relatively simple and risk free.
- **Cons:** This is perceived as being a relatively low level of return and comes with little say or control over developments. There is also a need to develop a responsible body and a criteria for ensuring effective disbursement for Community Benefits and, as the scale of development and benefits grows, this can be contentious.

#### **Current situation in Shetland:**

- **Community benefits are linked to installed capacity, not production value.** Shetland has some of the best wind and tidal resources in the world<sup>8</sup>, producing significantly more electricity generation than in many other places. However, when community benefit through wind is fixed by installed capacity, Shetland ends up with a smaller proportionate share of the proceeds than elsewhere. Therefore, community benefits in Shetland should be linked to production levels and value, not capacity. Payments to landlords and tenants are usually a share of production revenue and, in Shetland at least, are expected to be more than twice annual Community Benefit payments amounts.
- **Shetland Community Benefit – Viking Fund.** This is the main ongoing Community Benefit agreement in Shetland. This is curated and disbursed through Shetland Community Benefit Fund (SCBF), a body created by the Association of Shetland Community Councils. This is c£2.3m (indexed) per annum to the Shetland Community Benefit Fund – Viking Fund.

The majority of disbursement has a Shetland-wide scope, although some is ring-fenced for preferential funding of the community council areas where turbines are physically sited.

- **Shetland Aerogenerators Community Benefit fund.** This is a much smaller fund than above, also managed by SCBF, more details of both are on the [Shetland Community Benefit Fund \(scbf.org.uk\)](https://scbf.org.uk)
- **Statkraft commitments.** Statkraft has consistently advised that they are committed to 'Locally Administered Community Benefits' from onshore Shetland generation projects, aligned with Scottish Government guidance for 'Community Benefits from Onshore Wind Generation', with the caveat that they will also honour some pre-existing commitments to prioritise ultra-local host communities, i.e. Yell and Mossy Hill.

Unless otherwise negotiated, any Statkraft Onshore Wind Generation community benefits are likely to follow Scottish Government Guidance based £5k per installed MW – c£1m (indexed) per annum to locally administered fund(s).

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<sup>7</sup> <https://www.gov.scot/publications/scottish-government-good-practice-principles-community-benefits-onshore-renewable-energy-developments/>

<sup>8</sup> [Where are the windiest parts of the UK? - Met Office](#)

However, at time of writing no decision has been reached by Statkraft on the responsible community body to administer and disburse those Community Benefits and no detailed agreements have yet been developed or signed off.

There are no other explicit future onshore generation developments as yet fully committed, however there are thought to be at least some potential projects being worked on. It would be expected these projects would at least recognise and follow national guidance, unless other arrangements are agreed.

- **Offshore Community Benefits.** There is no substantive government guidance for offshore developments currently in place – a consultation exercise was conducted by the Scottish Government in 2018, but no formal guidance adopted or published. Following some exploratory work in 2022/23, and again in the last couple of months, a new consultation by the Scottish Government on ‘Good Practice Principles for Community Benefits from Offshore Renewable Energy Developments’ is expected to launch in December 2024 and run through to March 2025, with final guidance published later in the year. This is positive as long as those guidelines properly include the needs of local maritime communities and deliver a fair share of value. ‘Islands proofing’ will be particularly important and Shetland will have to contribute effectively to that consultation to promote that.

Agreements between developers and host communities are emerging elsewhere. Perhaps most significantly, the agreements between the developers of the Spiorad na Mara offshore wind project and the North-West Lewis Community Estates<sup>9</sup>.

Shetland Islands Council has written to offshore wind players, seeking to progress discussions, and looking for assurances that the potential for Shetland-focused offshore Community Benefits is the mutually preferred arrangement.

- **Enabling infrastructure and services payments.** There is an existing legacy framework for these, as forged during the oil and gas era. This relates to wider place development as regards infrastructure in terms of the provision of Port, Roads, Ferries, Housing, Colleges, Schools, Leisure, Health and Social Care infrastructure and associated services.

Limited examples of recent enabling infrastructure would be the new/replacement road from Sandwater to Kergord and the resurfacing of the road from Kergord to Cott. Both of these were directly associated with Viking and the interconnector works. However, these are relatively modest and local in scale, impact and benefit.

