SCOTTISH LAND COMMISSION
COIMISEAN FEARAINN NA H-ALBA

COMMUNITY OWNERSHIP FINANCING: OPTIONS TO COMPLEMENT THE SCOTTISH LAND FUND

A report to the Scottish Land Commission

Community Ownership Financing: Options to Complement the Scottish Land Fund

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1 Executive Summary

This report was commissioned by the Scottish Land Commission (SLC) to identify, explore and consider the wider implications of relevant and emerging sources of finance that are complementary to the Scottish Land Fund (SLF).

The study has built on the Commission's previous work, focusing on what further action can be taken to support the strategic use, alignment and leverage of other finance sources of capital funding, and what the implications are for communities, government and the Scottish Land Fund. It has also considered the role that natural capital and green finance could play in the community landowning sector.

Methodology

There were three stages to the research work:

- **Identification of SLF Limitations & Complementary Models –** the team reviewed the 15 models identified in a prior 2019 study and agreed with SLC to focus on those models that showed the most promise in the community landowning context. The team interviewed staff members of the Scottish Land Fund to identify the current limitations of the fund, in what circumstances they consider the introduction of complementary funds to be helpful, and what types of complementary funding were most common in applications to SLF. Research was also carried out research into how circumstances affected different model use and the emerging sector of natural capital and green finance.
- **Assessment of Applicability of Models -** the research looked in more depth than the 2019 study at the motivations and conditions that lead to the adoption of particular models, the barriers to adoption and the support or institutional change that is required to overcome or remove those barriers. The research considered the models in light of the focus in this brief on complementarity to the Scottish Land Fund. Interviews were conducted with community land owners, community representative bodies, development agencies, independent grant funders and philanthropists.
- **Development of the report –** Information gathered from the research was drawn together to give an overview of models that are suitable for complementary use to SLF, the motivations and barriers to their use, and to make recommendations as to how these models can be further promoted and supported.

Complementary Funding Models

The initial review identified the following models for further investigation as part of the study:

- Charitable Funding
- Philanthropy
- Commercial lending
- Private Investment
- Crowdfunding
- Community Shares
- Peer to peer lending
- Community Bonds/Debentures

Each model was analysed with particular reference to the motivations that communities had for using them, the barriers that either prevented their use or made it difficult to adopt them, and the opportunities to extend their use.

Findings from interviews and an online survey of community groups showed that:

- Lack of knowledge is a significant impediment to uptake of complementary funding models.
- Communities who have used a particular model of finance have a high degree of confidence in using it again.
- The difference in popularity of community shares as a potential funding option and other options would appear much greater than the relative appropriateness of the models. It is reasonable to conclude that this is due to the relatively high profile of community shares created by the support for this model put in place through Community Shares Scotland.

Natural Capital

Natural capital is a new concept focusing on natural resources – earth, air, water and the assets that are inherent in the natural system, trees, minerals, peat bogs, etc. These assets, and the services they perform, have been valued by the Office for National Statistics (2019) for the UK as £1.2 trillion.

Natural Capital finance has been and is dominated by the carbon market. The Woodland Carbon Code and Peatland Carbon Code have been developed to govern the operation of these markets in the UK. At today's price, communities could potentially generate between £6,000 to £8,000 per hectare of woodland, or prospective woodland, although market caveats apply. Predicting the value of peatland carbon value is not so straightforward as the market is in its infancy and carbon prices quoted have historically been lower than woodland pricing, e.g. at £6 per tCO^2e in 2019. With rising demand this may have changed.

Community groups who are in the position to purchase 'bare' land (plantable land) or degraded bog/moorland, have a number of options in respect of engaging with the woodland/peat restoration carbon market. They can opt to forward sell carbon and use the funds to assist with purchase, to offer leases to corporate bodies interested in planting and maintaining forests, contract with a company who could pay a retainer for the community carbon, or they may place carbon credits into the marketplace after land purchase – pre or post tree planting/peat restoration – and sell carbon units in stages.

Land Values and Borrowing to Buy and Develop

It has been noted that a barrier to community groups being able to acquire land is the relatively high capital value of land and property compared with the level of returns that may normally be expected, particularly in a rural context.

Land and property values are influenced by a wide range of factors at the global, national and local scales and may fluctuate over time on account of varying market conditions.

Farmland values have remained relatively strong with a remarkably resilient market over the past 5 years or so. More recently, a new type of conservation and natural capital minded investor/purchaser has entered the market. These investors appear most interested in marginal and poorer quality land that has potential to expand or enhance its 'natural capital' through interventions such as peatland restoration or woodland creation and the ability to sell credits for the sequestered carbon.

Current indicative values for different types of agricultural land with vacant possession range from £19-42,000/ha for prime arable land through to £125-£1850/ha for hill ground not suitable for tree planting.

Over the last fifty years or so woodlands have become regarded as relatively safe havens for long term investment and are thus favoured by pension funds that operate in growth over long timescales. This in turn has created an environment in which woodland as an asset class has become one of the most popular and highest performing categories. While this varies year on year, the ten-year average increase in value sits at

15.7% (between 2007 and 2017) with capital growth being the main driver for returns. [1] The last three years has seen a significant increase in demand for forest properties which will push the ten-year average to an even higher level. Average values of stocked hectares of forestry have risen by 21% in 2021 and 39% in the previous year[2]

Current values for forestry and woodlands (excluding income from carbon) may be in the region of £6,000-£19,500/ha for Productive Conifer through to £3,700-£8,500/ha for planting land.

The new and rapidly evolving markets in natural capital are rapidly picking up pace and becoming more active as demand for carbon credits and biodiversity offsets increase from developers and buyers who are seeking to offset their carbon emissions and looking to achieve their 'net zero' ambitions.

At present, prices of around £10-20/tCO2e are being achieved. This has increased markedly over the last year to 18 months from around £3-9/t CO2e and as demand appears to be increasing with supply unable to keep pace, all else remaining equal, the price would be expected to continue upwards. The additional revenue potentially available from the sale of carbon credits and speculation that the value of carbon is likely to rise, appears to already be affecting land prices.

The increase in the Scottish Land Fund £10 million to £20 million from 2026 may in part help to address the increasing land price barrier for community purchase.

Care is required in relation to natural capital and borrowing on the strength of potential income from carbon. Whilst income from natural capital can be a useful income source for communities, there will be limitations on how much a community can borrow on the strength of future income potentially subject to volatile markets, and caution should be exercised in terms of not simply being drawn into a situation where the income is only sufficient to repay capital and interest.

There are significant limitations on the ability of community organisations to borrow on the strength of assets being purchased or projects that are being developed, particularly where there is uncertainty over the level of income generation from those particular assets or projects or the income yield is low.

Costs as Funding Barriers in the Communities Sector

Where community groups are undertaking community asset purchases or development projects, it is often necessary for them to interact with multiple funding sources. This

[1] John Clegg & Co./ Tilhill: The UK Forest Market Report - Issue 20 (2018).

[2] John Clegg & Co./ Tilhill: The UK Forest Market Report - (2021)

can be challenging and can require a great deal of project management in order to deliver some of the funding models in this study.

Completing multiple application forms and reporting requirements to different funders might be a more efficient process if there could be a more standardised reporting format that could be used across multiple lenders.

The support available for community groups to be able to access funding is inconsistent with some geographical areas being better developed than others in terms of local knowledge and support from public agencies.

Tax costs can be reduced to communities through charitable exemptions on Land and Buildings Transaction Tax (LBTT) and to private "sellers" through the use of Acceptance in Lieu for certain heritage assets and tax relief on the value of gifts.

Conclusions & Recommendations

This research has confirmed that community landowners are using a wide range of financial models to deliver their goals. Models that do not have a repayment cost are those that are principally used to match fund SLF support for land purchase because they mean that communities can take ownership of an asset without having to worry about ability to repay and potential loss of control of the asset if they fail to make payments. Communities are interested in and do use sources of funding that require long term financing but favour their use for projects with a guaranteed long term revenue stream.

Improving Knowledge

A lack of knowledge of the sector, the range of models and an understanding of individual models afflicts all actors in the sector. The success of Community Shares Scotland has shown what can be done when a particular model is adequately promoted and communities are supported to deliver that model. The same level of support should be made available across all models to maximise their uptake and to maximise choice available to community bodies.

It is therefore proposed that:

- Consideration is given to exploring with Community Shares Scotland (and potentially one other organisation) the expansion of public support to cover the range of financial models considered in this study.
- Financial support is provided to a suitable representative body to deliver Natural Capital advice and support to communities in a manner akin to that of the other financial models.

Commercial lending

- A strategic actor (or actors) is required to act in an intermediary role to raise the profile of the communities' sector and to encourage lenders to be more understanding of communities' needs in order to make commercial lending more easily accessible.

Scottish National Investment Bank

- SNIB should be encouraged/required to consider the delivery of community projects at a lower capital value threshold in order to enable it to deliver its Place Mission through particular targets to deliver a certain level of community projects.
- SLC and the Scottish Government should engage with SNIB to address lending practices that have the potential to work contrary to the Scottish Government objectives of increasing community land in community ownership and promoting a more diverse ownership structure.

Increasing Capacity

The limited capacity of organisations has a significant impact upon what they can achieve. This is not a new issue and is a cause of continuous debate. However, we recommend that:

- The Scottish Government, development agencies and the Third Sector work together to put in place a comprehensive, credible and funded plan to deliver adequate Development Officer time nationwide and across all communities.

- The Scottish Government allow the capital value of discounts on valuation of properties negotiated by community groups to be counted as capital benefit delivered by SLF. This would allow SLF to provide more revenue support (including Development Officer time) to groups that require it while still remaining within the 80:20 capital: revenue ratio for disbursement of funds.

Learning through Research

Where available, wind farm benefit funds can have a significant impact upon community landowners' access to resources for purchase and development. We recommend that SLC commission research into community wind farm benefit funds in order to:

- Measure the local impact and distribution of these funds
- Scope the range of purposes for which they were set up and identify restrictions in specific governing documents that may be limiting their ability to support sustainable local development
- Propose model articles
- Consider community investment options that would allow funds to continue delivering benefit after the life of the windfarm has come to an end.

Regulation

The study has come across evidence that an unregulated market in natural capital is leading to speculation in future carbon values by investors and brokers which may or may not be realised. This is adding to upward pressure on land prices that are already somewhat removed from the productive capacity of the land being bought. It is therefore recommended that:

- SLC and the Scottish Government work (with UK authorities where necessary) to introduce legislation to regulate the market in natural capital
- SLC and the Scottish Government use the powers at their disposal to reduce incentives to invest in land for non-productive reasons in order to make it easier for community bodies to have the option to use alternative financing models successful to support purchase of land.

Taxation

It is recommended:

- Land and buildings transactions tax exemption for charities should be extended to enable community owned projects outwith the charitable definition to be exempt
- Land and buildings transaction tax should be increased where the intention is for the land to be non-productive with a higher rate of tax charged with a proportion rebated if the land is subsequently used productively within a specified timeframe
- Broader education required to ensure that potential land sellers and purchasers are aware of the Acceptance in Lieu and also the general tax benefits for income tax and corporation tax on donations/gifts.

Implications for the Scottish Land Fund

If the changes proposed were to be implemented there would be several implications for SLF:

- The reduced barriers and improved access to complementary funds would, over time, increase the amount of funds available to community groups.
- A greater awareness, understanding and acceptance of the place of community land ownership (contributing to its normalisation) amongst financial institutions will lead over time to a greater demand for community ownership of assets
- The greatest increase in demand from the Scottish Land Fund would come however through a much greater distribution of Development Officers for those communities that want them. A much wider officer network would help communities to generate and pursue a greater range of ideas at a quicker pace. Equal access across the country would create a significantly greater demand for SLF funds and may therefore put greater pressure on a Fund that was limited to £20m per year.
- The regulation of markets in natural capital may provide a framework within which some community groups may be able to borrow against the value of natural capital. The number of purchases involved are likely to be modest, and SLF will need to judge any borrowing and future anticipated revenues from this source within the context of a wider business plan.
- The development of an increasingly diverse and complex set of funding options and the emergence of natural capital as a potential source of funds means that SLF will need to be increasingly aware of the benefits and risks associated with these options.
- The cumulative impact of these recommendations, combined with the significant increase in land values since the Land Fund was first increased to £10m per year, are likely to mean that an increasing number of applications will reach or surpass the £1m normal threshold for referring applications to Scottish Ministers. Raising this figure to £2m would be appropriate for a £20m fund.

2 Introduction

This report was commissioned by the Scottish Land Commission (SLC) to identify, explore and consider the wider implications of relevant and emerging sources of finance that are complementary to the Scottish Land Fund (SLF).

In November 2018, the Commission published recommendations on what it thought is needed to make community land ownership a normal option for communities across Scotland[3]. Its recommendations emphasise that community ownership should be seen as an integral part of wider community development and regeneration, and that it is a means to delivering wider outcomes. This was followed in 2019 by a report which analysed the range of different funding options available to support community land acquisition and found that a mix of funding models are often used by community organisations to fund ownership and development[4].

In the 2020 Programme for Government, the Scottish Government asked the Commission to provide advice on '*options to complement the Scottish Land Fund with wider sources of finance to support normalisation of community land ownership'*.

SLC considers that the Scottish Government's current commitment to the Scottish Land Fund is a welcome and a necessary resource to support expansion of community ownership. It recognises the critical role the SLF has played in enabling community ownership to date, and that a source of public funding will be necessary for the foreseeable future and appropriate given the public policy outcomes.

There is a clear indication of ongoing political commitment to the Scottish Land Fund, which is due to rise from £10m to £20m/year over the lifetime of the current Scottish parliament, but the level of interest and demands on public finances mean it is sensible to consider the longer term opportunities for other sources of finance to complement the Land Fund. If community ownership is to continue to develop, expand and be a normal option across Scotland, then it is likely that a wide range of finance models will need to be in use. The recent review of the Scottish Land Fund[5] acknowledged this, making a recommendation "to consider combining alternative sources of funding with the SLF, particularly in view of increased demand for SLF funds".

[3] Community ownership should become routine option for communities across Scotland, says new report – Scottish Land Commission

[4] Community ownership study finds that a mix of funding is needed for success - Scottish Land Commission

[5] Scottish Land Fund - Evaluation - Scottish Government

The Commission wants to build on the work it has published to date and explore what further action can be taken to support the strategic use and alignment of other funding sources, and what the implications are for communities, government and the Scottish Land Fund.

Raising finance for community land and asset acquisition also reflects wider land market conditions. SLC is aware of the increasing influence of green finance and carbon values on land valuation. This is affecting acquisition prices, but also offers potential new sources of finance to support community acquisition or shared governance models. This emerging sector is considered within the study.

2.1 Research Objectives

The overall objective of this study was to identify opportunities to complement the Scottish Land Fund with wider sources of finance, reflecting the range of public policy outcomes delivered through community ownership, identifying the opportunities this presents to finance and support the normalisation of community land ownership.

The study has built on the Commission's previous work, focusing on what further action can be taken to support the strategic use, alignment and leverage of other finance sources of capital funding, and what the implications are for communities, government and the Scottish Land Fund.

The study sought to identify:

- What are the most relevant current or emerging sources of finance that should be considered
- What are the motivations and likely conditions associated with different sources of investment/support, and therefore what are the implications for ownership, community control, governance models, and the financial viability of community assets
- The potential role of the Scottish National Investment Bank in providing long term finance
- What support is required and what opportunities are there to help communities access complementary sources of finance and to connect potential finance providers
- Whether there are implications for the operation and focus of the Scottish Land Fund of potential complementary finance options, and what impact these would have on the viability of the option as a source of match funding, noting that there is no intention to significantly change the Land Fund in the near future
- What options are readily available to communities now and what longer term options should the government consider
- What actions would help maximise the leverage opportunities.

2.2 Study Context

Community landownership is a rapidly growing sector of society and the economy which is being actively promoted by government policy. Successive Scottish Governments have passed several pieces of legislation to make it easier for communities to buy and own their own land.

The Scottish Land Fund is now in its fourth iteration with an annual budget of £10m per year for the period 2021-25.

The Scottish Government reported[6] that 422 groups owned 612 parcels of land totalling 119,261 in June 2017.

The Development Trusts Association Scotland (DTAS) carries out a detailed members' survey every 3 years. In 2019 270 development trusts owned assets valued at £150m and employed 1395 people. This was a major increase on 2016 when 220 members owned assets worth £89.4m and employed 751 people. Aggregate reported turnover was £57.9m (2016 - £50.3m) with £30.7m (53%) of that being self-generated or trading income (2016 -£21.1m (42%)). A repeat survey this year is expected to show significant increases in turnover and self-generated income.

[6] Community Ownership in Scotland 2020 - gov.scot (www.gov.scot)

3 Methodology

The research work was undertaken in 3 steps and a brief summary of what was involved at each stage is set out below:

- Step 1: Identification of SLF Limitations and Potential Complementary Models
- Step 2: Assessment of Models Applicability
- Step 3: Development of Report

3.1 Step 1: Identification of SLF Limitations and Potential Complementary Models

In the introduction it was noted that this study was required to build upon the foundation of previous work by the Commission and the policy framework currently in place in Scotland.

The prior 2019 study[7] identified the following 13 financial models which were available to community land and asset owners in Scotland:

- Charitable Funding
- Philanthropy
- Commercial lending
- Social Investment
- Lending in return for Guarantee of a Social Outcome
- Mutually Beneficial Arrangements between private and community businesses
- Private Investment
- Crowdfunding
- Community Shares
- Peer to Peer Lending
- Corporate Social Responsibility Funds
- Leveraging Assets Obtained by Nil Value Transfer
- Impact Bonds

It also identified a further 2 models which were in use internationally, but not yet commonplace in Scotland:

- Founders Fund with a repayment threshold
- Impact Investing with Social Return on Investment discount

[7] MacPherson, D., MacLeod, F., & Lockhart, J., (2019) The Range, Nature and Applicability of Funding Models to Support Community Land Ownership. Scottish Land Commission, Commissioned Report.

That study had given basic descriptions of the models, discussed their maturity, gave examples of their use, considered governance implications, identified significant constraints and risks and assessed their applicability to community landownership.

The team reviewed the report and in initial discussions with SLC it was agreed to focus on those models showing most promise in terms of community landownership applicability and complementarity to the SLF for more comprehensive investigation.

In addition, and in line with the brief, research was carried out into green finance, carbon values and other aspects of land market conditions such as models that work in different areas e.g. rural versus urban, areas of deprivation versus more affluent areas, national parks etc. Opportunities for collaborative/shared governance arrangements were also considered.

The team interviewed staff members of the Scottish Land Fund to identify the current limitations of the fund, in what circumstances they consider the introduction of complementary funds to be helpful, and what types of complementary funding were most common in applications to SLF.

3.2 Assessment of Models Applicability

The research looked in more depth than the 2019 study at the motivations and conditions that lead to the adoption of particular models, the barriers to adoption and the support or institutional change that is required to overcome or remove those barriers. The research considered the models in light of the focus in this brief on complementarity to the Scottish Land Fund (which was not specifically present in 2019).

The team interviewed funding agencies and community landowner representative bodies including Highlands & Islands Enterprise, Community Land Scotland, Community Energy Scotland, Community Woodlands Association, Community Shares Scotland, Scottish Communities Finance, the Community Ownership Support Service and Development Trusts Association Scotland to get a broad range of views from those supporting the community landowning sector.

A range of community landowners were interviewed to understand their experience of considering and adopting or rejecting particular models. These interviews were supplemented by an online survey to gather data from a wider range of community land and asset owning groups.

In order to more clearly understand the opportunities and challenges for community landowners from a traditional lending point of view interviews were help with representatives of commercial banks and the Scottish National Investment Bank.