If renewable energy developments are going to be progressed successfully, infrastructure and services should be developed in tandem with project delivery, e.g. port facilities, housing and skills development. It cannot be done after construction has finished. Therefore, enabling funding, whether through compensation payments, advanced community benefit arrangements or pre-investment, must run alongside project development.

The early identification of the most suitable strategic ‘Shetland Fund’ with early funding could help achieve this and ensure strategic impact, successful project delivery and enhanced legacy.

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<sup>9</sup> <https://www.galsontrust.com/single-post/how-communities-could-benefit-from-offshore-wind>

- **Local Energy Discount schemes (LEDS).** Local electricity discount schemes (LEDS) can be designed to provide an annual discount on the electricity bills of consumers living near participating wind farms. A scheme of this nature is one way of channelling funds received as part of a community benefit fund that wind farm operators share with communities living near wind farms.

Hjaltland Housing Association distributes funds sourced through external grants to more than 250 households affected by fuel poverty.

- **Ongoing review of Community Benefit.** Shetland Island Council's Economic Development Service has contracted a consortium (Aquatera, Voar and Community Energy Scotland) to review community benefit approaches to energy projects in Shetland and further afield, in order to make recommendations on maximising local economic value and achieving local and national policy aims. This work will be considered in full by the SIC in due course, though some of the headline findings are reflected in this work.

### How we achieve a fair share?

- **Community Benefit arrangements remain welcome** from a local community perspective and should continue for existing and new onshore developments and from offshore developments around Shetland.
- **Need to work to ensure that community benefits are linked to the value of production rather than installed capacity, as is the case for landlords.** There is ongoing consideration of this as part of the consultancy work by VOAR/Aquatera/Community Energy Scotland for Shetland Islands Council. However, wind turbines located in Shetland produce approximately twice the UK onshore average, but community benefit payments per installed MW (rather than per pound of revenue) do not account for this. Linking community benefit payments to project revenues would mean that these reflect both the quality of Shetland's wind resource and any revenue arising from constraint payments.
- **Governance and administration of a fund.** There is further work to be done to identify the most suitable 'Shetland Fund'. There are a range of choices, and existing structures may be appropriate, but there has to be a legally constituted responsible body and a clear, transparent process for community benefits in terms of receiving, curating, investing and disbursement, thus maximising strategic impact and enduring legacy. The capacities of existing local organisations (e.g. SIC, Shetland Community Benefit Fund, Shetland's Local Action Group, Shetland Charitable Trust) should be harnessed to deliver programmes which have broad democratic support.

Furthermore, Shetland in its entirety should be considered the host community for larger developer-led new energy projects and community returns from these projects should be used for the benefit of all of Shetland's inhabitants. This does not preclude additional 'compensation' or 'disturbance' payments for those most directly impacted e.g. due to loss of earnings.

- **Support and advance more LEDS schemes**

## 3.2. Ownership

There are three facets of ownership:

- Community or Municipal ownership (SIC), which is full ownership of a scheme
- Shared ownership – part ownership through an investment stake by community/municipality
- Local ownership – where there is part or full ownership, by an organisation (outwith of community/SIC but based in Shetland)

There is a degree of overlap between these three facets, for instance there could be a municipal/community ownership with a local entity having shared ownership as part of any scheme.

**Key overarching: How we achieve a fair share?**

- **SIC to maintain dialogue and engage with GB Energy plans<sup>10</sup>. Looking at support that GB Energy can bring to advancing ownership**
- **Interested parties to engage with Community Energy Scotland on possibilities of ownership in other schemes as they come forward**
- **Consider role of all parties in any joint venture arrangements**

### 3.2.1 Community/municipal ownership

This is delivery of community-led renewable energy projects, whether wholly owned and/or controlled by communities, or through partnerships with commercial or public sector partners.

- **Pros:** This element can provide a higher proportionate return than community benefit, and gives democratic ownership and control, and significant influence.
- **Cons:** As with community benefit, there is a need to invest and associated risk related to that. It can also be complex, requiring significant levels of resources and capacity.

**Current situation in Shetland:**

- **Garth Wind Farm, Yell.** This is a 4.5MW 5-turbine development, which is owned by North Yell Development Council. It was completed in 2017 at a cost of £8.3 million.
- **Viking Wind Farm.** After investing around £9 million, the Shetland Charitable Trust holds effectively 45% of the ownership of the holding company (VEWFL) that legally operates the 443MW Viking Wind Farm. In 2019, the local partners accepted project partner SSE plc' offer to meet all future finance responsibilities and instead receive a Preferential Return on investment made before that point. The amount returned to SCT funds will vary depending on production yield but is likely to be multiple millions per year.
- **Future activity.** Some future community ownership (CO) could be through crofter/grazing committee's willingness to agree to similar land rental agreements to the ones achieved around Viking. All dependent on a commercial, public or community developer willing to promote a project on their land.

**How we achieve a fair share?**

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<sup>10</sup> <https://www.gov.uk/government/organisations/great-british-energy>

- **Consider greater use and encouragement of ‘community right to buy’ land capable of additional onshore wind development as a basis to advancing CO**
- **Consider role SIC has in acquiring land to help support CO**
- **SIC to engage with regulator to enable community generation projects to get grid connections, and review prohibitive grid access costs**

### 3.2.2 Shared ownership

This occurs when a community group or local authority makes an investment in a commercially owned renewable energy project. This is about having a formal stake in the project. Investment in this sense is targeted, named and specific to a scheme. It is not a generic investment in broad energy renewables.

There is existing financial support from the Scottish Government to advance Shared Ownership (SO) and wider community gains from energy renewables through the CARES fund administered by Local Energy Scotland<sup>11</sup>

- **Pros:** This can provide a higher return than community benefit and means local players can be informed, have voice, influence and low levels of control.
- **Cons:** This can be complicated, requires investment and, as such, risk.

#### Current situation in Shetland:

- **Shetland Islands Council (SIC)** is continuing to track possible shared ownership initiatives being progressed by the Outer Hebrides; and local authority-owned wind farm developments being explored by Orkney Islands Council. The Council will continue to look to learn from these opportunities currently being actively explored by its neighbours. SIC has also commissioned study work by one of their fund advisors, ISIO, to investigate options including proportionate shared ownership opportunities with Statkraft, with an initial focus on onshore generation. The findings from this report need to be considered and acted upon in due course.

#### How we achieve a fair share?

- **ISIO report.** Consider recommendations of ISIO report as regard role for SIC and other players to options such as advance shared ownership
- **Maintain an openness and be accessible to possibilities of SO**, including continued exploration with Statkraft around other opportunities

### 3.2.3 Locally owned

As with community ownership, but is relevant for local businesses, farms/estates, public bodies, further and higher education bodies and social housing organisations.

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<sup>11</sup> The Scottish Government’s Community and Renewable Energy Scheme (CARES) supports communities to engage with, participate in and benefit from the energy transition to net zero emissions. CARES is managed by **Local Energy Scotland** and offers a range of financial support to local energy projects. <https://localenergy.scot/funding/>

- **Pros:** Percolates ownership. Supports local supply chains and generally significant local economic multipliers, compared to non-local ownership
- **Cons:** Can create/exacerbate inequality, as those who already own land etc benefit more than the wider community. Can create intra-community tensions with some local-owned schemes generating significant benefits, while others don't gain.

#### **Current situation in Shetland:**

- **Shetland Aerogenerators.** Own the Burradale wind farm although initially the single biggest investor in Burradale wind farm was Shetland Development Trust. They also have a turbine at Luggie's Knowe with further planning approval for additional turbines in place.
- **North Fish (Shetland) Ltd** has a turbine at Hoo Fields near Lerwick and also has further development plans.

#### **How we achieve a fair share?**

- **All parties to ensure there are undertakings from developers** to provide future local ownership options within their projects, subject to business cases and due diligence
- **SIC and other bodies with significant funds to explore opportunities**, perhaps aligned with any emerging GB Energy participation, support, and/or support communities and local developers to do similar
- **Support for more local-owned schemes.** Albeit non-competing with or precluding community ownership.