In addition, equity funding will also be considered (e.g. Catalyst Fund) and new approaches to funding such as the William Grant Foundation's interest in unrestricted funding, as well as the Funders Forum and Scottish Grant Makers.

The study explored the potential for Natural Capital payments to fund community capital and revenue costs and included interviewing community groups and NGOs who have been recipients of such funding, or who are providing funding. Consideration was also given to the potential role of the banking sector in funding ecosystem and biodiversity restoration, based on the European Investment Bank's (EIB) successful Natural Capital Financing Facility, Investing in Nature: Financing conservation and nature-based solutions (eib.org).

3.3 Development of the Report

Information gathered from researching the models, interviewing community asset owners, public and private funders, researching Natural capital and land values was drawn together in order to:

- Provide a comprehensive overview of available funding options that are suitable for complementary funding to that provided by SLF
- Identify and distinguish key motivations and barriers to the adoption of particular models
- Propose actions for promoting and supporting alternative funding sources for community land and asset owners.
- Identify regulatory constraints (e.g. OSCR) and those imposed by public agencies

These elements are illustrated with examples.

4 Scottish Land Fund Support, Limitations and Complementary Funding

The Scottish Land Fund is now in its fourth iteration. It currently has a budget of £10m/year which is due to rise to £20m/year over the lifetime of the current parliament. At the time of writing the profile of the fund was still to be confirmed but it may rise by £2m per year, making significant extra funds available to fund purchases.

The normal maximum SLF grant is £1m although in exceptional circumstances the SLF committee can ask Scottish Ministers to approve a greater sum. In SLF 3 this occurred only once to support the purchase of the Isle of Ulva when a grant of just over £4.4m was awarded. In practice large purchases are rare, requiring a large sale opportunity and a community who are keen to pursue such a purchase. It is not yet clear if the normal maximum will increase in line with the increasing funds available over the lifetime of the current parliament.

The provision of large discounts by local authorities when selling property to communities has had the effect of reducing average grant size. Capital awards can cover up to 95% of acquisition costs (including VAT where applicable, legal fees and any immediate repairs required to make a property safely operable).

SLF can provide revenue support of up to £100,000 to cover feasibility and business planning activities prior to purchase and Development Officer time and early running costs post-purchase.

SLF does not fund:

- Communities of interest
- Leased land or buildings
- The “Goodwill” value of a business
- Post-acquisition development

4.1 Funding Pressures

The available funding in 2020-21 was more or less fully committed so that there may have been a significant problem going forward if the fund had not been increased. Officers report a healthy pipeline of projects coming through. Rapidly rising property prices post-COVID may cause some pressures to arise if rises are sustained over a period of years.

SLF works under Scottish Government guidance that the split between capital and revenue should be in the order of 80% to 20%. This has meant that the greatest pressure has been on revenue budgets where low capital purchase costs restrict the level of revenue support that can be awarded, with the pressure particularly felt in the ability to support Development Officers. This perception from SLF staff is supported by a number of comments from the online survey of community land and asset owners:

"Capacity limitations. Many community projects rely on volunteer resource and there's very little volunteer resource on the islands. There should be increased funding available for staff resource."

"Staff – only 1 member of staff for two companies at present, and funding for that staff member ends 2022."

4.2 Promotion of Complementary Funding

SLF staff encourage community groups to look for additional funding (beyond the mandatory 5%) to increase the scoring when their application is evaluated. However, the level of complementary funding is not an overriding factor in decision-making.

The capital acquisition costs are not the whole cost of a community ownership project and therefore communities have to look for other forms of funding to complete project delivery. Post development funding can be varied according to type of project e.g., projects with a housing element are able to access Rural Housing Fund support and commercial mortgages.

4.3 Other Support Constraints

Once SLF receive a specific project referral the group is on the radar for SLF support. This is not available at a very early stage when groups are thinking through general ideas. In these circumstance Community Land Scotland is available to provide support, either informally, or through more formal structures such as the recently launched Community Ownership Hub for Glasgow and the Clyde Valley[8].

4.4 UK Community Ownership Fund

The UK government's new £150m fund[9] helps community organisations take ownership of threatened community assets. Therefore, its scope is more limited than SLF. Community groups can bid for up to £250,000 matched-funding to help them buy or take over local community assets at risk of being lost, to run as community-owned businesses. No definitive list of eligible assets (communities to set out what matters most to them) but could include community-owned sports clubs, sporting and leisure facilities,

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[8] Taking community ownership to the next level in the Clyde Valley (communitylandscotland.org.uk)

[9] https://www.gov.uk/government/publications/community-ownership-fund-prospectus/community-ownership-fund-prospectus

cinemas and theatres, music venues, museums, galleries, parks, pubs, post office buildings, and shops.

Projects should be focused on place-based assets or amenities, important to the local community, which build connections between people and foster a sense of pride in the local area – but are at risk of being lost without community intervention.

To be eligible for investment from the Fund, the terms of community ownership must be either the ownership of the freehold or a long-term leasehold of at least 25 years minimum (with no break clauses).

The Community Ownership Fund will provide up to a maximum of 50% of the capital costs to purchase (and renovate and repair) the community asset. It can be used as complementary funding to SLF and is able to fund goodwill which SLF does not.

4.5 Other Public Sector Support

A range of public sector bodies have match-funded community land purchases during the various iterations of the Scottish Land Fund. These include Highlands & Islands Enterprise, South of Scotland Enterprise and various local authorities. Local authorities are currently a significant match funder of asset transfers to community groups by the means of transferring properties at a discount to valuation.

5 Complementary Funding Models

MacPherson et al (2019) identified 13 different models that were either being used or could potentially be used by community groups to fund their activities.

The 13 models are summarised in the table below:

	Model	Description	Limitations	Suitable for
1	Charitable funding	Raising funds from charitable bodies who disburse grants and occasionally loans	Limited availability beyond registered charities or those who meet fundable activities criteria	Registered charities and other eligible organisations who align with funders objectives
2	Philanthropy	Giving of money from a donor (private individual or corporate) to a beneficiary community to pursue social purposes	Alignment of interests of the donor and the recipient community	Organisations with social or environmental outcomes which are important to particular philanthropists
3	Commercial lending	Mainstream lending in the form of overdrafts and loans (secured and unsecured)	Lender usually has security requirements and commercial lending can increase risk for a community group	Financing projects with a strong income stream and assets to offer as security
4	Social investment	Investment from institutional investors (state-backed or private) predominantly issued as loan financing	Interest rates are generally higher than commercial lending	Communities who do not have assets to secure finance against
5	Lending in return for guarantee of a social outcome	Lending of money by one body to another in return for the promise of delivering an outcome favoured by the lender	Willingness to lend or otherwise of a party with surplus funds	Funding support for communities with land purchase and development
6	Mutually beneficial financial arrangement between private and community businesses	Generally commercial arrangements between private and commercial businesses such as rental arrangements, loan or trading agreements	Can restrict the level of profitability achievable by the community through the often, increased cost of finance required by the business providing the finance	Community landowners with commercial opportunities where they may not have access to finance to take forward or can share risk

	Model	Description	Limitations	Suitable for
7	Private investment	Funds given from a person classed as a High Net Worth Individual or a Self-Certified Investor to an organisation with financial return through loan interest or dividend	Risk of having to generate enough income to service the debt over time	Where investment is difficult to source, an investor may be willing to lend for financial return
8	Crowdfunding	Raising money from a large number of people who each contribute a small amount without the promise of a financial return	Often seen as a one off and can rarely be achieved to the same level twice in succession	Community organisations where they can assess the value of their 'social capital'
9	Community shares	Enterprises which are established for community benefit sell shares to raise capital for businesses that deliver community benefit. The investors receive limited interest on the money that they lend to the business.	Can only be issued by co-operatives and community benefit societies. Risk of loss of community confidence if a business were to fail and local people were to lose their investment.	Community shares can be used to fund any form of social enterprise
10	Peer to peer lending	Peer to peer lending is a form of lending which allows individuals to lend directly to other individuals or businesses without the use of a bank. The lending is conducted through specialist lending platforms on the internet.	The amount of borrowing that can be raised will be constrained by the lenders' perceived risk of the organisation and the project	Alternative source of investment for community landowners

	Model	Description	Limitations	Suitable for
11	Corporate social responsibility funds	Corporate Social Responsibility covers the actions taken by companies to act responsibly towards their local communities, wider society and the environment over and above that required by law. Corporate Social Responsibility Funds may come from fixed annual payments or a percentage of profits from the company and can also include money raised by company employees acting as volunteers.	Often constrained to the specific community in which a company works and therefore will only be available to a limited number of community groups.	Locally useful source of finance for community groups
12	Leveraging assets obtained by discounted or nil value transfer	In certain circumstances community landowners obtain assets by way of a discount on the market value or by gift or for a nominal sum of say £1.	The potential liabilities must be carefully considered to ensure that they are fully understood along with the potential related costs, which can increase risks for a community	Opportunity for greater levels of community land ownership for a minimal or reduced cost to the public sector and the communities themselves
13	Impact bonds	Impact Bonds are a tool to help facilitate social, environmental, or community based impact through an impact investment model. Social/Community Investors invest in a project at the beginning for a set period of time and receive payments based upon the results of the project.	Models can often be complex and confusing and there are risks associated with communities not taking appropriate legal and financial advice to ensure their governance can appropriately manage a bond offer.	This is an under used mechanism for raising capital that community landowners should explore and, if structured correctly, provide an opportunity for communities and other organisations to invest in each other for fixed periods

The starting point for the current study was to review the identified models and to research in further detail those models which showed most promise as being relevant to community landownership and development. The research focussed specifically on identifying motivations to adoption and barriers that limited uptake of models with a view to proposing recommendations to reduce barriers and increase uptake of models. This would allow community landowners to increase their impact locally, while at the same time maximising the return to public money invested through the Scottish Land Fund.

The initial review identified the following models for further investigation as part of the study:

- Charitable Funding
- Philanthropy
- Commercial lending
- Private Investment
- Crowdfunding
- Community Shares
- Peer to peer lending

In addition to these models, research partner Community Enterprise had had successful experience in using Community Bonds, also known as Debentures, to raise money for community groups so it was agreed to include that model in this study. ‘Social Investment’ was excluded because it had been identified as suitable for communities who did not have assets to secure finance against which is out with the scope of this study. ‘Lending in return for guarantee of a social outcome’ was excluded because it is a very niche model and quite similar to other forms of commercial lending, but with social conditions attached. ‘Corporate Social Responsibility Funds’ and ‘Impact Bonds’ are also niche and generally only open to small numbers of organisations.

‘Leveraging Assets Obtained by Discounted/Nil Value Transfer’ is not considered further here even though it is a potentially useful model because it is essentially covered by the consideration of other forms of lending. Obtaining discounts on the purchase value of properties is now standard practice, particularly in the public sector, and is actively encouraged by SLF.

Where relevant, quotations from survey participants are used to illustrate communities’ experience of and views of models.

5.1 Charitable Funding

This is the most common form of funding accessed by community groups in addition to SLF support. 63% of survey respondents had used charitable funding for purchase and 76% for development. 94% said that they would consider using this source of funding again.

Most grant funders are more likely to support specific activities or projects, rather than land purchase. There is a huge range of funds available for development and welfare projects, each with their own target groups, localities and conditions.

It is significantly more difficult to find charitable funding for land and asset purchase. Many funders have shifted focus, but smaller match funders include:

The Clothworkers Foundation[10]- Open Grants Programme: awards grants to UK registered charities, CICs, and other registered UK not-for-profit organisations towards capital projects which include Buildings**:** purchase, construction, renovation or refurbishment.

Applicants must be able to demonstrate that the work fits within one or more of their programme areas, and that at least 50% of service users benefiting from the capital project are from one or more groups -including alcohol and substance misuse; disadvantaged minority communities; disadvantaged young people; people with disabilities; prisoners and ex-offenders

Esmee Fairbairn Foundation (EFF) also provides social investment in the form of different types of repayable finance to charities and other not-for-profit organisations (including bencoms[11]), with the aim of creating social impact. Investments include loans, bonds, equity, and underwriting. Loans are for a minimum of £100,000 up to £2m and must match one of the funding priorities

The example most relevant for this work is the £10m **Land Purchase Facility[12]** which is used to purchase land of high current or potential conservation value. Once purchased the land is leased to partner conservation organisations (the RSPB, the Wildlife Trusts and the Woodland Trust) with the option for them to buy in two years' time at the price the Esmée Fairbairn Foundation paid for it plus a small interest charge, with all returns recycled back into the facility. This gives the organisation a window to fundraise. As of June 2021, the facility has approved £21.7m of investment

[10] https://www.clothworkersfoundation.org.uk/

[11] More formally known as Community Benefit Societies

[12] Esmee Fairbairn Land Purchase Facility

into 35 pieces of land and been 100% successful in transferring ownership to its partner organisations. No community group has yet made use of this facility.

Motivations

It appeals to groups because apart from the voluntary or paid worker time required to complete applications and report on funding spend there is **no cost** to the funding. The **wide range** of funding available means that a lot of different capital and revenue projects can be supported from different sources. One group commented:

"Grant funding has been vital for this redevelopment. It would not have proceeded without the level of support we have received."

"Low time commitment to obtain these funds."

"We regularly apply for Windfarm funding for projects and they have always been helpful."

"Local windfarm development fund administer[sic] by Community Council and appropriate for thr projects."

Barriers

The need for **charitable status** is a limitation on a number of sources. However, many others welcome applications from non-profit distributing organisations if they are delivering projects that provide the same benefits as via a charitable body.

The **lack of knowledge** of specific funds that can help them can be a significant barrier for organisations. Specific websites such as fundingscotland.com can help in this regard. However, interviews suggested that groups often found about a specific fund via word of mouth; either from another organisation or a professional worker with knowledge of the sector.

"Grant funding has been vital for this redevelopment project. It would not have proceeded without the level of support we have received."

5.2 Philanthropy

MacPherson et al (2019) defined philanthropy in the following way:

This model involves the giving of money from a donor (private individual or corporate) to a beneficiary community to pursue social purposes. The boundary between what is perceived as ordinary charitable giving and philanthropic giving is a matter of some debate. For the purposes of this discussion giving is considered to be philanthropic by its size and/or its regularity over a long period of time.

In considering the overall contribution that philanthropy can make to community landownership and management it is necessary to consider the motivations and barriers to it from both the philanthropists and the community's point of view.

5.2.1 Philanthropic Giving to Communities

The study team were able to interview several individuals involved in philanthropic giving, whether on a personal basis or through corporate structures.

Motivations

The reasons for giving philanthropically vary and are subject to the personal interests of the giver. This can vary from a highly structured approach with giving limited to very specific sectors, project categories, demographics or geographic areas through to those who will give on the basis of what may spark their interest at a particular point in time. However, an overarching theme is that philanthropists want to see a clear impact for their investment and for their contribution to make clear difference.

Philanthropists also want to see additionality in their giving. They are keen to know that extra good is being delivered as a result of their giving and therefore do not want to merely replace money that may have come from other sources, particularly governmental ones.

In dealing with requests/appeals for large sums of money philanthropists are further motivated by the confidence that they have in the vision and leadership of those that they are dealing with. One philanthropist expressed indifference to the merits or otherwise of community landownership but had been willing to give to a community organisation because its vision for environmental regeneration matched with their own and they had confidence that the community group was being well-led.

Barriers

One philanthropist offered the view that it can be difficult to give away all the money that is available because of a lack of requests for it. They considered that in their area of interest there was in fact a large amount of money available from a range of philanthropists that communities are potentially missing out on. They considered that the lack of knowledge is two-way; philanthropists are unaware in many instances of the needs of particular communities and the communities are unaware of the philanthropic opportunities.

The **lack of knowledge** of communities' needs and aspirations regarding community land and asset ownership is likely to be having a significant impact on the total funds available to support community ownership across Scotland. One environmental philanthropist is of the view that community ownership and management of resources offers the best potential to address environmental regeneration and climate change issues. However, they offered the view that community ownership as a whole had not delivered on environmental improvements. When asked to explain this further they cited the examples of overgrazing practised on commons in Dartmoor and Wales. It is entirely possible that others will draw similar conclusions either from not knowing the successes of a range of communities in Scotland or from questioning land management approaches by community landowners of significant areas of land under crofting tenure, over which they have no practical control.

The same commentator considered that the approach taken by the Langholm Initiative to create a nature reserve[13] was an exciting one and that it could be "totemic" for environmental funders. If the Initiative succeeds in its goals other philanthropists may be more willing to support more community ventures.

Match-funding Risk is a significant consideration for some funders. Giving to purchase or long-term development projects that require a range of funders to complete a package means that large sums can be committed for a project that will not need them for a long time or may not go ahead at all. This ties up available funding and prevents it being used elsewhere, reducing outcomes delivered by the philanthropic giver.

The lack of immediate or quick outcomes is a key barrier for many givers. The purchase of land or other assets is not an end in itself and it is likely to be a period of years before significant social, environmental and economic opportunities are delivered.

Opportunities

The discussion above highlights that there are opportunities for increased giving by philanthropists and that some of the barriers could be overcome by appropriate action. Key points to securing those opportunities are:

- Presenting a credible case for support
- Being visible
- Being well-networked
- Giving the funders a positive and strong profile

In order to achieve these points requires considerable voluntary effort on the part of communities.

There would seem to be a clear opportunity to bring individual philanthropists together in a more co-ordinated manner and to seek to more pro-actively link philanthropists with

[13] Tarras Valley Nature Reserve | langholminitiative

communities looking for resources. This will be discussed in more detail below in relation to enabling communities to better access a range of funding models.

Two valuable suggestions came forward from the philanthropic sector in response to this research:

First, that SLC could play a role in seeking to bring philanthropists together who have an interest in land and land management issues to seek to create a more co-ordinated approach on the part of philanthropists.

Secondly, it was suggested that a property fund could be created to which many philanthropists could donate for the purpose of enabling more community land purchases. It could be administered by an independent body and act as a match-funder to SLF. This could play a particularly important role in purchases over the £1m normal limit for SLF.

5.2.2 Communities seeking philanthropy

Amongst the respondents to the online survey approximately one in eight community groups had received philanthropic gifts either for purchase of an asset or for its development. This is a considerable proportion and therefore a significant contributor to the community land sector, notwithstanding the limitations to this type of giving noted above.

High profile philanthropic gifts for purchase have included the Isle of Eigg Heritage Trust (£750,000) and the Langholm Initiative (£1.5m from three sources).

Motivations

There are several motivating factors to groups seeking philanthropic donations. First, and most simply it is **need.** It can be near impossible for some purchases or developments to be completed without philanthropic giving because the sum required is so great SLF and other grant making bodies cannot cover the full cost. In other cases more modest sums might not be achievable, through traditional funding routes because a project does not meet normal funding criteria.

Secondly, **knowledge** of a local benefactor can encourage groups to make a direct approach to someone with connections to, and (often) a history of philanthropy in their local area. It is considerably less likely that they will directly approach someone unknown because they do not have a connection to the area or they do not know about them.

Thirdly, the **cost** of philanthropy is generally low. Like grant funding it does not require repayment. There is also little financial cost in seeking philanthropic support, although there can be considerable cost in volunteer time.

Fourthly, the **inclusivity** of appeals for support plays a significant role. Groups look for community and wider support to help them purchase or develop an asset. Where a philanthropist is local the difference between their giving and that of others will be measured by degree, rather than the philanthropist exclusively making the project work. A wider public appeal, now typically delivered through a Crowdfunding platform (see 5.5 below) can also alert potential philanthropists to make contact with a community group due to the publicity created.

Barriers

The key barrier to accessing philanthropic giving is a **lack of knowledge** of the opportunities available. Communities do not know where to start, particularly those groups which do not have a prior history and therefore are having to learn everything about fundraising from scratch. Giving criteria and how to apply to some individuals/foundations can also be quite opaque. This particularly applies to those philanthropists who prefer to support projects on a case-by-case basis.

A second barrier is **lack of time**. This is particularly the case where communities are trying to purchase land in a time limited scenario. The principal volunteer (or Development Officer) effort will go into considering how to use the asset, negotiating a sale and applying to SLF for funding. It is only then that they can use any remaining time to consider alternative funding routes.

Survey Comments

"Philanthropy and private investment – no contacts".

5.3 Commercial lending

Loan borrowing can feature in the funding structure for many community asset purchases with loan funding being provided from a number of different sources, but by far the bulk of loan funding is still provided by the commercial banking sector. Loan funding can also be a feature of development projects or used as a bridging facility to help cashflow projects during construction and delivery of projects.

Barriers

The mainstream banks will generally assess projects in a similar way as they would any other commercial business project. This can prove challenging for a number of reasons such as:

- Need to provide security whilst not being able to provide personal guarantees in the way that a private business can
- Perception that a community/charity group will be more risky
- Higher interest rates applied due to perceived risk profile
- Existing track record and project management skills can be difficult to demonstrate for a new community organisation
- Volunteer boards being perceived as amateurs
- Lower profit/earnings to debt cover ratio which is often the case in a not-for-profit organisation being inadequate to obtain loan threshold required

This results in most of the commercial bank funding being leant in the communities' sector being focussed on renewable energy projects or forestry where there is the expectation of a strong level of profitability. These projects also tend to be subject to a significant level of due diligence by the banks and incur significant costs before being able to secure the loan funding.

Commercial banks now have a particular focus on green lending and will no longer lend in the coal sector and are looking to get out of the oil and gas sector. One of the commercial banks interviewed mentioned that the bank now looks for climate impact commentary from projects.

While the focus of our enquiries was upon mainstream lending to community groups, we found it difficult to speak directly to mainstream lending arms of the main banks. It did not prove possible to speak to some banks, while others directed our enquiries to a specific community/charitable department of the bank. This highlights the lack of understanding by the banks of both the scale and ambition of some community landowners.

The **lack of knowledge** of specialist community sector funding provided by certain banks can be a barrier to accessing that funding. This lack of knowledge affects both community groups themselves and those who work with them. Our team has decades of experiencing of working in and for the community but had not been aware of a specialist lending facility available through one mainstream bank until being directed to it during this study (see "*Opportunities"* below).

Opportunities

There are a few banks who are known to lend to charities and communities, in particular Triodos Bank, Co-operative Bank and Charity Bank. There tend to be limitations on the level of loan funding that will be provided, and the provision of the funding is still subject to a certain degree of due diligence, but there does not seem to be the same prejudice exercised by these banks towards community/charity groups regarding their perceived amateur status. A case study on Triodos Bank is provided in Appendix 1.

During the course of this research, on contacting the Royal Bank of Scotland to discuss the communities' sector, we were directed towards the NatWest Social & Community Capital which is a very welcome alternative loan funding option for charities and background information is provided in Appendix 1.

Survey Comments

"In Shetland we have a charitable trust which provides us with bridging loans."

"The only option we did not investigate were loans, the trustees did not wish to take on debt."

"Taking out a bank loan only works when it issued to invest in something that will produce substantial income to repay the loan."

5.4 Private Investment

Communities are naturally reticent about seeking private investment. The online survey showed that retaining community control was a key factor for many in making decisions on funding models. The ability to retain control was cited by 58% of participants as a reason for choosing a particular model.15% said that concern about losing control was a reason for not choosing a model under consideration and 18% gave it as a reason for not considering a model at all. The process of gaining control over land is a challenging one at the best of times and therefore community groups are understandably reluctant to cede any form of control to a third party after the effort that they have put into the project.

It is also a natural desire of community groups to want to maximise the benefits of community ownership for the community itself. Therefore, by preference groups will explore all other opportunities first before entering into private arrangements.

Private investment can take two forms: First, a private party can contribute to a community project which results in them gaining benefits to a separate private investment.

A good example of this has occurred on the Isle of Colonsay which suffers from an acute housing shortage and lack of employment opportunities. Colonsay Community Development Company and aquaculture company MOWI came to an agreement which has seen MOWI invest £0.5m in infrastructure to enable the development of land bought using SLF money. This has enabled CCDC to build 4 houses for rent and another 2 for low-cost home ownership alongside 2 business units. MOWI has further invested in 3 houses for its workers and if at any point in the future it closes the fish farm it will transfer the houses to the community. In this circumstance the private investment was a major contributor to an overall investment package that is bringing major benefits to the community in terms of asset creation, and housing and employment provision.

Secondly, private investment can take the form of direct investment into community assets. This form of investment cedes a measure of control to the private party in addition to foregoing part of future revenue generation.

Three separate community landowners interviewed have had different experiences of private investment in relation to micro hydro schemes. In each case they entered into agreements with private parties in order to deliver schemes for which they were unable to complete funding packages against a background of declining Feed-In Tariff rates provided by the UK Government.

Two of the trusts entered into a contract whereby the third party would develop the hydro scheme with the community retaining a 10% stake, but with the option to buy out the private investors after 3 years. After this period of time the groups made offers to buy the whole scheme at independent valuation which was refused, as was a second higher offer. Some months later the investment vehicle was able to sell the hydro schemes on to a foreign renewables investor for a higher price.

The third community landowner thought it would be unable to build at all as the FIT scheme was close to closing when they were introduced to a third-party developer of hydro schemes. They reached agreement whereby the private party would build the scheme and maintain it, but revenues would be split equally with the community for the life of the project. This outcome looks to deliver a revenue stream that will be of considerable benefit to the community.

These examples illustrate the fact that communities projects facing very similar problems can have quite different outcomes.

Motivations

As noted above the primary motivation for communities to negotiate private investment is that of an **inability to fund** projects on their own account from other sources. This primary motivation may also result from a **lack of knowledge** of funding alternatives or of alternative ways to deliver a project. The first two groups developing hydro schemes entered into the private funding arrangement after the Co-operative Bank was unable to offer financing when it had financial difficulties of its own, but before they became aware of the opportunities to deliver community share offers (See 5.6). The third group had used a national civil engineering firm to design their scheme which was over specified and therefore much more expensive than it needed to be. The private investor was able to build a simpler system from their prior experience of building smaller, rather than larger schemes.

Barriers

The main barriers to more private investment in community schemes are those of **lack of knowledge** and **trust.** Where communities are unable to deliver projects with the aid of the public sector there is a recognition of a lack of knowledge by all parties on how to deliver a project successfully without additional capital. Few communities have prior knowledge of private negotiations for community benefit and only a proportion of community groups will have directors with knowledge and skill in the sector in question. Private agreements require legal agreements to be drawn up which can be difficult to understand and even the lawyers for community groups may have limited knowledge of these.

It takes time for communities to trust outsiders and the experience of the two trusts mentioned above will make them wary of entering into future agreements of this nature. Their experience will reinforce the natural caution of others who may consider it better to leave an asset undeveloped for a future generation to reconsider, rather than risk a bad deal or losing control of an asset.

In contrast the experience of CCDC has been extremely positive. They have received major gains from partnering with a major company with trust an important factor in the relationship of the two parties. A key element in this may be that MOWI is embedded in the local community and therefore there was a prior relationship with staff and both understood what the other needed. In considering a wider application it may be the case that there is a greater incentive for private investors to be seen to be acting fairly with community groups when they are locally based than when they have no connection to the community.

Opportunities

Private businesses are coming under greater pressure to demonstrate their Corporate Social Responsibility (CSR) which can present opportunities for community groups to act a ready-made conduit through which these private businesses can deliver CSR. Community groups are proven models for delivering in their communities from a social and environmental perspective and are ideally placed to leverage financially beneficial arrangements with private businesses through a form of sponsorship, well publicised donations or even a profit-sharing arrangement, particularly where such businesses are looking to increase their influence or presence in a local community.

Survey Comments

"Our relationship with the private company has proved to be very successful. They are still on site and providing free labour to implement parts of our plan. In return we have helped them to demonstrate a responsible approach in the village."

"Private investment was unrealistic in a small population with a low average income. It would also result in loss of control."

5.5 Crowdfunding

In MacPherson et al (2019) this model was described in this manner:

Crowdfunding is the practice of funding an organisation or project by raising money from a large number of people who each contribute a small amount without the promise of a financial return. Predominantly crowdfunding is performed through the use of online platforms such as Crowdfunder, Kickstarter and Indiegogo.

Online crowdfunding has become increasingly mainstreamed in recent years as even the more remote areas have been able to receive reasonable internet connection speeds. While some communities have raised large sums of money others have not tried the platform or raised only modest sums. Scottish Communities Finance estimates that a typical community fundraising effort will raise around £5000.

Donate and reward crowdfunding can work well by appealing to people who share the interest of the organisation e.g. Impact Arts offered a print or art class. It works through tapping into communities of interest rather than being limited to communities of place.

Motivations

The ability to raise significant sums of cash both from within and without a local community is a significant motivating factor in launching an appeal. A Crowdfunder can provide the final brick in the wall of a funding package and demonstrate to funders that there is considerable local support for a land purchase or development project. For small communities in remote areas Crowdfunding offers the opportunity to reach out to a much large donor pool.

The Langholm Initiative was able to raise £208,000 from a Crowdfunder towards a £3.8m purchase of 5000 acres of land from Buccleuch Estates. A further £180,000 was given directly to LI, but the Crowdfunder publicity is thought to have stimulated a significant part of this. LI currently has a second appeal[14] underway seeking £150,000 towards a purchase of a further 5000 acres for £2.2m.

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[14] Fundraiser by Kat Mayer : Langholm Moor Second-Stage Community Buyout (gofundme.com)

The Old Forge Community Benefit Society in Inverie launched a Crowdfunder for £40,000 towards the renovation of the inn[15] once it is brought into community ownership. It offered a number of rewards linked to minimum giving amounts to incentivise support. It reached its appeal target in less than 8 hours by tapping into a community of interest that was much larger than the local community and using the Crowdfunder to provide the last element of the funding package.

Barriers

Crowdfunding platforms can be considered to be easily accessible to just about any person or organisation. Several of the main players do not charge a platform fee to set up an appeal. Transaction fees are in the realm of 2-3% plus 20-30p. Therefore, barriers are related to impeding the relative success of an appeal.

The main barrier to fundraising in this way is the **relative attractiveness** of a proposition. LI's appeal in order to create a nature reserve drew large numbers of small donations from people who have an interest in nature and conservation. The Old Forge has the cachet of being the most remote pub in mainland Britain and Knoydart has a considerable reputation as one of the pioneers of the community land ownership movement which has attracted a great deal of interest from individuals and the press worldwide. Community groups looking to buy an old school or create a set of business units are likely to find that an associated appeal will have much less interest for potential donors.

The **limitations of networks** available to a community are a further barrier. A worthy cause attracts attention in relation to the amount of exposure it is given by others. It is notable that the John Muir Trust has played an effective role in promoting community land initiatives through its membership in several high profile cases (Knoydart, North Harris, Langholm) leading to generous giving to appeals and also drawing in philanthropists (See 5.2). The success of the Old Forge appeal is due in part to the connections that the Knoydart community has made with a wide range of actors in the past 20 years of community ownership of the wider estate.

Limited volunteer time can potentially limit the success of a crowdfunding exercise. For appeals that are open for a long period of time work needs to be put into updating information and keeping the appeal constantly in the news. It is difficult to make direct comparisons but it is notable that the appeal for the Isle of Ulva raised a much more modest sum (£37,224) than that for the Langholm Moor. The Ulva crowdfunding appeal was more static than that of Langholm and may have received more support if a more dynamic appeal was promoted. The counter side to that though is that spending a

[15] The Old Forge Community Benefit Society - a Community crowdfunding project in Mallaig by The Old Forge CBS (crowdfunder.co.uk)

greater amount of limited time on an online fundraiser could have been to the detriment of other needs of the community buyout process. Therefore, the key point to note is that groups have to make choices as to where to focus their limited time.

Limited knowledge of what constitutes a successful crowdfunding exercise will be limiting many groups from achieving the best outcome from their appeal.

Opportunities

Community Shares Scotland is currently planning to extend its expertise to supporting community groups to deliver successful crowdfunding appeals.

5.6 Community Shares

The growing popularity of community shares is instructive for indicating what can occur when strong support structures are put in place to promote and facilitate the uptake of a financial model. Community shares have been in existence for a long time but the number of share offers was modest with a total of 9 over the 5 year period from 2009 to 2013. Over the period May 2014 to July 2017 which covered Phase 1 of the Community Shares Scotland programme this grew to 22.

Over the following 3 ½ years of Phase 2 until the end of 2020 a further 22 community share offers were launched. The increasing number of offers was matched by an increasing diversity of sectors which include community hubs, energy, food and drink, housing, pubs, shops, sport and recreation, tourism, life coaching and even a school. Phase 2 saw £3,849,660 raised, leveraging in another £14,946,278[16].

In the online self-selecting survey only 2 of 67 groups had delivered a community shares option but 12 had considered it for purchase and 14 for development projects.

Motivations

CSS has found that **control** and **community governance** are key motivating factors in using the shares model. This is supported by the online survey finding of 58% of respondents citing the retention of control as an important factor in choosing a funding model. Local control and ownership apply at the individual as well as the community level. One respondent to a CSS survey noted:

"this is the first time I've ever owned something in my life".

Community share capital is a **flexible, patient** form of money. Grants have conditions and loans require repayments to start immediately. A prospectus needs to be clear with

[16] Source: Impact Report for Phase Two, June 2017-December 2020, Community Shares Scotland

investors but payments can be delayed until year 3 for example, and payments can be caused if there are any trading difficulties.

A successful community share offer can leverage other funds such as SLF because it develops confidence in the community commitment to a project.

The presence of **institutional support** is a significant factor in encouraging uptake of community shares. Interviewees spoke very highly of the process and the practical support they received in pursuing a community shares model. The support available takes several forms:

- CSS provide free support and guidance, 6 days of tailored consultancy to develop a share offer, and groups can apply for a microgrant to support the marketing and promotion of a community share offer
- DTAS (which delivers CSS) has developed model rules for the registration of community benefit societies
- CSS works in close partnership with Co-operative Development Scotland and the Plunkett Foundation to provide comprehensive support to anybody interested in starting or growing a community business in Scotland.

Barriers

The price of land is a problem for using community shares for land purchase. To date no-one has used a share offer for land purchase.

Lack of awareness is a barrier that has been significantly reduced by the promotional activities of CSS, although it still exists

The need to be a Community Benefit Society is a barrier in that it requires the setting up of a particular form of structure, rather than using other (often existing) forms.

Volunteer time with a share offer is considerable and somewhat greater than other forms of funding. This includes the administration in setting up the society and the share offer, the need to properly consult, get people supportive of the venture, and the requirement of a relentless marketing campaign. All of these combine to make it tiring for volunteers. Following a share offer ongoing communication is also required. While this is a barrier, those who overcome it find that they have created a strong, resilient business model.

The **timescales required** to deliver a community share offer can be considerable**.** This can be an advantage in terms of building community support for those who are not timebound but is a serious problem for those who have tight timescales for projects. 40% of groups surveyed stated that they had rejected particular models due to a lack of available time.

Community size can be a limitation with the requirement to have 75% of the membership of a Bencom from the local community when looking to match with other public funding. Therefore, small communities will be limited in the number of outside shareholders that they can recruit. However, even in these situations there is sufficient flexibility in the model to allow for innovative thinking. The Old Forge CBS set a minimum share price of £50 for local people and £10,000 for non-residents, enabling it to raise more than £200,000 through community shares. However, this approach should be seen as an exception demonstrating the outermost limits of what is achievable with the model, rather than its mainstream potential.

Opportunities

Community shares have been made to work in a wide variety of situations and therefore offer the potential to generate significant community 'buy-in' in both financial and social terms to many different projects.

Survey Comments

"Would like to know more about community shares."

5.7 Peer to Peer Lending

People are familiar with donation-based crowdfunding, now widely used by third sector organisation but there are another two, less used types of crowdfunding, which are effectively forms of loan funding:

- *Peer2peer crowdfunding* or lending is asking the public to lend money via an online platform. Peers (crowd) can contribute financially to projects with the aim of getting their capital returned to them. Money can be returned either as capital only or capital plus interest.
- *Loan-based crowdfunding* (known as peer-to-peer lending) and investment-based crowdfunding are FCA regulated activities and are more sophisticated products, aimed at more financially motivated investors.

Peer-to-peer lending firms such as Zopa and Funding Circle offer rates to investors of up to 6%, but while their products can look and act like savings, they have to be recognised as high-risk products with limited protections should the borrower default. Some platforms offer contingency funds, but these don't guarantee to repay all investors. Unlike stocks and shares investment platforms, peer-to-peer platforms are not protected by the Financial Services Compensation Scheme in the event of collapse.

Peer-to-peer lending involves considerable risks, and several platforms have collapsed in recent years. The Financial Conduct Authority (FCA) imposed stricter rules in 2019 for peer-to-peer platforms to protect less experienced investors. New investors who haven't had independent financial advice are no longer allowed to put more than 10% of their 'investable assets' into P2P (an investable asset is essentially spare cash, so doesn't include things like home or car – though a second home would be counted towards the total investible asset worth).

Under marketing restriction rules imposed by the regulator in 2019, peer-to-peer platforms may only communicate 'direct-offer financial promotions' to retail clients that are classified as either:

- certified high-net worth investors
- certified sophisticated investors
- self-certified sophisticated investors
- investors who are certified as 'restricted investors'

An innovative finance Isa (IFISA) is an Isa that contains peer-to-peer loans instead of cash (as in a cash Isa) or stocks and shares (as in an investment Isa). Peer-to-peer lending matches up investors, who are willing to lend, with borrowers, who could be individuals, businesses, or property developers. The IFISA allows P2P investors to lend out up to the annual £20,000 ISA allowance within an ISA wrapper, so interest on that portion of money will be tax-free forever. Interest rates are higher than traditional ISAs but so is the risk.

Peer-to-peer lending under social finance initiatives is emerging as another way of attracting investment into social enterprises not just from small community investors but also from institutions and high net worth investors. This is response to the recognised need for to fill the gap in the market for micro, affordable and patient capital for third sector organisations.

The Social Enterprise Loan Fund is a small fund that capitalised the investment of people and organisations within the Scottish Third Sector, via the purchase of Community Bonds. The community bond offer was undertaken by leaders in the social enterprise sector, in partnership with Scottish Communities Finance Ltd in late 2017, specifically targeted at the wider third sector community.

The money raised was used to capitalise the SE Loan Fund which was established in April 2018. It provides bridging loans up to £15,000 at 3% for a period from 6 – 12 months. It is managed by SCF Ltd on behalf of the investors. Since it was established, the fund has been very successful with no defaults.

As the investors were people with a mutual interested in supporting the third sector, when COVID hit, they agreed that addition assistance was needed for organisations wanting to utilise the loan fund. The fund became fee free and interest free and will continue as long as COVID continues.

SCF Social Enterprise Loan Fund case study - JCB Ltd highlights the success of use of this bridging loan facility by Jura Community Business Ltd (JCB Ltd). In 2017 the directors built an Enterprise Centre on land adjacent to their community–owned petrol station to meet the local need for business space. The Enterprise Centre opened in February 2020 and with all units fully occupied just as COVID hit. People moved to work from home. JCB Ltd gave the tenants payment holidays in order to sustain long term tenancies and the local economy. COVID also impacted upon the petrol station income as travel and visitors were prohibited.

The business needed to consolidate its loans. The SEN Loan Fund provided space for the community business to find longer term solutions to protect their business and ensure the viability of their tenancies, until income restarted. The loan was agreed and paid out within 14 working days. It fully repaid within the 12 month period and as tenants start to return to the business units, JCB Ltd income is starting to increase.