### **3.3. Indirect benefits and market gains**

There are secondary gains that are accrued from developments. Typically, within the realm of economic development, this is about accrued benefits that come through all stages and elements of supply chain, direct and indirect employment, skills development, clusters of new and developing industry on the back of energy developments and other wider financial benefit to place (i.e. increasing business rate take).

- **Pros:** This is tried and tested economic development activity and there is no disruption or change to the market.
- **Cons:** To be done well and to the maximum there does need to be good relationships between developers and suppliers and local public agencies. In this, local businesses may need support to develop capacity and skills to take up opportunities.

#### **Current situation in Shetland:**

This is very significant for current activity and should be expected to be similar for future projects with clear opportunities for construction activity.

EmPowering Shetland (originally 4Shetland) has done extensive work to support supply chains. It recognises the huge benefit in partners. Alliances such as Norn Alliance have grown from this. A 10 Year Plan has been developed, with work done around skills, including setting up a Green Skills Group. The group also meets with developers regularly.

#### **How we achieve a fair share?**



- **Continue and increase work of EmPowering Shetland** to work collaboratively to build local supply chain capabilities.
- **A target is set for local supply chains.** More work is required to consider what this target should be, potentially by EmPowering Shetland.
- **Seek undertakings from developers to prioritise local supply chain content.**

### 3.4. 'Compensation' payment

A compensation payment is usually a one-off or time-limited payment from developers, recognising a potential 'dis-benefit' to some individual, locality or group from a development. One short definition of compensation is that it is 'payment for an agreed and identified loss' and that compensation is focused on individuals where that loss can be objectively quantified. We should not see compensation as a benefit. This has some links to the Scottish Infrastructure levy<sup>12</sup>.

- **Pros:** This can be a relatively straightforward mechanism.
- **Cons:** It can have a narrow focus in only benefitting those deemed to be 'directly' affected by development.

#### Current situation in Shetland:

- **Disturbance agreements.** One of the largest community income routes from the oil and gas sector in the 80's and 90's was the 'Disturbance Agreement', which was a compensation payment to the whole Shetland community<sup>13</sup>. This provided the foundational funds for what became Shetland Charitable Trust.
- **ScotWind and option payments.** The ScotWind auction required significant and non-returnable option payments to be made by developers to Crown Estate Scotland/Scottish Government to secure rights for development sites for ten years. The scale of those payments were around 50% of ten years of anticipated annual lease payments once developments became operational; it was £56m for the NE1 sites near Shetland.

The justification and purpose of those option payments were never very clearly articulated, but it would be possible for them to be regarded as a national Community Benefit or as funding for Scottish enabling infrastructure and services development.

- **Fisheries and aquaculture.** Compensation Payments are reasonably due to fisheries and aquaculture interests affected by offshore development. This should be recognised and resolved by Crown Estate Scotland (CES)/Scottish Government (SG), developers and those who will suffer disadvantage, including future generations. This should be seen as wholly separate and distinct from any community benefits discussions. CES and SG are the seabed owner/regulatory authority and it is recognised that the fishing industry should be entitled to compensation of any disruption to long-standing fishing grounds. There are also clear ramifications for local culture and identity.

<sup>12</sup> The [Planning \(Scotland\) Act 2019](#) ("the 2019 Act") provides powers for the Scottish Ministers to make regulations to introduce an Infrastructure Levy, that is, a charge payable to a local authority on development in that local authority's area, to be spent on the provision of infrastructure. This is intended to provide an additional stream of funding for infrastructure which is needed to support growth on a wider scale than individual developments.

<sup>13</sup> These payments, totalling some £81 million by the year 2000. Since its creation in 1976, the Trust has disbursed over £350m on charitable activities to a wide range of local charities, organisations and individuals.

- **UK Government and Department for Energy Security and Net Zero (DESNZ) consultation.** There are outline proposals regarding ‘community benefit’ (the compensation word is studiously avoided) in relation to payments for interconnecting electricity transmission infrastructure, i.e. pylons, cables and sub-stations etc.