"*InspirAlba's introduction to SCF Ltd and the bridging loan was a life saver. Not just for the company and our tenants but also for the volunteer directors. It is often overlooked that the compliance burden is the same for a volunteer director as it is for a paid one. Consolidating our lending was essential at a time when COVID made future planning impossible. SCF Ltd recognised that we are a critical island enterprise and moved speedily to agree a loan proposal. Going forward, SCF's Community Bond model will be the way to secure finances for social enterprises within the local community."* – Director, Jura Community Business Ltd – Donald Ewen Darroch MBE

Much more local peer-to-peer lending is through the Westray Community Business Loan Scheme

Westray Development Trust (WDT) developed the Westray Community Business Loan Scheme so that the income generated from the 900kW community wind turbine could support sustainable economic development in Westray to the social, cultural and economic benefit of the Westray community by offering community business loans for new or existing business venture that:

- Is owned and operated in Westray.
- Maintains and/or creates new employment in Westray.
- Supports the viability of other locally owned and operated businesses.
- Brings clear and identifiable benefits to the community of Westray.
- Enables a viable business to continue that currently provides a local service/benefit, but is in danger of being wound up and lost to the community.

OR

- Enables a viable new business to set up in Westray to fill an identified service need in the community or brings clear community benefit to Westray.

They lend no more than 70% of the total security available on any loan to the maximum of £200,000. Patient capital – min loan period 2 years can be for capital development. SCF provide due diligence.

5.8 Debentures/Community Bonds

Community Bonds are designed to appeal to citizen investors i.e. ordinary people using a portion of their savings to make a financial investment in their community via the purchase of a community bond.

They are non-transferable and only withdrawable at maturity. There is no secondary market for community bonds so they cannot traded.

Bonds can be secured against specific assets, or subject to a floating charge against all assets, or not secured at all. Borrower and bondholder are free to agree whatever interest rates and repayment terms they choose. Community bonds are generally unsecured and carry risk so a return on investment or capital is not guaranteed if the organisation does not generate the income expected.

Bonds and loan stock offered to the public are subject to regulation under the Financial Services and Markets Act (FSMA) by the Financial Conduct Authority (FCA) which incurs the costs involved in making and underwriting a public offer. Investments in community bonds are not public issues so are not protected by the Financial Services Compensation scheme. Like any investment, the amount invested is at risk.

Advantages – for the bondholder	Advantages – for the organisation
A means of allowing a local person to invest some their capital in a project that will benefit the local community. They get a 'social' return for their community as well as a financial return for themselves. Bonds can be held by individuals, community organisations, charities or companies. Bonds are generally in small units allowing people to invest what they can afford. Bonds are repayable at a set future date. At the end of the fixed term, investors receive back their initial investment plus interest if the enterprises performed according to their business plans. The terms are clearly set out in the bond agreement.	A means of allowing local people to invest their capital for a project that will benefit the local community. Bonds can be held by individuals, community organisations, charities or companies which broadens the scope of the investment. It is a viable alternative to grant funding. Registered charities cannot issue shares so bonds offer a good alternative to setting up a bencom to issue community shares. There are no legal restrictions on the terms and conditions of the loan arrangements entered into. This is treated as a commercial decision by the organisation. Bonds avoid the use of more expensive bank loans. Bonds are generally unsecured borrowing, unlike bank loans which would ask for standard security over some (or all) of the properties/assets. Bonds units are small enough to allow community investors to invest small amounts; this widens the local market. The repayment date is known and can be factored into financial plans. The terms of the bond can be varied to suit the individual bond and allow time to generate income to cover bond repayment at the due date(s) On repayment, the debt is cleared although a new bond issue can be made to fund development or expansion.

Challenges – for the bondholder as lender	**Challenges – for the organisation as borrower**
Bonds do not carry membership or voting rights i.e. the bondholder has no say in the running of the organisation. They do not pay regular interest. Capital plus Interest (at the rate specified at the time of issue) is paid upon maturity. They are generally unsecured so rank behind any secured debt e.g. bank loans. Bonds are not withdrawable earlier than the maturity investment term i.e. not suitable for those who might require access to their money before the maturity date There is no market for these bonds so they cannot be traded if the investors need to sell. There is the risk that poorer than expected financial performance could mean that the investors do not get the full amount back on maturity.	Bonds have to be repaid at the agreed future date, so money has to be set aside to meet repayment. The business plan has to show the ability to repay the loan within the stated time. The terms and conditions of the investment need to fit with any other external lender, who will want to make sure that their own interests are fully protected. Banks and any other lenders would have to be consulted before further debt finance in the form of bonds were issued.

SCF Ltd Scottish Communities Finance can work with all Scottish communities that are looking to secure investment for local economic and social development.

Opportunities

Community Shares Scotland is looking to extend its reach to include supporting community bonds. This may increase the take-up of this mechanism. It will be particularly appealing to groups who wish to repay capital so that they do not have a long term commitment to pay a dividend on community shares, and offers the potential for groups to borrow at lower rates than provided by commercial lending.

One stakeholder wondered whether funders like SLF could encourage community bond offers for land/asset purchase by underwriting part of the bond offer value e.g., 25%. A £100k grant and £100k underwritten bond offer would result in a maximum costs to the funder of £125k rather than £200k. It would make funding go further but leave contingent liabilities on the funder's balance sheet.

Community bonds might potentially work as part funding for purchasing commercial forestry but this model is one that is not well understood by those working in community forestry and therefore has not been tried so far.

Case study: Linlith-Go-Solar[17]

Linlithgow Community Development Trust runs a number of local initiatives aimed at carbon reduction, including its community energy enterprise project Linlith-go-solar, which aims to make solar work for the benefit of the whole town by:

- Putting solar panels on various locations throughout the town.
- Selling the energy generated to the local community.
- Using the surplus revenue created to help community initiatives.

LCDT worked with Scottish Communities Finance to launch a bond issue at the end of 2018 to finance its Phase 1 pilot. Investors were offered a rate of return that was better than that offered by banks and ISAs, and options on the bond duration (3, 5 and 8 years); the social benefit is that they got to assist local sports clubs become carbon neutral and save money. All the finance needed was raised locally. This issue successfully raised £17,000 in community bonds to install a Solar PV panel system at Linlithgow Rugby Club and showed the appetite and support for green energy within the town.

The success of this pilot led to Phase 2. A grant from Scottish Power Energy Networks Green Economy Fund and another successful community bond offer (raising a further £25,000) allowed them to install additional panels at the Rugby Club, plus panels at Linlithgow Golf Club and Linlithgow Sports Club in early 2020.

These solar panels are now producing cheap electricity for the clubs. In both operational and financial terms, Linlith-Go-Solar Phases 1 & 2 continue to perform well, despite the unpredictable Scottish weather. Over the 2 phases, LCDT has:

- Saved all 3 clubs around £900 on their grid electricity costs by using solar electricity, even with lower than usual energy consumption overall due to COVID inactivity.
- Earned sufficient funds towards repaying the community bonds with interest in the longer term.
- Generated surplus revenue for our community.

[17] Case study taken from https://trust-linlithgow.org.uk/projects/linlithgosolar/ and **SCF case study - Linlithgow Go Solar**

• Saved enough carbon emissions equivalent to driving a car almost 4 times around the Earth!

SCF Ltd and LCDT are now in discussions about a third Community Bond offer. This phase will be significantly larger in size and scope. It again involves securing community bond investment to bring solar energy to local companies.

Most of the investors in the first 2 bond issues were local, with some investing in both issues. It is recognised that a larger issue will have to look sider than the local community to secure enough investors but experience of the previous issues gives them confidence that this will be achievable.

“Debentures – no knowledge”

“More information on debentures would be helpful. This isn’t something we’ve really considered but may be an option, assuming we can retain community control of the project.”

5.9 Overview of Community Funding Experience

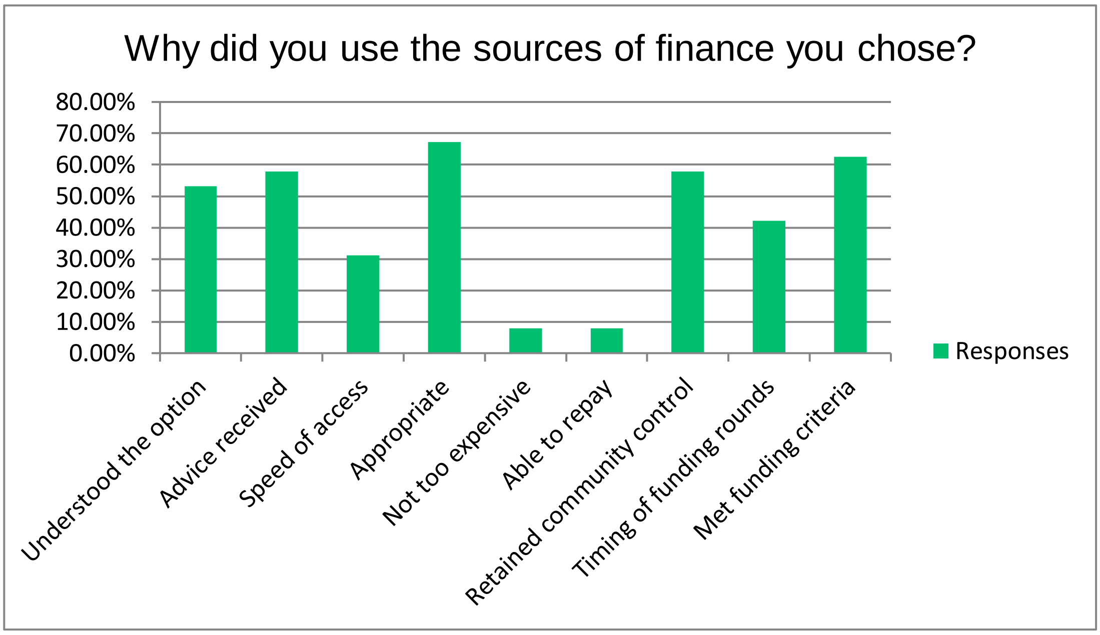
The description above and examples given across the range of models shows that communities are already making use of a wide range of funding models. However, hidden behind the broad range of models being used is the actual experience of many organisations. They have been unaware of some models, unable to use others and in some cases have probably used a less advantageous form of finance due to ignorance of one or more suitable alternatives, or ignorance of how to pursue an alternative in a timely and efficient manner.

When asked to state why they chose particular forms of finance more than 50% of respondents said that it was because:

- It was appropriate (68%)
- It met funding criteria (58%)
- Of advice received (58%)
- They understood the option (53%)

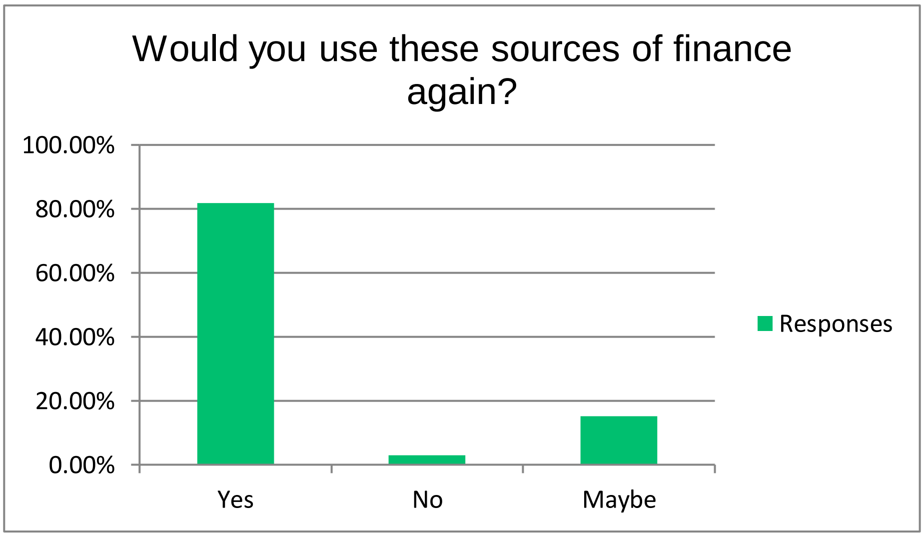
Of importance to fewer groups were timing of funding rounds (42%) and speed of access to funds (32%) (Table 1). Ability to repay and the fact that the source was not too expensive were each important to only 8% of respondents.

Table 1. Reasons for choosing financing options



Of those who had used a particular source of finance 82% said that they would use the same source again while only 3% said that they would not (Table 2). This would appear to indicate that experience of a particular model gave groups knowledge and confidence to use it again.

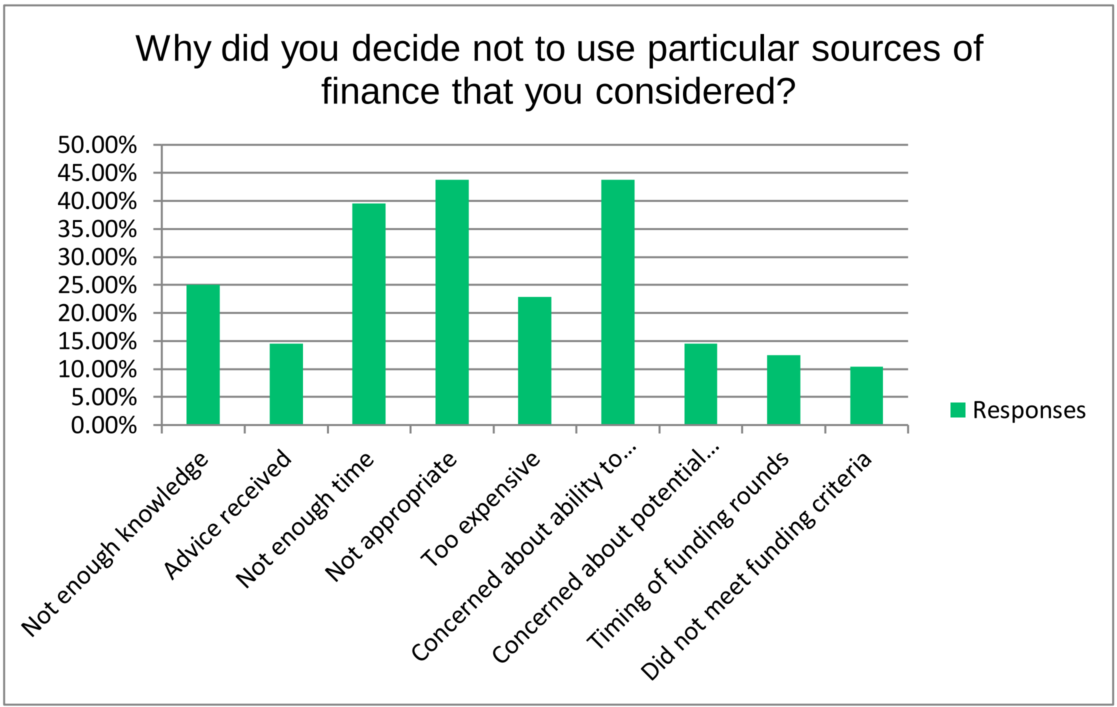
Table 2. Likelihood of reusing financing options



Where communities had considered and rejected sources of finance the most significant reasons were:

- The option was not appropriate (44%)
- Concerned about ability to repay (44%)
- Not enough time (40%)
- Not enough knowledge (25%)

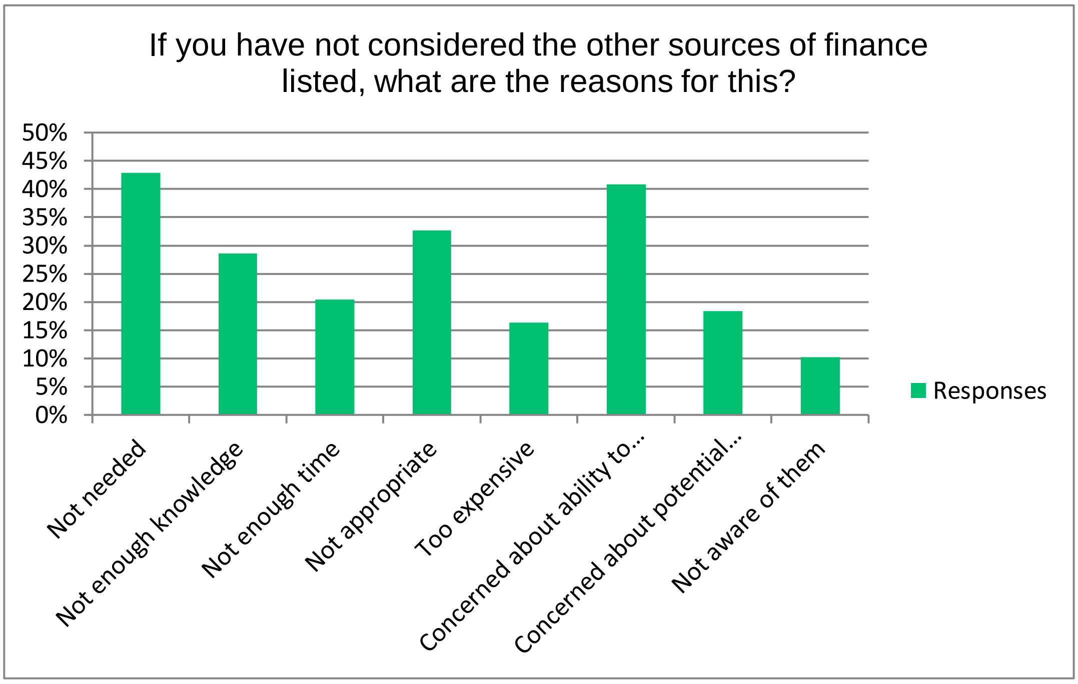
Table 3: Reasons for rejecting finance options



The most common reasons given for not considering particular sources of finance (Table 4) were:

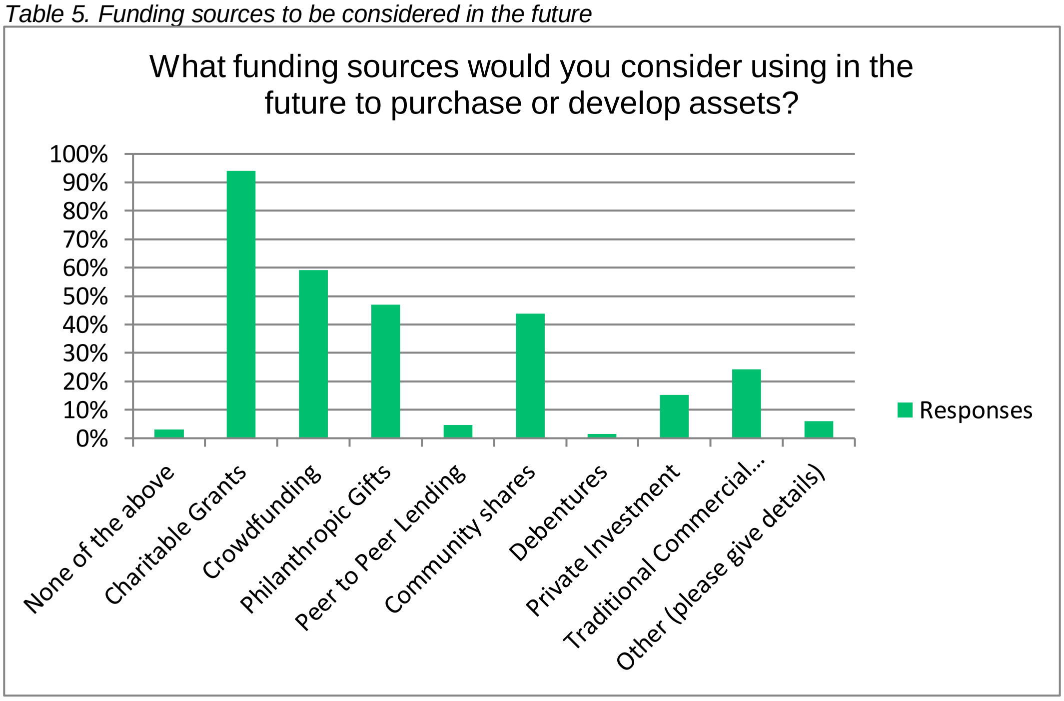
- Not needed (43%)
- Concerned about ability to repay (41%)
- Not appropriate (33%)
- Not enough knowledge (29%)

Table 4: Reasons for not considering sources of finance



It is important to note that in either rejecting a particular model, or not considering it at all, a quarter or more of the respondents cited 'lack of knowledge'. 10% of respondents admitted to not being aware of certain models.

Table 5. Funding sources to be considered in the future



It is not surprising that communities are most likely to consider charitable grants (94%), crowdfunding (59%) and Philanthropic Gifts (57%) to purchase or develop assets in the future. However, it is notable that the next most popular choice is community shares (47%) which is considerably higher than traditional commercial lending (24%)

We can draw the following conclusions from the survey data presented:

1. The data supports the findings from the interviews and model analysis that lack of knowledge is a significant impediment to uptake of complementary funding models.
2. The difference in popularity of community shares as a potential funding option and other options would appear much greater than the relative appropriateness of the models e.g., debentures would only be considered by 2% as compared to 44% for community shares. It is likely that this is due in significant measure to the big disparity in promotion of the relative merits of the two options.
3. Communities who have used a particular model of finance have a high degree of confidence in using it again. Knowledge breeds confidence.

6 Natural capital

6.1 Concept

Natural capital is a new concept focusing on natural resources – earth, air, water and the assets that are inherent in the natural system, trees, minerals, peat bogs, etc. These assets, and the services they perform, have been valued by the Office for National Statistics (2019) for the UK as £1.2 trillion and much attention has turned to how landowners may be able to realise income or capital from current or future natural capital projects. In Scotland community landownership is at a point where demand from communities for land means looking at new ways of accessing capital and revenue income.

Natural assets are not typically recorded on corporate or national balance sheets however increasing political urgency relating to the impacts of climate change and biodiversity loss has led to concern over environmental stewardship. This is more marked in Westminster than Holyrood. The linkage between natural capital and money is described through the term ecosystem services, such that flood alleviation, habitat creation, green space health benefits and carbon sequestration by trees and soil are services that may attract payments from concerned companies, individuals, or government, resulting in payments for ecosystem services (PES). The terms natural capital and PES are used synonymously.

6.2 Examples of finance

As a new concept with associated financial value it is of interest specifically but not exclusively to landowners such as farmers and estate owners. The UK government has adopted natural capital as a fundamental of their 25 Year Environment Plan and the Environmental Land Management Scheme (ELMS)[18], managed by DEFRA, will result in farmers being paid on the principle of public money for public goods – a natural capital valuation approach. Payments to farmers will be based on improvements to air, water, soil and biodiversity, for sequestering carbon, public access and flood reduction, and will fall into three categories - Sustainable Farming Incentive, Local Nature Recovery, Landscape Recovery.

Another example of UK government action on PES is the Woodland Carbon Guarantee[19], which is a Forestry Commission administered £50 million scheme that

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[18] Environmental land management schemes: overview - GOV.UK (www.gov.uk)

[19] Third Woodland Carbon Guarantee auction now open for applications - GOV.UK (www.gov.uk)

aims to help accelerate woodland planting rates and permanently remove carbon dioxide from the atmosphere.

6.3 Payments for Ecosystem Services in Scotland

In Scotland we have a number of examples of PES being applied to natural capital projects, the most high profile being significant capital investments from fossil fuel producers – BP and Shell – into trees, these sums being channelled through two projects – BP's Scottish Forest Alliance[20] which invested £10 million pounds between 2000 and 2011, this sum going to 14 sites owned and managed by the Woodland Trust, RSPB and the Forestry Commission; and Shell's Nature Based Solutions[21] project that is investing £5 million pounds through Forestry and Land Scotland (previously Forest Enterprise Scotland). Shell's scheme is based on their Shell+ programme drivers opting to offset vehicle emissions when they fuel up at the forecourt.

A long-standing tree-based carbon sequestration PES venture operating in Scotland is Forest Carbon, a tree and peat bog restoration-based intermediary, linking private sector funds and Scottish and UK landowners intending to plant forests or restore peat bogs. Forest Carbon state that they lead the way in UK woodland creation for carbon capture and are responsible for planting some 13 million new trees since 2006, removing an estimated 3 million tonnes of CO_2 from the atmosphere[22].

UK based non-governmental organisations offer the public the opportunity to offset their carbon emissions by calculating the scale of carbon emitted and then offsetting the carbon through tree purchase. The Woodland Trust is one of the UKs largest and best resourced environmental NGOs and it operates a number of corporate and publicly funded tree planting carbon credit initiatives[23], including acting as an intermediary to purchase future carbon credits generated by community owned and managed projects.

[20] Background - Future Woodlands Scotland

[21] Nature-based solutions | Shell United Kingdom

[22] Planting UK Woodlands | Carbon capture and ecosystem services (forestcarbon.co.uk)

[23] How to Calculate and Reduce Your Carbon Footprint - Woodland Trust

6.4 Carbon

Natural Capital finance has been and is dominated by the carbon market. This market has been active for the last twenty-five years; however, it is unregulated and there is no transparent carbon price index meaning that communities wishing to engage with the market need to approach deals and contracts to sell carbon credits with a degree of caution and with external advice.

6.4.1 Calculating carbon

Whilst some communities have successfully engaged with the carbon market the concept of dealing in carbon is novel and can feel intangible. Carbon calculations and accounting are not straightforward – how much carbon a forest is sequestering (taking in atmospheric CO^2) is not difficult, but neither is it intuitive. This is in part because of terminology. Carbon is a word widely used to describe a variety of climate change variables. Carbon is a solid and is a product of photosynthesis in plants and trees. Carbon dioxide is the greenhouse gas that is emitted from fossil fuel use (dead plants in different forms) and is absorbed by leaves and green vegetation and is the unit for carbon trading - carbon dioxide equivalents (CO^2e). Carbon quantification and accounting for woodlands are referenced in the next section.

At its most basic, the amount of carbon in a growing woodland is equivalent to 50% of the dry biomass (mostly wood); this figure is then converted into CO^2e when applied in carbon accounting. The amount of carbon dioxide ‘saved’ by restoring peat is arrived at by matching the condition of the peatland with standard scenarios that have notional carbon dioxide emission values. As above, the greenhouse gases emitted by peatlands can include methane and nitrous oxide, but they will be expressed in units of carbon dioxide. Peatland carbon accounting is referenced in the Peatland Carbon Code – see below.

6.4.2 Woodland carbon

Woodland carbon credits in the UK can be generated through a UK assurance scheme, the Woodland Carbon Code (WCC)[24]. This scheme operates as a quality assurance standard for woodland creation and generates independently verified carbon units. It is backed by government, is internationally recognised and is endorsed by the International

[24] Home - UK Woodland Carbon Code

Carbon Reduction & Offset Alliance (ICROA)[25], the global umbrella body for carbon reduction and offset providers in the voluntary market.

6.4.3 How does the WCC work?

The Woodland Carbon Code issues carbon units, expressed in terms of carbon dioxide (CO_2)[26] removed from the atmosphere by growing trees – one unit is 1 tonne of carbon dioxide equivalent ($1tCO^2e$) removed from the atmosphere.

Carbon accounting in the code works on different timescales – the future when carbon is yet to be created by the yet to grow tree, and the present when a tree has grown over a notional timescale and a quantity of carbon exists. Trees take time to sequester significant quantities of carbon dioxide, and there are two types of units.

A Woodland Carbon Unit (WCU) is a tonne of CO_2e which has been sequestered in a WCC-verified woodland. It has been independently verified, is guaranteed to exist, and can be used by companies to report against UK-based emissions or to use in claims of carbon neutrality or Net Zero emissions.

A Pending Issuance Unit (PIU) is a 'promise to deliver' a Woodland Carbon Unit in future, based on predicted sequestration. It is not 'guaranteed' and cannot be used to report against UK-based emissions until verified. However, it allows companies to plan to compensate for future UK-based emissions or make credible Corporate Social Responsibility (CSR) statements in support of woodland creation.

Units are held in the UK Land Carbon Registry, managed by IHS Markit. Every 10 years, projects are checked and, if performing well, verified. At each of these points, PIUs delivered are converted to WCUs. Over 3.7 Million tCO_2e had been validated for sale as PIUs by March 2020 and a small amount of WCUs - the number of WCUs available will increase as woodlands grow.

6.4.4 Peatland Carbon

Peatland carbon is generated by taking action to stop degraded and damaged peatlands emitting carbon. In essence to participate in a peatland scheme you are required to have land containing areas of damaged peat.

6.4.5 How does the Peatland Carbon Code Work?

The Peatland Code is a voluntary standard for UK peatland projects wishing to market the climate benefit of restoration. The default carbon values for various states of

[25] Quality Assurance in Carbon Offsetting | Icroa

[26] 1 tonne of carbon (solid) is equivalent to 3.67 tonnes of carbon dioxide (gaseous)

damaged or altered peatland, and an explanation of peatland carbon accounting are contained in the Peatland Carbon Code website (link above).

The Peatland Code provides assurance and clarity for business and other investors in peatland restoration projects through independent validation and verification. The Code works on the basis that during restoration, carbon savings are made through greenhouse gas emissions reductions.

The process for generating PIUs and Peatland Carbon Units (PCUs) under the Peatland Code has similar principles to the Woodland Carbon Code, even if the practical steps are different:

- **Registration:** Basic details of the restoration project (the carbon calculator, a map etc) are necessary in order to register it with the UK Land Carbon Registry.
- **On-Site Assessment:** This quantifies the existing levels of CO_2e emissions and details the work necessary to rewet, revegetate and restore the site i.e. the restoration plan.
- **Validation:** Akin to the WCC, this process involves a series of checks and inspections regarding the efficacy of the proposed plan.
- **Issuance of PIUs:** Once validated, the project's account on the UK Land Carbon Registry is issued with the amount of PIUs corresponding to the number of PCUs the site is expected to generate. Markit Environmental Registry - Public Reports
- **Verification:** A recurring onsite inspection to verify that the peatland is being restored and that emissions have decreased. Assuming they have, a portion of the PIUs are transferred to PCUs

As with woodlands, peatland carbon units take a number of years to be 'realised' and peatland carbon accounting calculates greenhouse gas emissions 'saved' over long periods of time, commonly 100 years.

6.4.6 How can communities interact with the carbon market?

As mentioned above the carbon market is unregulated, it is relatively new, and it is changing rapidly, especially in respect of price. Communities who have access to plantable land or degraded peatland can opt to:

1. Assess the potential of their prospective land purchase in respect of woodland carbon sequestration/peatland avoided emissions potential and 'realise' some of the future value of the carbon by forward selling, or
2. Purchase the land, and pre or post woodland establishment/pre or post peatland restoration, sell some or all of the carbon units for revenue income.

The complexity of 'deal' making in the carbon market presents an array of alternatives for a prospective community landowner.

These can include one or a mix of the following,

1. Contracting with a commercial company who may wish to lease a portion of the community land earmarked for woodland establishment, the company bears responsibility for planting and maintaining the trees/reinstating the peatland, taking ownership of the carbon credits and paying annual sums to the community,
2. Entering a contract with a company who may pay a retainer to secure the carbon rights – the retainer may be used as capital towards land purchase – and subsequently selling the carbon credits to the company as they are generated,
3. The community purchase the land, plant a woodland/reinstate a peatland and as the woodland grows/peatland regenerates the community market the carbon units and accept the market price,
4. A combination of the above scenarios.

How much carbon can a community hope to generate for sale?

If we assume that a community wishes to establish a native woodland, with mixed management objectives, e.g., biodiversity, landscape, fuelwood, carbon credit generation and potentially tourism, the quantity of carbon generated over a 50-year period may, for illustrative purposes, be in the region of 300-400 carbon units. This is an estimated and generalised figure, and it may be lower in cold wet climes on peaty soil in the northwest and may be higher in the warmer drier southeast of Scotland on mineral soils.

Communities reinstating peatlands can expect to generate between 4.54tCO^2e (drained: hagg/gully) to 23.84 (actively eroding: hagg/gully) tCO2e per annum, albeit carbon accounting protocol means there is a % reduction in carbon units for a risk buffer (a safety net for seller and buyer in both WCC and PCC).

With verification after a 5-year period, a 10 hectare peatland site may generate estimated gross avoided emissions of between 227tCO^2e and 1192tCO^2e (based on the example emissions in the previous para).

Carbon prices

UK companies are paying between £6 and £20 /tCO_2e for purchases of Pending Issuance Units. An example of how current pricing works is to be seen in The Woodland Carbon Guarantee (WCaG)[27] scheme. This is a £50 million scheme, operated by DEFRA in England (only) that aims to accelerate woodland planting rates and develop the domestic market for woodland carbon.

[27] Woodland Carbon Guarantee - GOV.UK (www.gov.uk)

The WCaG operates by holding annual carbon auctions, whereby the Government buys WCUs from private landowners – which could include communities - every 5 to 10 years for a guaranteed price. The most recent auction price was £20.38p per WCU.

Only a small number of verified Woodland Carbon Units have been sold on the 'open market' (not the WCaG) and it is difficult to predict how the price of carbon will change. Since the beginning of 2020, when the carbon unit price was approximately £4 per tonne, the price has risen sharply, currently sitting at £20 per carbon unit. This may be an unsustainable price, in part due to a pre and post COP26 spike in CSR interest and a shortage of verifiable carbon units. As with equities carbon prices may rise or fall. It is worth noting that carbon brokers, those acting to purchase carbon from landowners and then sell on, may be paying between £10 - £20 per carbon unit and then reselling within the UK for £25 per unit. An uplift of some £5 compared to the Westminster Govt. price. A move at COP26 to set an internationally agreed carbon price failed, with a post COP price hike of tradable European carbon units at £55 per unit. Across Europe carbon can trade for between \$5 per tonne in Ukraine to \$155 in Sweden.

Anecdotally, more and more private landowners who are generating carbon units through tree planting are holding the units, opting not to forward sell, rather to sell after the unit has been verified in the hope of gaining a higher price for the unit.

At today's price, communities could potentially generate between £6,000 to £8,000 per hectare of woodland, or prospective woodland, although market caveats apply. Predicting the value of peatland carbon value is not so straightforward as the market is in its infancy and carbon prices quoted have historically been lower than woodland pricing, e.g., at £6 per tCO^2e in 2019. With rising demand this may have changed.

What does this mean for communities?

Community groups who are in the position to purchase 'bare' land (plantable land) or degraded bog/moorland, have a number of options in respect of engaging with the woodland/peat restoration carbon market. They can opt to forward sell carbon and use the funds to assist with purchase, to offer leases to corporate bodies interested in planting and maintaining forests, contract with a company who could pay a retainer for the community carbon, or they may place carbon credits into the marketplace after land purchase – pre or post tree planting/peat restoration – and sell carbon units in stages.

6.4.7 What examples are there of communities benefiting from natural capital?

Carbon credits through tree planting or improved peatland management, which can often be bought 'up front' or *ex ante* in carbon trading terminology, are a potential source of capital income for land purchase or for reinvestment in other community projects.

Alternatively, they are a source of future revenue income to support future financial sustainability. Whilst it is standard for NGO's, farmers and community groups to be paid for tree planting on land they already own, a recent development in the south of Scotland may offer a mechanism for communities who are interested in buying land and who wish to plant trees or manage peatland.

During the land purchase process to secure a portion of Buccleuch Estates Langholm Moor, the Langholm Initiative were approached by the Woodland Trust who offered capital purchase funds in exchange for the rights to future carbon credits from native woodland planting. This is, to our knowledge, the first such agreement in Scotland, and was important in respect of LI securing the land on behalf of the community. The process of securing an agreement for access to the carbon credits was less than straightforward however a sum of £200,000 was made available to LI towards the £3.8 million purchase price. The requirement for a Standard Security over the land by the Woodland Trust and establishing a meaningful relationship between a small community group and a corporate conservation NGO were a couple of the factors to be overcome during the partnership development phase.

The Isle of Eigg Heritage Trust recently sold £40,000 of carbon credits to the Woodland Trust. These credits will be generated by newly planted native woodland which will take some 100 years to sequester the carbon.

Whilst not strictly speaking a community group, rather a group that works with communities, Borders Forest Trust has over a period of 20 years been accessing carbon credit monies, most of which is from private individuals and companies and is site specific and paid towards woodland creation and peatland restoration. Carbon funding has provided valuable revenue income contributing to staff salaries and woodland maintenance, where funding is otherwise difficult to access.

Knoydart Forest Trust has registered two Woodland Carbon Schemes but has not sold any PIUs. Like private landowners in England, they are cautious about selling into a developing carbon market, where prices have risen sharply over the last 18 months, and where the destination or end point of a carbon sale is unclear. The caution exhibited by Knoydart and a determination to maintain control over how carbon credits are traded, and their ultimate retail destination is commendable and a good example to other community groups, notably those who already own and control their land and who do not need to 'cash in' their natural capital assets in order to gain access to land.

6.5 Other potential natural capital routes

Another PES income stream that has recently become available to communities is termed Biodiversity Net Gain (BNG). As with natural capital much of the development work has been done in England, where it is mandated through the 2019 Environment Bill and is a condition of planning permission. It requires a 10% increase in biodiversity after development and it has been included in the National Planning Policy Framework. In Scotland none of the statutory conditions apply, rather private companies, such as Scottish and Southern Energy Networks (SSEN) are applying it voluntarily in connection with their infrastructure development. Put simply, any development work that has an impact on the environment will be 'offset' by compensatory works carried out somewhere else, preferably in the locality where development takes place. However, such is the scale of works being undertaken by SSEN to upgrade their generation infrastructure, such as constructing new sub stations, they have a 'bank' of compensatory projects in the pipeline, looking for suitable sites. Highland Perthshire Community Land Trust is one of SSEN's partners in delivering compensatory BNG and SSEN will fund a new native woodland to compensate for works at a proposed new substation (Kinardochy). BNG is at an early stage of development and has not been tested as a concept for generating purchase capital for community land, however it is a useful route to securing revenue streams for capital works and may be a mechanism worth exploring further with SSEN.

Investing in biodiversity is not a concept familiar to Scotland's policy makers or politicians, but it is a mechanism that has been piloted since 2017 on the continent with the European Investment Bank managing a Natural Capital Financing Facility[28] that can provide between 2 and 15 million euros of finance to municipalities, NGOs and private developers. 12.5 million euros was provided to an Irish based forest fund, the SLM Silva Fund, which intends transforming even-aged coniferous plantations into semi-natural continuous cover forests.

We consider this further with a worked example in Section 9.

6.5.1 What are the benefits/disbenefits of engaging with natural capital for communities?

Natural capital offers an attractive and potentially valuable revenue source for community groups and organisations who wish to purchase or have access to land, either as a contribution to capital purchase or for creating revenue streams for core costs and maintenance. However, there are barriers and hurdles for communities to overcome if communities are to benefit from these new flows of finance. These include,

- The mechanics of carbon calculations and the processes of carbon accounting are convoluted, opaque and not readily accessible to lay persons,
- Specialist advice is often, mostly, required to make sense of carbon and carbon markets. This can be expensive and time consuming,
- Legal input, which is never cheap, easy or often comprehensible may be required,

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Natural Capital Financing Facility (eib.org)[28]

- Ongoing verification by external 'auditors' can be burdensome and time consuming,
- Carbon buyers, traders and brokers often impose onerous or burdensome conditions on carbon sellers and many communities may be unable to argue the case for lowering the 'bar' on legal conditions, such as registering legal burdens on the land,
- Communities may not be able to control the destination of their carbon units, which may be used as 'greenwash' or be sold to a 'toxic' investor,
- Carbon pricing varies widely and with no 'honest broker' or easily accessible price index communities could find themselves selling cheap and not realising best value for their carbon,
- Where communities sell 'up front', realising the capital value of a future good (trees yet to grow, peat yet to be restored), they have effectively cashed in future revenue from the area of land. And should they need to sell or lease the land this realised value is no longer available.