The proposals and implementation timescales are not set, but they should be ‘islands proofed’, especially in relation to marine cables. There also appears to be a general lack of appreciation as to the impact of onshore transmission infrastructure on a fragile visual environment like Shetland.

The curation and disbursement arrangements for any funds are not clear at this point. Shetland should ensure that the funds are administered locally to ensure their effective application to local priorities, perhaps through a new strategic Shetland Fund.

### How we achieve a fair share?

- **Legitimacy of compensation arrangements.** Compensation payments need to be considered with renewables developers and perhaps linked to other series of investments. Those payments should be scoped across the whole of the Shetland community.
- **Targets discussed and agreed.** There needs to be a mechanism for discussing and agreeing any compensation target, with views on potential ring-fencing or prioritisation for particular investment priorities, e.g. housing, port facilities, skills and training.
- **Work to influence UK Government’s – Department for Energy Security and Net Zero as to the necessity for ‘Compensation’ payments.** With arrangements made for their calculations, which are properly ‘islands proofed’ (i.e. in particular to include marine cables, given the sensitivity of the Shetland marine environment).
- **Campaign to ensure that Electricity Transmission Infrastructure payments benefit the whole community and go to a new strategic ‘Shetland Fund’** to maximise local determination of Just Transition, strategic impact and enduring legacy, rather than some remote developer-led fund.

## 3.5 Fiscal and regulatory changes

Fiscal and regulatory measures are taxes, tariffs (special rate for local energy users) or earn back mechanisms from development.

- **Pros:** Good return and very fair. Tariffs are understood and readily bought into by consumers.
- **Cons:** They are complex and can require legislative change. Tariffs can be complex and may take time or prove challenging to make happen.

### Current situation in Shetland:

- **Rigidity of taxation.** There is no ongoing potential for any such progressive mechanism.
- **Business rates and Council Tax.** The highly significant benefit from the retention of business rates was removed through national legislative changes. Remaining local tax arrangements like Council Tax do not create any real opportunity to focus on energy developments.

- **Tax and investment earn back.** The Council does seek to ensure the surplus from the Port of Sullom Voe delivers a suitable return on investment.
- **Shetland Tariff<sup>14</sup>.** The Shetland Tariff retains considerable local and political interest and profile as a means of ensuring an equitable basis to energy used in Shetland. The Council, and Shetland partners, remain keen to progress this. A good deal of analysis and planning around how some mechanism could be created and implemented is being done locally, including, for example, preparation of strategic business cases etc.

While the legitimacy of this issue has been generally recognised by external partners; governments and developers, none have been willing or able to materially progress matters. Ultimately, this feels like an issue that can only be progressed with governments and regulatory agencies, i.e. OFGEM and DESNZ, rather than developers. Discussions with interested and relevant parties are ongoing.

#### How we achieve a fair share?

- **Continue to explore and play into debate about local tax and earn back mechanisms**
- **Continue work on the Shetland Tariff**

## 4. Taking it forward

This work stands as a moment, within the context of a huge, fast moving and complex set of energy and associated developments. What is laid out are some overarching considerations and some clarity on the elements required to achieving a fair share for Shetland.

Following the conclusion of the last of the five planned meetings of the task force, the group has now been adjourned. An action plan will be created to underpin the ambition set out in this summary document. This plan will be developed to include various partners beyond Shetland Islands Council, given the collective nature of the work so far and recognising that other communities and groups will be involved in its delivery. Task force members will also be invited to support specific work, as required.

Subject to the decision of Shetland Islands Council in December 2024, it is intended that the principles and details in this document will significantly shape the redrafted Shetland Energy Strategy.

The Community Benefit Study referenced in this document aims to describe a model for maximising local socio-economic impacts from developments and will be presented to Shetland Islands Council in early 2025.

There are also plans to engage with developers (both individually and through a summit) and for ongoing political engagement to take place with both Governments on these matters.