The benefits of natural capital assets include,

- Stimulating environmental improvement / restoration (creating new native woodland, restoring degraded peatland),
- Access to capital funding for land purchase through forward sale, and/or access to revenue funding for ongoing maintenance and management of natural resources,
- Prompts for good land management – regular external verification means that funded land improvements are less likely to become neglected,
- Demonstration value, that community groups may be seen to take on potentially complex, long-term projects and deliver against targets and milestones.

The subject raises the ethical consideration of how much carbon income should be taken by the community of one generation while leaving the community of future generations with the responsibility to ensure that carbon sequestration continues in line with the agreed contract.

In conclusion, the market for natural capital assets is at an early stage and it is unclear how it will impact on communities looking for additional revenue streams. There are benefits and disbenefits for communities to become involved with natural capital and they need to be better informed and supported with access to clear, easy to understand guidance, such that they can make well thought through decisions and feel in control of a long term and potentially valuable asset.

7 Scottish National Investment Bank and Communities

The Scottish National Investment Bank plc (SNIB) was launched in November 2020 as a development bank launched and funded by the Scottish Government as a non-departmental public body operating at arm's length from Scottish Ministers. A development bank can provide investment where the private sector investment is insufficient for businesses or projects to support national economic development. In particular, the bank has the ability to provide patient capital to support economic development in Scotland.

7.1 The Bank's Vision

'The vision of the Scottish National Investment Bank (the Bank) is to provide investment to support growth in the Scottish economy. It will do this by investing in innovation and accelerating the move to a net zero emissions, high tech, connected, globally competitive and inclusive economy. In addition to delivering mission impacts, the core principles of its investment strategy are:

- The Bank will seek to invest in projects or businesses requiring £1 million or more of investment to support their growth or development
- The Bank will be a patient investor, providing long dated investment to businesses and projects connected with Scotland
- The Bank will seek to generate commercial returns on its investments to support the Bank becoming financially self-sustaining
- In the longer term, it is intended that both profit from the Bank's investment activities and repaid capital will be reinvested in businesses and projects across Scotland to create a perpetual investment fund for the Bank's Shareholder on behalf of the people of Scotland
- It will seek to attract private sector funds to co-invest alongside its public sector capital'[29]

The actions of SNIB as a lender across the whole economy carry the risk of unintended consequences to the community sectoris highlighted by the recent loan of £50 million[30] to Gresham House Forestry Fund (an asset investment manager) which is matched by £100m of private investment.

The loan and the publicity associated with it raises issues for consideration on a number of fronts including:

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[29] Page 3, The Scottish National Investment Bank, Annual Report and Accounts 2021 scottish-national-investment-bank-annual-report-and-accounts-fy21-signed.pdf (thebank.scot)

[30] Investment in Gresham House Forestry Fund | Case Study (thebank.scot)

- How “green credentials” including those of Natural Capital are assessed by lenders
- The relative social, environmental and employment benefits accruing to local communities through different models of land ownership and management.
- The potential for loan funding to contribute to or prevent a more diverse land ownership structure in Scotland and to increase the amount of community owned land.
- The impact upon the ability to deliver Scottish Government Just Transition commitments at the local community level.

If SNIB develops a portfolio including sizeable investments involving land purchase by large corporate bodies the net effect will be to exacerbate Scotland’s unjust land distribution profile and to make it even harder for communities than it currently is to access land for sustainable development purposes.

7.2 Communities sector relevance

To date, no community projects have been supported, but there are potential opportunities for communities to raise finance through SNIB where they are well organised and have already raised some finance themselves. Some of the community wind turbine projects might fit the criteria very well, but on the whole it appears that most community projects will be considered too small to be funded through SNIB unless there are collaborations amongst community groups to extend the ‘crowd in’ aim being driven by SNIB.

8 Land Values

It has been noted that a barrier to community groups being able to acquire land is the relatively high capital value of land and property compared with the level of returns that may normally be expected, particularly in a rural context.

This section of the report (and further narrative in Appendix 3) aims to give a broad overview of capital values for various land and property types and factors that have affected the markets since the Land Fund was created in 2016. It considers some broad land and property types which may be of interest to community groups. It should be noted that the values given are generalised and should be considered indicative. There may be considerable regional variations, for example in areas such as the north and west of Scotland including the isles where land may be under crofting tenure.

Land and property values are influenced by a wide range of factors at the global, national and local scales and may fluctuate over time on account of varying market conditions. Different sectors such as rural, commercial or residential, for example, may be influenced by the same factors but in different ways. It is the role of a valuer to have regard for these myriad factors and current market conditions to arrive at a reasoned opinion of value for an asset or property at a given point in time. No two properties are the same and this highlights the need for communities who are considering purchase of a property or asset to obtain professional valuation advice from a qualified valuer who is experienced in the sector.

8.1 Farmland

Farmland values have remained relatively strong with a remarkably resilient market over the past 5 years or so. This is despite various political and economic uncertainties including, but not limited to, the EU referendum, snap government elections, trade deal uncertainties and a possible second Scottish independence referendum. Commodity prices have steadily increased, but with increasing input costs relatively tight margins have persisted over the last decade. Since 2010, Total Income from Farming (TIFF) has remained relatively stable.

Despite the above, the limited supply of farmland being made available for purchase on the open market, compared to relatively high demand from a wide range of potential purchasers has helped to sustain strong and steadily increasing farmland values over the last 5 years or more, particularly for prime arable land and hill ground.. Potential purchasers can include existing farmers looking to expand their business, new entrants to farming, institutional investors and increasingly, forestry and conservationists.

Lack of supply is not the only cause for relatively high farmland values despite tight margins and fairly low returns on capital. Demand is helped by the various tax benefits which may be available to owners of agricultural land. Including up to 100% relief from Inheritance Tax through Agricultural Property Relief and Business Property Relief. There are also potentially attractive benefits in terms of income tax, Entrepreneurs Relief and Holdover Relief from Capital Gains Tax. The potential to put land to other uses such as tourism, development or energy generation is also attractive.

Around 2016 the market was indeed characterised by tight supply, particularly as it was considered that landowners and farmers were 'sitting tight' following the outcome of the EU referendum and the uncertainties that created for the farming sector. Farmland which did reach the market was often characterised and 'the best' and 'the rest'. Larger and more productive land and farms ('the best') were selling well, achieving good prices and within reasonable time frames. However, poorer quality and less productive land and farms ('the rest') struggled to sell or took significantly longer, particularly if they were unrealistically priced.

More recently, a new type of conservation and natural capital minded investor/purchaser has entered the market. These investors appear most interested in marginal and poorer quality land that has potential to expand or enhance its 'natural capital' through interventions such as peatland restoration or woodland creation and the ability to sell credits for the sequestered carbon. This has been discussed in detail in section 6.

Current indicative values for different types of agricultural land with vacant possession are as follows:-

Land Type	£/acre	£/hectare
Prime Arable	8,000 – 17,000	19,000 – 42,000
Secondary Arable	5,000 – 8,000	12,000 – 19,000
Temporary Pasture / Silage	3,000 – 5,000	7,500 – 12,000
Permanent Pasture	1,000 – 3,000	2,500 – 7,500
Rough (exc. Planting ground)	300 – 1,200	850 – 3,000
Hill (exc. Planting ground)	50 - 750	125 – 1,850

Strong timber prices, national tree planting targets, government grants and the developing carbon market means that demand for planting land has increased over the years and is also competing for marginal and poorer quality land. This is filtering through to better quality agricultural land. Furthermore, the desire to restore degraded peatlands and the associated market for carbon credits is also driving demand and increased values for hill ground.

This uplift in values has been filtering through to better quality agricultural land values which had remained relatively stable, or even dipped slightly in the 5 years preceding the pandemic, according to farmland market reports. During this period, lower quality arable soil and ploughable pasture grassland remained relatively stable. However, hill ground saw an 11% increase in capital values. Taking a slightly longer time frame, average farmland values rose 35% between 2010 and 2019 with the vast bulk of that increase being in the first half of the decade[31]. 2020 was an exceptional year as there was very limited market activity. However, as things have opened up we have seen a continuation of previous trends for marginal land with knock on effects for other land types which looks set to continue. That being the case, this may have implications for the land fund as a continued inflation of land prices, which may be more prevalent in the more marginal and remote rural areas, will become an increasing barrier to community purchase and the normal maximum award of £1 million may not stretch as far as it did when the land fund was set up.

8.2 Sporting Estates

Sporting in this context refers to the availability or right to carry out deer stalking, shooting or fishing over land. Sporting rights are distinct from the land and may be owned, bought, sold or leased separately to the land, but are often held by the owner of the land. Whilst sporting rights technically exist over much of the rural land in Scotland, many areas are not particularly suited to exercising such rights and therefore the value of such rights will generally be fairly limited.

Typically, it is larger estates and land holdings where sporting rights may hold some value. The level of value will be dependent on a variety of factors including geographical (location, land type, accessibility, suitability for and abundance of quarry species) as well as the quality and availability of facilities and amenities such as hospitality, accommodation and deer or game processing facilities etc.

The value of such sporting rights are traditionally calculated by applying a comparable value per stag, game bird or salmon to the five or ten year average ‘bag’ or number shot or caught over the period. The values per species are estimated by analysing comparable market evidence from sporting rights sold or leased elsewhere and thereafter adjusting the value up or down to account for the various factors as outlined above.

[31] https://content.knightfrank.com/research/443/documents/en/scottish-farmland-index-h2-2019-6999.pdf

Current values per quarry species may be in the region of[32]:-

Species	Low	High
Red Deer (per stag)	12,000	40,000
Driven Grouse (per brace)	3,500	5,000
Salmon (per fish)	2,500	7,000

There has been a strong and consistent market for traditional sporting estates due to the scarce supply of sporting rights or estates coming to the market. Sporting values have remained relatively stable over the last 5 years despite returns from commercial sporting being relatively modest with high management costs. More recently, however, such estates are increasingly being purchased for their conservation and natural capital opportunities over sporting.

Where potential for other land uses may be limited, such as in the north and west of Scotland, the value of sporting rights can make up a significant proportion of the value of a holding. Where the high capital value of the sporting rights may represent a barrier to land acquisition, for example to community groups, it may be possible to seek to acquire land without the sporting rights which could be retained by the owner, leased or sold separately. The circumstances of each case would need to be considered carefully as the ability to exercise such sporting rights successfully is often intrinsically linked to the ability to manage the land over which they are exercised and there may be a conflict between management over the same land. The management and running of sporting estates may also provide a relatively high proportion of revenue and employment in many areas which may be of significance to local communities. A more detailed study into the socio economic and biodiversity impacts of moorlands uses, particularly driven grouse moors is contained in a Scottish Government commissioned report by Thomson, S., et al. (2020)[33]

[32] Figures obtained from Bell Ingram Land Management Report "What is Rural Land Worth" S. Tyson 2021

[33] Thomson, S., Mc Morran, R., Newey, S., Matthews, K.B., Fielding, D., Miller, D.G., Glass, J., Gandossi, G., McMillan, J. and Spencer, M. (2020) Summary Report - Socio-economic and biodiversity impacts of driven grouse moors in Scotland. Commissioned report for Scottish Government (CR/2019/01), pp-41, https://www.gov.scot/ISBN/978-1-80004-212-4

8.3 Forest and Woodland

Traditionally, afforested land has been generally regarded as being of lower commercial value than most agricultural classes of land. The reasons for this are that the commercial returns operate over much longer time frames (decades as opposed to years) and woodlands are much more restricted in terms of potential future uses.

Over the last fifty years or so they have become regarded as relatively safe havens for long term investment and are thus favoured by pension funds that operate in growth over long timescales. This in turn has created an environment in which woodland as an asset class has become one of the most popular and highest performing categories. While this varies year on year, the ten-year average increase in value sits at 15.7% (between 2007 and 2017) with capital growth being the main driver for returns. The last two years has seen a significant increase in demand for forest properties which will push the ten-year average to an even higher level. [34]

2021 saw the highest level in forestry properties traded in the UK amounting to approximately £200.4 Million in terms of value. Of this, Scotland provided the bulk of these sales, accounting for 75% of transactions. 2021 saw the sale price per stocked hectare rise from £16,000 in 2020 to £19,300 in 2021 (21% increase)[35]. It appears that larger forests (>100 ha) are achieving the best prices with smaller properties (<50ha) seeing less demand. Of Sales recorded in the latest annual UK Forest Market Report it was noted that many were sold significantly above the guide price. Consequently, this makes the valuation of individual properties difficult for forest valuers and surveyors.

A feature of recent sales, however, is the growing interest (and growing values) in younger plantations. This possibly reflects the growing confidence in forestry as a long-term investment as opposed to the quick returns that may be derived from mature stands with harvestable timber.

A number of additional factors may have contributed to the move toward investment in forestry assets. Among these are the historically low interest rates, particularly in comparison to capital returns on forestry. Since the beginning of the COVID pandemic, the upheaval in company working practices and move away from central office location ma have added undermined confidence in other asset classes such as commercial building and office accommodation.

[34] John Clegg & Co./ Tilhill: The UK Forest Market Report

Issue 20 (2018).

[35] John Clegg & Co./ Tilhill: The UK Forest Market Report - (2021)

The last five years has seen a steady increase in the value and demand for UK timber. This has been driven by a number of factors. Brexit and a weakening pound since 2016 have made imports of timber more expensive. The shortage of timber imports, cost of international shipping and world-wide demands for timber has fuelled demand for UK timber which now has a value at an all-time high. In Scotland prices for saw logs delivered to the mill are regularly exceeding £100 per tonne. In addition to this is the increasing awareness of timber as a sustainable product and an essential component in de-carbonising the economy.

The demand for plantable land has also increased over recent years, particularly in Scotland. Since the 1990s forestry interests have competed poorly with those of agriculture. However, the recent growth in the carbon market, combined with the desire to express a positive environmental position has led a number of companies to put substantial resources into woodland creation projects. Whereas this is usually focused on land considered marginal for agriculture, recent sales have been outstripping agricultural interests.

Since its inception, the UK Woodland Carbon Code scheme has seen a steady increase in registered projects. With an average hectare of woodland forecast to sequester in excess of 350 tonne over the life of the scheme and carbon from voluntary scheme currently trading at around £10-20 per tonne, this is creating a significant shift in the financial viability of woodland creation schemes. Added to this is the government's ever-increasing target to plant more woodland.

In summary, the market for forestry land and for land suitable for woodland creation is currently high across Scotland, and the market is showing no signs in slowing. While not yet on a par with the values in England, the sales values have increased significant over the last two years and are unlikely to fall in the foreseeable future. Demand for timber and for planting land is forecast to increase which is likely to add more pressure to the market.

Current values for forestry and woodlands (excluding income from carbon) may be in the region of: -

Forestry values	£/acre	£/hectare
Productive Conifer	2,500 – 8,500	6,500 – 19,000
Pre-productive Conifer	1,200 – 2,500	3,000 – 6,000
Native Broadleaf /	1,200 – 3,500	3,000 – 8,000
Planting Land	1,500 – 3,000	3,700 – 7,500

Again, these high capital costs and the long lead times for returns on forestry investment may make acquisition difficult for community groups seeking to buy woodlands and forestry land. The expected upward trend in values also means that without a corresponding increase in the amount of funds or the funding cap, the Land Fund may be less effective at assisting communities to overcome the land price barrier.

8.4 Emerging Natural Capital Markets and Land Values

As detailed in Section 6, there are new and evolving markets in natural capital, such as from the sale of carbon units from woodland and peatland restoration schemes and for biodiversity net gain for example. These markets are rapidly picking up pace and becoming more active as demand for carbon credits and biodiversity offsets increase from developers and buyers who are seeking to offset their carbon emissions and looking to achieve their 'net zero' ambitions. We are also beginning to see a range of different contractual arrangements and brokerage schemes developing between landowners, project developers, intermediaries and purchasers. The space is largely self-regulatory with freedom of contract prevailing at present.

The voluntary carbon market is the most developed of the natural capital markets at present, although it is still very much in its infancy. The voluntary carbon market is currently underpinned by the Peatland Carbon Code and the Woodland Carbon Code which provides some level of assurance to purchasers of carbon units that their carbon sequestered is independently verified and validated and, crucially, is considered 'additional' i.e. it would not have occurred without finance provided by a market for the offset credits. If the carbon would have been sequestered anyway, for example through existing restocking obligations for woodland, then the carbon sequestered is not additional. This concept of additionality underpins the voluntary carbon market. Other carbon codes are in development, including for soil and for saltmarsh. These have not yet been released but they are likely to operate on a similar basis and reflect the widening scope of the carbon market. which landowners may be able to take advantage of.

As noted, the value per tonne of carbon equivalent varies, but at present, prices of around £10-20/tCO2e are being achieved. This has increased markedly over the last year to 18 months from around £3-9/t CO2e, and as demand appears to be increasing with supply unable to keep pace, all else remaining equal, the price would be expected to continue upwards.

The additional revenue provided by the sale of carbon credits and speculation that the value of carbon is likely to rise, appears to already be affecting land prices. This is particularly true for land suitable for planting trees and for upland areas with degraded peatland that is be capable of restoration. For example, typical hill ground which is unsuitable for planting or peatland restoration may typically have a value in the region of £200 - £1,500 per acre, however, plantable hill ground values may be in the region of £1,500 - £3,000 per acre. This uplift in value appears to be filtering through to better quality land values.

Land has a multitude of potential uses and the increase in land values may not be entirely attributable to the increasing value of carbon units or other natural capital markets. There are other factors which drive demand for land and in the case of hill land for example, strong timber prices, national tree planting targets and government grants such investors continue to enter the market, with a continued limit to the supply of land, we can expect land values to continue to increase as a result.

8.5 Summary

The long term trend in the rural land market has been for demand to outstrip supply and this seems unlikely to change due to the various competing demands for land and the relatively inelastic supply of land to the market. The general trend for land prices has therefore been to increase, particularly so in the first half of the last decade but stabilising in the latter half as various political and economic uncertainties persisted. Prime agricultural land has consistently performed well and the strength of the timber and forestry markets and the emergence of new markets for natural capital and carbon is driving higher values for poorer quality and marginal land. While these trends look set to continue in the near term, these new markets are continuing to develop and with that brings uncertainty meaning that the longer term implications that these markets may have for land values is difficult to predict.

It is understood that the Land Fund will increase its overall fund from £10 million to £20 million from 2026 and this may in part help to address the increasing land price barrier for community purchase. However, with the previous upward trend in land values looking set to continue, consideration may need to be given to increasing the value of the normal maximum award of £1 million for community purchase.

9 Borrowing to Buy and Develop

In the 2020 Programme for Government, the Scottish Government asked the Commission to provide advice on '*options to complement the Scottish Land Fund with wider sources of finance to support normalisation of community land ownership'*. In their various forms these funds can be used to support the normalisation of community land ownership through increasing the amount of land that could be purchased through SLF alone and enabling communities to develop land and assets in ways that are comparable to, or exceed, those of the private sector. The funds available to SLF of £10m per year rising to £20m per year will only be sufficient to buy between several hundreds and several thousands of hectares per year of land depending upon its productive class at the rates identified in section 8.

As noted above several of the models considered in this report involve the use of finance that requires the payment of interest and the repayment of capital. The limitations of how much land can be bought and developed then depends on the value of the land and the return that can be gained from it. The fact that demand outstrips supply and that purchasers buy land for non-financial as well as financial reasons means that using debt financing for land purchase can be challenging.

9.1 Commercial loans & rental yields

With rising land and property prices whilst rental values have not been significantly increasing, it is becoming difficult to obtain commercial bank funding for the purchase of commercial property where the rental yields are low.

Recent examples of surveyor valuation of rental yield of 1.5% on commercial rural/agricultural property will only be affordable where significant equity is available for purchase and there is a low debt gearing within the operation. Low rental yields will not attract bank lending at the level required, particularly for community groups.

This situation is likely to exert additional pressure on the available grant funding for community purchase as the level of grant required will be higher than if the rental yield is at a reasonable return of 6-8%.

The situation is exacerbated in the affordable housing sector where there will essentially be a price cap on the level of rent's charged for house rent, but the land and property values are increasing along with the escalating house build costs.

There are significant implications for the future availability of commercial loan funding to the communities' sector where the income levels are insufficient to meet the income levels required to secure loan funding.

9.2 Lending for natural capital

Care is required in relation to natural capital and borrowing on the strength of potential income from carbon. Whilst income from natural capital can be a useful income source for communities, there will be limitations on how much a community can borrow on the strength of future income potentially subject to volatile markets, and caution should be exercised in terms of not simply being drawn into a situation where the income is only sufficient to repay capital and interest.

An illustration has been prepared considering the ability to borrow funds in two scenarios contrasting an area of 20 hectares of land and another of 100 hectares where both are estimated to generate carbon sequestration (from afforestation) or avoided emissions (from peatland restoration) income of £20 per tonne of C02e[36]. This land is assumed to yield carbon sequestration benefits over a 100-year period at 4 tonnes per hectare. The 20 hectares of forested land could potentially yield £160,000 and 100 hectares £800,000. This is assumed to be the net present value[37] of the carbon service.

The example below is an oversimplification of a complex and evolving industry, and a number of factors would need to be considered which have not been included in the illustration below such as:

Costs – there will be costs associated with a carbon scheme such as for scheme design, registration, validation and verification costs and costs for drawing up purchase agreements, brokerage fees, ongoing auditing, insurance and scheme costs

Risks – there is the potential that a scheme may fail and that there could be potential repayments or costs, which reflects that this is an emerging market and the consequences of such uncertainly are not clear from a contractual basis.

Basis of calculation – the calculation is based on a peatland scheme, but a woodland scheme could have a different profile. There are also site-specific factors that will affect the level of carbon sequestered/retained which will affect the profile and 'claimable carbon' for a scheme.

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[37] Net Present Value (NPV) is the present value of future cash flows from a project, and in this case defined as the amount the market is willing to pay now for PIUs, i.e. a promise for carbon to be locked up within a scheme over 100 years

Additionality - Carbon credits are only available where they are additional and would not have happened anyway. One of the additionality tests is that carbon finance shall be required to fund at least 15% of the project's restoration and management costs over the project duration. Therefore, not all the income could be used to repay a loan.

Two borrowing scenarios have been considered with both scenarios assuming a 25-year loan with a 5% interest rate:

1. Assuming that 100% of income is required to repay the borrowing
2. Assuming that a commercial loan would only be available on the basis of a 1.7 earnings to loan ratio
3. No provision for costs have been included but in reality there would be costs incurred in relation to the carbon credits

In the first scenario, the capital available would be around 56-57% of the potential income with the remainder of the income covering the loan interest payments. In this scenario there would be no surplus for the community although the loan capital would be available for the underlying purchase of the land. However, it's highly unlikely that a commercial bank would lend on these terms and that they would require a higher level of earning to loan repayment.

It's not unusual for a bank to require a ratio of 1.7 of earnings to capital repayments, and once this requirement is factored into the loan illustration, the level of capital against the total income is only around 33%. This does generate a surplus which will be useful to community groups, but they must also be realistic about their ability to borrow on the strength of future carbon services and how much can be raised to purchase the underlying land asset.

In the illustration below, scenario 1 assumes forest over 20ha and scenario 2 assumes peatland over 100ha.

Carbon Service	Scenario 1	Scenario 2
Potential for borrowing against income	**Smaller**	**Larger**
No. of hectares	20	100
Value per tonne of C02	£20	£20
No. of tonnes per hectare	4	4
Number of years	100	100
Potential income from carbon capture	**£160,000**	**£800,000**
Assuming 100% income used to repay borrowing	**Scenario 1**	**Scenario 2**
Assume 25 year loan at 5% interest rate		
Capital	90,000	455,000
Interest & arrangment fee	70,000	345,000
Total loan repayments	160,000	800,000
Income	160,000	800,000
Less: loan interest	70,000	345,000
Net income	**90,000**	**455,000**
Less: capital repayments	90,000	455,000
Net cash surplus	**-**	**-**
Assume 1.7 earnings to loan repayment ratio required	**Scenario 1**	**Scenario 2**
Assume 25 year loan at 5% interest rate		
Capital	52,000	267,500
Interest	39,000	201,000
Total loan repayments	91,000	468,500
Income	160,000	800,000
Less: loan interest	39,000	201,000
Net income	**121,000**	**599,000**
Less: capital repayments	52,000	267,500
Net cash surplus	**69,000**	**331,500**
% of income which could be borrowed	**33%**	**33%**
Summary:	**Scenario 1**	**Scenario 2**
Potential income from carbon service	**£160,000**	**£800,000**
Hypothetical borrowing levels:		
Assuming 100% income used to repay borrowing	£90,000	£455,000
Assuming 100% income used to repay borrowing	56%	57%
Assume 1.7 earnings to loan repayment ratio required	52,000	267,500
Assume 1.7 earnings to loan repayment ratio required	33%	33%

9.3 Summary

There are significant limitations on the ability of community organisations to borrow on the strength of assets being purchased or projects that are being developed, particularly where there is uncertainty over the level of income generation from those particular assets or projects or the income yield is low.

Whilst there can be many social, environmental and community benefits derived from a particular asset purchase or development project, unless there is strong earnings to asset ratio from the project there will be significant limitations on the level of borrowing that a community can raise from loan finance. The risks associated with loan borrowing on the strength of future income returns from in particular an emerging market such as natural capital must also be considered to ensure that the existence of or the scale of loan borrowing does not then eliminate the financial benefits to the community in owning that particular asset.

10 Costs as Funding Barriers in the Communities Sector

Where community groups are undertaking community asset purchases or development projects, it is often necessary for them to interact with multiple funding sources. This can be challenging and can require a great deal of project management in order to deliver such funding models as noted in Section 5. This is currently a necessary requirement of delivering complex community projects, and could almost be described as an endurance test that will demonstrate at the end of the process survival of the fittest. Such a process unnecessarily discriminates against those groups who may lack immediate capacity even though they have considerable long term potential.

10.1 Standardisation of funding applications & reporting

However, it has to be recognised that not only does the plethora of funding documentation requirements result in a significant amount of time that generally will have a cost as well in terms of Development Officer/ Project Manager time, but there is also to some extent duplication of work with multiple application forms and reporting requirements to different funders which might be a more efficient process if there could be a more standardised reporting format that could be used across multiple lenders.

10.2 Costs of contracts & securities

Many of the community groups incur significant costs in terms of legal fees, both their own and those of the funders, and the cost of implementing security documentation to protect the funders. In many cases, different funders can be vying for the higher ranking security position, and where there are multiple funders involved in a community project, this can result in much higher costs. The due diligence carried out by each funder can to some extent result in duplication of work and costs. It would appear that if it was possible for a greater level of co-operation, or some sort of communities sector protocol to be agreed across different funders, and the various professional advisors, to streamline the work required to make the process more effective and efficient, this would save both time and costs being incurred by the community group.

It must also be recognised that sellers of assets to community groups will also incur professional costs which are a necessary part of the sale process but these costs can be minimised where the seller and purchaser can a complete transactions in an amicable fashion. There could be opportunities to share professional costs, but this could be limited by the solicitors' rules surrounding conflicts of interest and a certain level of separation cannot be avoided.

10.3 Support for community groups

The support available for community groups to be able to access funding is inconsistent with some geographical areas being better developed than others in terms of local knowledge and support from public agencies. Some organisations can struggle to obtain the funding required to buy-in the skills required where external or professional help is required. A form of finance brokerage would make a big difference to community groups. A number of groups can also be hindered by a lack of awareness of the value of community organisations even within local authorities, their legal departments and elected members. The value of the voluntary time and effort invested in a community project if often underestimated.

10.4 Taxes

Certain taxes can be incurred throughout the sale and purchase process which can significantly add to the cost of the purchase, or in the case of the seller, reduce their sale proceeds significantly post tax.

10.4.1 Land and Buildings Transaction Tax

Charites can be eligible for certain tax exemptions such as from Land and Buildings Transaction Tax (LBTT) if the land is to be held for 'qualifying charitable purposes'. In reality however, many community organisations will also undertake broader activities to deliver a financially sustainable development which may result in the tax exemption not being available, and an additional cost being incurred in the form of LBTT and a higher level of funding being required by the group purchasing the asset. It would be beneficial to community groups if the charities exemption was more broadly available where a charity or community group delivers a wider range of activities.

10.4.2 Acceptance in Lieu

There are opportunities to make greater use of the acceptance in Lieu (AIL) scheme allows an inheritance tax (IHT) liability, Estate Duty and to some extent Capital Gains Tax (CGT) to be settled by way of offering heritage assets to the Government. As well as including objects of historic or national importance, land or buildings of importance to the national heritage, including buildings of historic and architectural importance and land of historic or scientific significance such as a Site of Special Scientific Interest can also be covered by acceptance in lieu.

The taxpayer is provided with a value (assessed by the AIL panel) accepted in lieu of tax with an enhanced 'douceur' payment of 10% with the taxpayer being entitled to a tax credit for this amount.

Use of AIL was a feature of the community's purchase of Bannockburn House. The asset first transferred to Stirling Council and then onto the community group and enabled the owner to transfer the assets in a tax efficient manner.

Broader application of the existing AIL scheme should be encouraged, but also whether wider application can be made to exempt sales to charities/community groups from CGT liability applicable to the seller. This would incentivise sellers to more readily consider selling assets to community organisation and might more easily agree to a more favourable sale price.

10.4.3 Tax relief

Individuals are able to claim income tax relief and companies able to claim corporation tax relief on the gift of shares, securities and other investments to charities in addition to relief being available from Capital Gains Tax for individuals gifting to charities, and corporation tax relief for companies on gains where they make gifts to charities.[38]

Where an outright gift is made, the amount deductible is:

- the value of the net benefit to the charity
- at the time the taxpayer gives or sells the charity the qualifying investment, plus
- any incidental costs (for example brokers fees or legal fees), less
- any money, or the value of other benefits the taxpayer or a person connected with the taxpayer(such as a relative or connected company), receive in consequence of giving or selling the qualifying investment to charity

For a sale at undervalue, the amount the taxpayer can deduct is:

- the amount by which the net benefit to the charity exceeds
- the actual sale proceeds, plus
- the amount by which the deemed proceeds for Capital Gains Tax purposes exceeds the actual consideration or, if this is nil, the incidental costs of disposal, less
- any money, or the value of other benefits the taxpayer or a person connected with the taxpayer (such as a relative or connected company), receive in consequence of giving or selling the qualifying investment to charity

HMRC provides examples of how the tax relief could work including an example relating to property:

[38] Chapter 5: Giving land, buildings, shares and securities to charity - GOV.UK (www.gov.uk)

Example

George has owned a second property for some years and decides he will give it to a local charity he supports.

A qualified property agent values the property at £90,000 and he is charged £400 for the valuation and other legal fees. The charity is grateful and gives George a painting worth £1,000. The deduction that George can make is:

- the value of the property - £90,000
- plus the valuation and legal fees - £400
- equals - £90,400
- less the value of the benefit received - £1,000
- total - £89,400

Wider education about the availability of such tax reliefs may encourage individuals and companies to offer discounts on the sale of assets or to gift assets in certain circumstances which are not generally common practice.

11 Conclusion & Recommendations

This research has confirmed that community landowners are using a wide range of financial models to deliver their goals. Models that do not have a repayment cost are those that are principally used to match fund SLF support for land purchase because they mean that communities can take ownership of an asset without having to worry about ability to repay and potential loss of control of the asset if they fail to make payments. Communities are interested in and do use sources of funding that require long term financing but favour their use for projects with a guaranteed long term revenue stream.

As noted above access to particular models depends upon knowledge of their existence, knowledge of processes required and capacity of organisations to deliver them. In order to enable maximum equitable access to funding we make the following recommendations:

11.1 Improving Knowledge

A lack of knowledge of the sector, the range of models and an understanding of individual models afflicts all actors in the sector: community landowners, development officers, public agencies, community representative bodies and independent consultants. The success of Community Shares Scotland has shown what can be done when a particular model is adequately promoted and communities are supported to deliver that model. The same level of support should be made available across all models to maximise their uptake and to maximise choice available to community bodies.

The models fall into two rough categories: those that are community-centred and those that are commercially-focussed. To that end we propose:

- Consideration is given to exploring with Community Shares Scotland and expansion of its remit so that it can cover Community Shares, Charitable Funding, Debentures/Community bonds, and Crowdfunding.
- Supporting community groups to access philanthropic giving is a role that could potentially fit with the other models in the bullet point above. However, we would propose that SLC first explore the willingness of philanthropists identified as part of this study to give in a more structured fashion towards particular goals. If this is successful SLC and the Scottish Government could discuss with CSS the appropriateness of adding this element to CSS's portfolio and resourcing accordingly.

- To cover Commercial Lending, Private Investment and Peer to Peer Lending, either:
    - A suitable second organisation be given the remit to deliver support to communities to enable them to more easily access these sources of finance and be resourced to do so in a similar manner to CSS, or;
    - The Scottish Government explore with CSS whether it may be appropriate to deliver all of these models through a single body. If this latter option is pursued it would be appropriate to take a phased approach to adding responsibilities.
- If a two vehicle approach is taken to delivering community financing support, both organisations be given the remit to promote options, provide general advice, give specific advice to organisations pursuing particular models and offer microgrants to support their delivery, where appropriate. They would refer clients to one another and work together to help community groups deliver complex funding packages.

The enterprise agencies play a significant role in promoting community development and therefore are in a position to play a supporting role in enhancing knowledge of the range of financial models available to community groups. To achieve this it is recommended that:

- Enterprise agency staff with community facing roles are given basic training in understanding these models
- Enterprise agency staff use their contacts with community groups to make them aware of the full range of models and signpost them to the body or bodies who will deliver the full support package for them in future.

As noted in Section 6 Natural Capital has the potential to offer communities useful income streams to help support their financial viability while delivering tangible benefits that contribute to climate change and biodiversity targets. Community knowledge of how this works is poor and communities are concerned that they may receive a poor deal in a currently unregulated market. It would therefore be beneficial for suitable support to be made available to communities dealing with Natural capital issues. We therefore recommend that:

- Financial support is provided to a suitable representative body to deliver Natural Capital advice and support to communities in a manner akin to that of the other financial models

11.2 Commercial lending

In the commercial lending sector, there are a number of recommendations that have come from the research work carried out. A strategic actor (or actors) is required to act in an intermediary role to :

- Raise the profile of the communities' sector as being able to deliver serious economic outcomes and the lack of business failure in this sector as a whole
- Identify that communities/charities can operate and deliver economic outcomes without the need to generate excessive profits for shareholders, therefore the traditional earnings to debt repayment ratio is likely to disadvantage this sector
- Highlight the power of voluntary boards in terms of leveraging a high level of business skills without the costs of expensive management and the value of this to a community/charity project
- Encourage lenders to loosen the restrictions on charities and community groups in terms of the level of security required, in particular from grant funders so that the groups are more able to access secured loan funding when required
- Encourage lenders to provide competitive rates of commercial interest, rather than the much higher interest rates that community/charity groups incur due to the perception of being a riskier entity
- Encourage the co-operation of grant and loan funders to work collaboratively to agree favourable security arrangements and minimise the professional costs of arranging funding, particularly where a group has multiple funding sources
- Make support more easily accessible for the communities/charities sector, particularly where multiple groups are going through the same process with multiple funders
- Provide access to community organisations to patient capital in order to help deliver better social outcomes, particularly in the housing sector

This role could be played by a body as identified in 11.1, the enterprise agencies or a body such as Business in the Community.

11.3 Scottish National Investment Bank

- SNIB should be encouraged/required to consider the delivery of community projects at a lower capital value threshold in order to enable SNIB to deliver its Place Mission through particular targets to deliver a certain level of community projects without the same level of thresholds required for private and institutional investments
- SLC and the Scottish Government should engage with SNIB to address lending practices that have the potential to work contrary to the Scottish Government

objectives of increasing community land in community ownership and promoting a more diverse ownership structure.

11.4 Increasing Capacity

The limited capacity of organisations has a significant impact upon what they can achieve. The provision of increased knowledge as a result of the actions at 9.1 will reduce the barriers to accessing models to a certain extent. However, a key issue that was raised by many different players was the limitations imposed by the lack of time available through paid employees. This is not a new issue and is a cause of continuous debate. However, we recommend that:

- The Scottish Government, development agencies and the Third Sector work together to put in place a comprehensive, credible and funded plan to deliver adequate Development Officer time nationwide and across all communities. The mechanics of local delivery will depend on local circumstances which vary considerably but the duty to fund will lie with development agencies provided with adequate funding by the Scottish Government.
- The Scottish Government allow the capital value of discounts on valuation of properties negotiated by community groups to be counted as capital benefit delivered by SLF. This would allow SLF to provide more revenue support (including Development Officer time) to groups that require it while still remaining within the 80:20 capital: revenue ratio for disbursement of funds. Without this change there will be a perverse incentive not to negotiate a discount on the part of community groups who need to maximise revenue support.

11.5 Learning through Research

The comments from community groups with access to wind farm benefit funds, and our knowledge of examples in different parts of the country highlight that where available these can have a significant impact upon community landowners' access to resources for purchase and development. However, their distribution is patchy. There is also the suggestion that full use is not being made of some of these because of the restricted nature of their governing documents. We therefore recommend that SLC commission research into community wind farm benefit funds in order to:

- Measure the local impact of these funds
- Map their distribution
- Scope the range of purposes for which they were set up and identify restrictions in specific governing documents that may be limiting their ability to support sustainable local development

- Propose model articles that meet the needs of governance and accountability, whilst also giving flexibility to trustees to maximise community impact
- Consider community investment options that would allow funds to continue delivering benefit after the life of the windfarm has come to an end.

11.6 Regulation

The study has come across evidence that an unregulated market in natural capital is leading to speculation in future carbon values by investors and brokers which may or may not be realised. This is adding to upward pressure on land prices that are already somewhat removed from the productive capacity of the land being bought. It is therefore recommended that:

- SLC and the Scottish Government work (with UK authorities where necessary) to introduce legislation to regulate the market in natural capital
- SLC and the Scottish Government use the powers at their disposal to reduce incentives to invest in land for reasons that do not in and of themselves produce social, environmental or community benefits, e.g. solely for tax planning or in anticipation of long term capital gain, in order to make it easier for community bodies to have the option to use alternative financing models successfully to support purchase of land. Measures could include increasing LBTT rates on the purchase of land by non-community purchasers unless they can demonstrate that significant community benefit will result from the land purchase or implementing land ownership responsibility conditions that ensure that a proportion of the profit generated from natural capital benefits the local area which is being exploited in a meaningful way, such as a dedicated communities fund that is accessible to community projects.