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<sup>14</sup> <https://www.shetland.gov.uk/downloads/file/7521/shetland-forward>

## Appendix One: Task Force members

- Shetland Islands Council:
  - Leader – Councillor Emma Macdonald
  - Chair of Development Committee – Councillor Dennis Leask
  - Chair of Environment and Transport Committee – Councillor Moraig Lyall
  - Director of Development Services – Neil Grant
  - Director of Infrastructure Services – John Smith
  
- Shetland Net Zero Forum:
  - David Thomson, Shetland Aerogenerators Ltd and Shetland Net Zero Chair
  - Ewen Adamson, Civil and Structural Engineering (CASE) Shetland Ltd and member of Shetland Net Zero Executive Committee
  
- Highlands and Islands Enterprise Shetland Area Manager – Katrina Wiseman
- NORN (The Shetland Engineering Alliance) – Neil Manson
- VOAR – Daniel Gear
  
- Hjaltland Housing Association Chief Executive – Bryan Leask
  
- UHI Shetland Principal – Jane Lewis
  
- Shetland Members of the Scottish Youth Parliament – Joe Smith and Bertie Summers

# Appendix Two: Terms of Reference

## Energy Transition Task Force

### Terms of Reference

#### Introduction

Energy transition will fundamentally affect all Shetland residents, communities, businesses and organisations. The islands depend very heavily on energy for transport, domestic and commercial activity and we will have to find ways to transition that securely and affordably to Net Zero.

Effective engagement across the community and with and between commercial and public bodies will be essential in finding ways to ensure that a 'Just Transition' is delivered. It will be equally essential to seeing that transition strikes an appropriate balance between environmental, economic, social and cultural objectives and is delivered equitably and fairly for all parts of the Shetland community.

In all of this, there is pressing need for Shetland Islands Council, and the wider community, to manage and steward developments effectively. Shetland must be on the front foot, proactive in stewarding the significant energy renewable bounty now and long into the future. This includes having the appropriate vision, ideas, people, institutions and plans that are equal to the task.

#### Methodology and Approach

Shetland Islands Council seeks assistance in setting up an Energy Transition Task Force to deliver on a number of key outcomes. It is recognised that it is not the sole responsibility of the Council to respond to energy transition change and that there is an expectation, and consideration, placed upon other partners, sectors, communities and companies to help support this journey. A unified position for Shetland will be critical.

The task force will be independently chaired by Neil McInroy (Community Wealth Builders Ltd/Democracy Collaborative) and will initially meet up to five times.

The task force will:

- Discuss and propose the long-term vision statement for Shetland
- Contribute to and advise on Shetland Energy Strategy redraft
- Review and consider the future scale of community and/or Shetland Council shared ownership of renewable production as a means of ensuring community wealth
- Review and consider future community benefits of renewable developments
- Identify key capacity, skills, power and knowledge gaps in achieving the vision

#### Membership

Provisional membership to include:

- Shetland Islands Council:

- Leader – Councillor Emma Macdonald
  - Chair of Development Committee – Councillor Dennis Leask
  - Chair of Environment and Transport Committee – Councillor Moraig Lyall
  - Director of Development Services – Neil Grant
  - Director of Infrastructure Services – John Smith
- Shetland Net Zero Forum:
    - David Thomson, Shetland Aerogenerators Ltd and Shetland Net Zero Chair
    - Ewen Adamson, Civil and Structural Engineering (CASE) Shetland Ltd and member of Shetland Net Zero Executive Committee
    - One other flexible task force member
- Highlands and Islands Enterprise Shetland Area Manager – Katrina Wiseman
  - NORN (The Shetland Engineering Alliance) – Neil Manson
  - VOAR – Daniel Gear
- Hjaltland Housing Association Chief Executive – Bryan Leask
- UHI Shetland Principal – Jane Lewis
- Shetland Members of the Scottish Youth Parliament – Joe Smith and Bertie Summers

It is envisaged that membership may be extended on a temporary basis to other parties asked to join for specific items. This may include the Shetland Fishermen’s Association, the Shetland Wind Farm Environmental Advisory Group and others.

Task force meetings will be managed by Shetland Islands Council’s Development Services Directorate. Summary notes of meetings of the task force will be made in order to inform wider Shetland Islands Council elected member briefings and update the Shetland Islands Council Chief Executive.

Papers will be produced for the first meeting, including the draft terms of reference for the group.

Meetings of the task force will not be open to the public or press. Any public or media comment made on behalf of the task force must be agreed by the Director of Development Services. Any requests for information relating to meetings of the task force will be processed by the Director of Development Services.

Task force members will be expected to comply with the relevant code of conduct adopted by the organisation they represent. If a member is not a member of an established organisation or their organisation does not have an established code of conduct they should, at a minimum, comply with the general principles of integrity, honesty, openness and respect.

### **Subsequent meetings**

The following four meetings will focus on the tasks in hand as determined at the first meeting.

It will include work in between times by the consultant and Shetland Islands Council officers to co-ordinate and take forward any actions and outcomes from meetings.

No decision making is delegated to this task force and outputs from tasks which require formal decisions will be submitted by the Director of Development to the Shetland Islands Council for approval.

Meetings will take place approximately every month from July to October.

### **Outcomes**

- Recommendation for agreement on a proposed long-term vision statement for Shetland
- Proposed changes to the draft Shetland Energy Strategy
- Proposed negotiating position statement re community/shared ownership and community benefit, informed by agreed Shetland Energy Development Principles
- Identification of key skills/knowledge, power and capacity gaps required for delivery and implementation
- Recommended Action Plan

## Appendix Three: Summary of meetings

### Meeting schedule

#### **Meeting 1 – 18 July 2024**

The first meeting included a discussion on the purpose of the task force and agreeing the ToR, with the themes of realistic ambition and clarity being woven in throughout. There was also a short presentation on current state of play re energy renewables and transition, including the size and scale of proposed future development. The presentation also highlighted that *“Shetland has an incredible renewable resource but has very little control over who uses them”*.

Six key questions arose:

- Are UK and Scottish Government energy policies fragmented in nature?
- What are the continuing grid connection constraints for local energy production?
- Are community benefit guidelines voluntary and inadequate?
- Is it the case that large-scale energy developers don't offer shared ownership opportunities to communities and locally based businesses?
- How can affordable energy for Shetland-based consumers be achieved?
- Is it clear how some large-scale projects are bringing any major benefit to Shetland?

The session ended with consideration to a draft vision statement – to be picked up again before the task force work concludes.

#### **Meeting 2 – 29 August 2024**

This meeting covered a discussion on wealth currently being extracted and options to extract more value. The current policy landscape and examples of community/shared ownership schemes were explored, together with the desirability and potential of community and/or Shetland Islands Council shared ownership of operational production of energy renewables. There was broad agreement that wealth is being extracted and that not all of Shetland feels the benefit of developments, therefore we must look to retain more value.

The strong affinity between Shetland's people and place and the importance of capturing that unique position in a story was clear from the discussions.

The group also reflected on Great British Energy's priority: *“Scale up municipal and community energy: GB Energy will partner with energy companies, local authorities and cooperatives to develop 8GWs small-scale and medium-scale community energy projects. Profits will flow directly back into local communities to cut bills, not to the shareholders of foreign companies. This will help to create a more decentralised energy system, with more local generation and ownership, and will help to create a more resilient energy system.”*

#### **Meeting 3 – 10 September 2024**

In the third meeting, task force members heard a presentation from VOAR on a community benefit study they are undertaking for Shetland Islands Council. This prompted an engaging discussion on a number of themes raised.



There was also some detail shared by Highlands and Islands Enterprise on the EmPowering Shetland work with a focus on supply chain activity.

The group was also due to cover compensation from offshore wind and assessing Shetland's leverage points but that was carried over to the next meeting.

#### **Meeting 4 – 8 October 2024**

The task force met again early October and reviewed a first draft of this summary document. The group worked through all of the elements and considered how Shetland could get a fairer share from each.

There was a lot of good discussion to shape the final draft for the next meeting later in the month.

The Chair also set out plans for the fifth and last meeting of the group, which would include returning to and agreeing the strategic vision, explored at the very first meeting.

#### **Meeting 5 – 30 October 2024**

In the final meeting of the task force, group members reviewed the latest draft of the summary document. There was also some broader discussion around how the work here could help to inform the redraft of the Shetland Energy Strategy.

The session ended with a discussion around communications activity and how best to support sharing the work of the task force over the coming months.