11.7 Taxation

Whilst taxation itself is not a means of funding the purchase of land and developing land, it can play a significant role in how individuals, businesses and communities behave in relation to land. The study has identified that there could be opportunities to increase knowledge of the existing taxation regime and potentially influence future application of taxation to improve the productive use of land in terms of delivering outcomes that provide social, environmental and community benefits, as well as economic benefits, to those living in that geographical area. It is therefore recommended for further consideration:

- Land and buildings transactions tax exemption for charities should be extended to enable community owned projects outwith the charitable definition to be exempt
- Land and buildings transaction tax should be increased where the intention is for the land to be non-productive with a higher rate of tax charged with a proportion rebated if the land is subsequently used productively within a specified timeframe
- Broader education required to ensure that potential land sellers and purchasers are aware of the Acceptance in Lieu and also the general tax benefits for income tax and corporation tax on donations/gifts as the tax efficiency could stimulate more community land sales on a mutually beneficial basis.

11.8 Implications for the Scottish Land Fund

If the changes proposed in 11.1 to 11.6 were to be implemented there would be several implications for SLF:

- The reduced barriers and improved access to complementary funds would, over time, increase the amount of funds available to community groups. The impact of these increased funds would be variable:
    - An increase in access to crowdfunding and philanthropic funds would potentially result in an increased number of larger and more complex land purchase attempts by communities if they could access a greater total funding package. The likelihood of this would be moderated however by the limited supply of larger land parcels, the competition there can be for such land, the limited scope of many philanthropic gifts, and the capacity of local communities to consider and then deliver a large land purchase.
    - An increase in access to models that require the payment of interest and repayment of capital are likely to play only a minor role in land purchase due to the relative high cost of borrowing in relation to returns from land in may circumstances. The increased availability of these models may increase the range of development projects that communities are willing to attempt post-purchase and therefore have knock-on effect in demand for land to deliver these projects. However, that impact is likely to be modest.
- A greater awareness, understanding and acceptance of the place of community land ownership (contributing to its normalisation) amongst financial institutions as proposed in 11.2 & 11.3 will lead over time to a greater demand for community ownership of assets as more communities throughout the country seek to replicate the benefits that other communities are already experiencing, and find fewer barriers in their way to delivering financially complex projects.
- The greatest increase in demand from the Scottish Land Fund would come however through a much greater distribution of Development Officers for those communities that want them as proposed in 11.4. It is clear from our direct experience, observation of community groups and comments received from the survey carried out as part of this study that those groups which have Development Officers are (in general) able to deliver more projects and to a greater degree of complexity in a given period of time than those who do not. A much wider officer network would help communities to generate and pursue a greater range of ideas at a quicker pace. Equal access across the country would

create a significantly greater demand for SLF funds and may therefore put greater pressure on a Fund that was limited to £20m per year.

- The regulation of markets in natural capital may provide a framework within which some community groups may be able to borrow against the value of natural capital, either as part of a purchase or for post-purchase development purposes. The number of purchases involved are likely to be modest, and as with all applications, SLF will need to judge any borrowing and future anticipated revenues from this source within the context of a wider business plan. We do not anticipate that SLF would have reason to reduce its own contribution or expect an applicant to borrow solely on the basis of anticipated natural capital revenues.

- The development of an increasingly diverse and complex set of funding options available to community land groups and the emergence of natural capital as a potential source of funds means that SLF staff and the SLF committee will need to be increasingly aware of the benefits and risks associated with these options. SLF should therefore ensure that staff are adequately trained in understanding these models and kept up to date as the funding landscape changes.

- The cumulative impact of these recommendations, combined with the significant increase in land values since the Land Fund was first increased to £10m per year, are likely to mean that an increasing number of applications will reach or surpass the £1m normal threshold for referring applications to Scottish Ministers. It would therefore be wise for ministers to review the maximum level of award that the SLF committee can make before a referral. Raising this figure to £2m would be appropriate for a £20m fund with pro rata increases on the current position an option if the fund is given a stepped increase each year until it reaches that figure.

Appendices

Appendix 1a - Case Study: Triodos bank

Triodos Bank's mission is:

- To help create a society that promotes people's quality of life and that has human dignity at its core
- To enable individuals, institutions and businesses to use money more consciously in ways that benefit people and the environment, and promote sustainable development
- To offer customers sustainable financial products and high-quality service.

Contained in Triodos' Annual Report[39], is detail of the bank's approach to 'impact, risk & return':

'Traditionally, banks have focused on risk and return, primarily to avoid negative outcomes, and to enable investors to understand the performance of the institution. But when an institution sees its main goal as maximising returns to shareholders, risk and return are often viewed in a short-term context. This neglects the company's wider relationship with – and effect on – society and the environment. Triodos Bank uses three parameters – impact, risk and return – to understand its overall development and place in the world. This promotes a long-term perspective. The focus on delivering sustainable social, environmental and cultural impact as well as risk and return implies a positive, holistic outlook and a horizon that is inherently longer term….

Environment 29% (2019: 31%)

The subsector 'Energy and Climate' consists of renewable energy projects such as wind and solar power, hydro-electric, heat and cold storage, and energy-saving projects. It also includes environmental technology projects, for instance through recycling companies.

Within the subsector 'Sustainable Property' it finances new buildings and renovation projects to reach high sustainability standards. It also includes nature-conservation projects.

The subsector 'Sustainable Food and Agriculture' also includes organic agriculture and projects in Europe and emerging markets, across the entire agricultural chain – from farms, processors, wholesale companies and sustainable trade to natural-food shops.

[39] Triodos Bank Integrated Annual Report 2020.pdf

Social 22% (2019: 23%)

This sector contains loans and funds' investments to a scale of businesses and (non-profit) organisations with clear social objectives, such as social housing, community and social-inclusion projects. It also covers the health and elderly care sector and the inclusive finance and fair-trade businesses sector.

Culture 8% (2019: 9%)

This sector covers loans and funds' investments to organisations working in education, retreat centres, religious groups, recreation, cultural centres and organisations, and artists.

Residential sustainable mortgages 21% (2019: 17%)

The retail sector of the loan book is primarily comprised of residential sustainable mortgages, including a small amount of other private loans and overdrafts on current accounts.

Municipalities 3% (2019: 4%)

Under municipalities it includes sustainable loans and funds' investments to local authorities without a specific sector classification and some limited short-term loans to municipalities. These investment-type loans in the public sector are included in the loan portfolio in accordance with regulations related to financial reporting.

Impact Equities and Bonds 17% (2019: 16%)

The Impact Equities and Bond funds that are managed by Triodos Investment Management focus on direct investments into listed equities and bonds of companies, institutions and projects that drive the transition to a sustainable society. Each investment in our Impact Equities and Bonds strategy has been hand-selected for its contribution to our sustainable transition themes, while applying our strict minimum standards.'

Communities sector relevance

Triodos Bank have a long track record of operating in the agricultural, environmental and renewables sectors with some of its renewable sector financing being provided to community organisations. In addition, the bank has involvement with community projects and social housing. 'In 2020, Triodos Bank and Triodos Investment Management financed approximately 720 community projects (2019: 600), and 210 social housing projects, which directly and indirectly provide accommodation for approximately 59,000 people (2019: 58,000)'.[40]

Financing provided to charities include:

- Small loans - £100k - £500k loans (70% loan to value)
- Large loans - £500k - £20m loans (70% loan to value)
- Capital raising from investors - £250k - £20m unsecured debt, bonds & share offers

Examples of projects funded by Triodos Bank include £1.75m raised through a 12 year bond for the Coigach Community Energy CIC, and £5m raised through a 6 year charity bond for the Thera Trust.

Appendix 1b - NatWest Social & Community Capital

Nat West Social & Community Capital is a charity supported and funded by NatWest and can offer alternative funding to organisations who are unable to qualify for mainstream loan finance. Over a 5 year period, Social & Community Capital approved over £10 million in loans to more than 80 organisations throughout the UK.

Loans of £30k - £750K are available with flexible terms and offering repayment holidays. Customers can draw down what they need in a flexible way. This funding can work alongside or subordinate to other funders, and can be useful in a start up situation, or where income receipt will be delayed. This source of funding has been used to help provide bridging for community shares.

Social lenders and grant funders often take security which can then result in commercial loan funding being much more difficult to obtain from mainstream banks. In addition, these securities cost, but the Nat West Social & Community Capital can provide loan funding without taking security for up to 15 years. This source of funding can be provided at a rate of 4% which is very useful to the borrowers who are often faced with interest rates of up to 8-10%.

Nat West Social & Community Capital will work with the organisation's own bank to establish the extent to which the commercial bank is willing to lend and assess what gap exists. The fund has been involved with multi-led funding structures, and can

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[40] Triodos Bank Integrated Annual Report 2020.pdf

also be used to cover cashflow shortfall stemming from the timing of grant and VAT receipts on large capital projects.

Nat West Social & Community Capital has good links with Social Enterprise Scotland and considers the support for this sector to be critical. In general there is not enough support available for boards of trustees and there can be a gap in terms of the information provided and what funders are looking for. Detailed cashflow projections are often missing with only annualised figures provided but cashflow forecasts are critical to match the customer's need to the financial product required.

Housing projects are becoming more prevalent but many groups can struggle to demonstrate track record or project management skills. This fund is limited in terms of the length of loan funding but there is a need for patient capital in this particular sector.

The NatWest Social & Community Capital Supporting social enterprise and community business Impact report 2020/2021[41] highlights a number of projects that have been supported by means of grants and loans. This source of funding has been in existence for more than 20 years and seems to have operated much more widely in England than in Scotland and has the potential to be used by more community organisation if awareness of the funding is increased.

Communities sector relevance

The NatWest Social & Community Capital Supporting is operating in a manner that wholly supports charitable organisations with unsecured loan funding in a flexible and relatively low cost interest rate. This type of initiative would be welcomed if it could be provided by all mainstream banks, but should not be seen as an alternative to mainstream bank lending. Instead it would work well in partnership with mainstream bank funding. Awareness of this funding source would be welcomed by the communities' sector.

[41] 210929_Online_NW_SOC_COMM_FINAL_03_2021.pdf

Appendix 2 - SNIB Investment Strategy

'The Bank will work alongside private, public and third sector partners in the wider ecosystem and will seek to attract private sector funds to co-invest alongside its public capital wherever it can, in order to maximise its mission impact and accelerate investment activity in the Scottish economy as a whole. In addition to delivering socio-economic returns the Bank invests to achieve returns from capital appreciation and investment income, including fees, interest and dividends. Typically, the Bank will invest in businesses and projects seeking more than £1 million in investment support (either debt or equity). The Bank has not been established and does not have the power to deliver grant or sub-commercial government funding.'[42]

Details of SNIB's initial investment portfolio is available on the website, [Investment Portfolio | Scottish National Investment Bank (thebank.scot)].

The Bank's Investment Strategy[43] specifically includes a section on 'Investment in Communities and the Third Sector' and states that:

'The Bank will seek to support the ambitions of local communities and the third sector to create local sustainable economies through investing in commercially viable local or charitable:

- Businesses
- Clean energy projects
- Circular economy waste reduction and recycling initiatives
- Local affordable or social housing developments
- Local housing sustainability projects
- Local regeneration projects

It is expected that the Bank will invest in commercially viable mission impact community and charitable investment opportunities requiring debt or equity investment in excess of £1m.

This threshold will be considered carefully when considering opportunities to invest in smaller and more remote communities in Scotland, with the potential for the Bank to make smaller investments where this is appropriate given the individual project circumstances.'

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[42] Page 8, The Scottish National Investment Bank, Annual Report and Accounts 2021 Investment Portfolio | Scottish National Investment Bank (thebank.scot)

[43] Investment Strategy | Scottish National Investment Bank (thebank.scot)

The creation of a development bank in Scotland is a welcome addition to the financing landscape, however in the short time that SNIB has been in existence, of the £133.9m invested across 9 financing deals, these have exclusively been made to private businesses and investment funds with the minimum investment being £1m. A summary of the deals are provided in the table below:

Investment	**Amount Invested**	**Type of organisation funded**
M Squared, Glasgow	12.5m	Private business - Photonics and quantum technology company
PfP Capital, Edinburgh	40m	Mid market rent fund
R3 IoT, Glasgow	1m	Private business - Communication and data service provider
Forev, Edinburgh	2m	Private business - Electric vehicle charging network owner & operator
IndiNature, Jedburgh	3m	Private business – Natural fibre construction insulation system
Gresham House Forestry Fund, London	£50m	Alternative asset manager listed on AIM
Nova Innovation, Edinburgh	6.4m	Private business - production of innovative tidal turbines
Sunamp, East Lothian	6m	Private business - production of innovative heat batteries
Iona Wind Partnership, Aspers Investment Management, London	13m	Investment management fund

Of the projects funded to date, the majority of the funding has been to Investment Funds based in London (with the exception of PfP Capital which does have an office in Edinburgh but it's management is London based) with 77% of available funding allocated to these London based Investment/Pension Funds, 23% invested with Scottish based private businesses and no investment to date allocated to communities.

SNIB are required to ensure that they apply market rate debt and generate commercial returns. The aim of SNIB is to crowd in other investors with SNIB acting as the primary investment filter, with the M Squared investment being an example of this arrangement where Santander are providing loan funding on the basis of the SNIB investment. SNIB will not take a shareholding of above 50% in any investment, and will not get involved with local authorities.

Projects are subject to rigorous due diligence and many more projects are considered than are actually funded with an approximate ratio of 1 project approved for every 10 considered. Both track record and experience plays an important part in the decision making process. Projects must also be a mission fit with qualitative and quantitative impacts assessed. SNIB works within the IFC's Operating Principles for Impact Management[44] and use the Global Impact Investment Network Iris+ Impact Measurement & Management System[45]. SNIB also adhere to the UN's 17 sustainable development goals[46].

Where projects make applications at too early a stage, or there is no proof of concept, these will be rejected and potentially redirected towards Scottish Enterprise. Scottish Enterprise will consider sub-£1m investment.

Natural capital

Of the bank's 3 Missons (Net Zero Mission, Place Mission & Innovation Mission), the majority of its investments are under the heading of Net Zero Mission.

The bank would need to see a more consistent investment stream from peatland restoration before considering investing in this area, but there is potential for carbon credits to provide future income streams from both woodlands and peatlands. The bank would use third parties to validate the carbon capture data for a project. NatureScot and others are looking at investment in this area.

Housing

Mid-market rent is considered a 'third way of renting'. It's private, social and affordable being pegged at an affordable rent which is typically at a 5-25% discount on rent in the private sector. The project already funded by SNIB is through a pension fund. The scale of investment required in this type of project might make it unachievable for a community project to achieve a £1m SNIB investment threshold.

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[44] Operating Principles for Impact Management (ifc.org)

[45] Welcome to IRIS+ System | the generally accepted system for impact investors to measure, manage, and optimize their impact (thegiin.org)

[46] THE 17 GOALS | Sustainable Development (un.org)

Appendix 3 – Land Values

This appendix covers categories of land not included in Section 8.

Peri-urban farmland

The value of peri-urban farmland will generally be linked its land type and quality for agricultural production but there can be opportunities which may increase the value peri-urban land over its normal agricultural value, such as development or other forms of diversification. In some instances, there may be cause to discount peri-urban farmland values due to specific factors such as increased livestock disturbance, crop damage, vandalism or simply the additional time, effort and risk associated with farming in an area with high levels of public access. Each case must be assessed on its own merits and the values may be adjusted up or down from the outline figures given above.

Peri-urban farmland for development or diversification

One of the most obvious examples which would give rise to an increase in value is where land is zoned for development in the local development plan or has some other potential for diversification which may be more profitable than its existing agricultural use. Where land may be suitable for development, the values here will generally be calculated using a residual method of valuation whereby the gross value of the completed development is estimated; less the costs of development such as, but not limited to, planning and architectural fees, site clearance costs, construction costs, site servicing, developer contributions, marketing costs and developer's profit; less the costs of purchase such as legal fees, LBTT and interest on finance. This leaves a residual site value. If the residual value is negative, then the development proposal may not be feasible.

The value of such land therefore depends on a number of variable factors, depending on the nature of the proposed development and may produce a different market value figure to a market value on a comparable basis. This is discussed in more detail in the section on development land below.

Peri-urban farmland for small scale farming / allotment use

Often, areas sold for small scale farming or allotment use are smaller areas (<5 acres) and may comprise land that is of poorer quality or may have some other constraints such as size, location or access which mean they do not fit or are uneconomic as part of a larger farm holding or enterprise. There is very limited open market data available for peri-urban farmland for small scale farming or allotment use.

Residential Development Land

In a valuation context, the value of development land will generally be determined using a residual method of valuation whereby the gross value of the completed development is estimated; less the costs of development such as, but not limited to, planning and architectural fees, site clearance costs, construction costs, marketing costs and developer's profit; less the costs of purchase such as legal fees, LBTT and interest on finance. This leaves a residual site value. On this basis, the valuation of development land is complex and influenced by a number of factors, including costs, risk and finished development values. Policies which can affect such factors, including planning policies or schemes such as the Help to buy scheme for example, can affect the housing market and the value of residential development land.

As noted in a study carried out by Savills for the Scottish Land Commission[47], land availability and price are just one of many factors affecting the development land market. The Savills study into the role of land in enabling new housing supply in Scotland was comprehensive, including the issues around land pricing and gave a number of recommendations for overcoming the various barriers to housing development and it is felt that there is no need to repeat them here.

The development land market for volume house building in the private sector, which makes up the bulk of the development land market activity in Scotland, remained relatively strong and stable in the 3-4 years prior to the Covid-19 pandemic. Some political and economic uncertainties around Brexit, UK and Scottish general elections were eased before the pandemic and an extension of the Help to Buy scheme was a boost for housebuilders through increased demand for new build housing. Whilst this provided some confidence and increased market activity, it did not appear to result in significant increases in land values which were mitigated by a continued increase in building costs and limited house price growth.

Although the pandemic was a very severe economic shock, economic recovery, currently looks to be faster and better than expected. The longer-term view taken by investors and developers in housing land market as well as a strong residential property market, is helping to uphold values. The greatest hurdle now appears to be labour and material shortages and the fairly significant effect this has had on build costs for developers.

However, as noted in the Savills report, the volume speculative developer model of housing development does not work across much of rural Scotland because there is

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47 https://www.landcommission.gov.scot/downloads/5f0d9630bd952_20200714%20SLC%20Savills%20Rural%20Housing%20Report%20FINAL.pdf

insufficient demand and/or value created to provide developers with the level of return required to sustain their business model. Where non-profit developers (e.g. housing associations, local government and community bodies) take on development projects, the price they are able to pay for land is heavily dependent on the business plan and the level of subsidy that is available to help balance cost and revenue[48].

Development land for Affordable Housing

Scottish Planning Policy (SPP) broadly defines affordable housing as:

'Housing of a reasonable quality that is affordable to people on modest incomes...'.

Affordable housing may come in many forms, such as social rented accommodation, mid-market rented accommodation, shared ownership, shared equity, discounted low-cost housing for sale including plots for self-build, and low-cost housing without subsidy.

The land made available for affordable housing has been largely dependent on the amount of affordable housing that the local planning authority will require a developer to deliver alongside open market homes. The amount of affordable housing at local authority level will generally be determined by a number of factors including local demographic and economic trends and the effect this may have on the future level of housing need and demand.

Land for affordable housing will usually be delivered in one of two ways; either as part of and combined with an open market development, or, as a standalone development of affordable housing units, often through not-for-profit housing associations.

The valuation methodology of land for affordable housing is similar to the valuation methodology for development land i.e. the residual method. However, the main differences are the significance of regulation in the affordable housing sector and the effect of housing and spatial planning policies, both of which affect revenues and costs for developers. While conventional residual appraisals are also affected by policies, the constraints on costs and revenue for affordable housing have a greater proportional impact upon the end site value.

48 https://www.landcommission.gov.scot/downloads/5f0d9630bd952_20200714%20SLC%20Savills%20Rural%20Housing%20Report%20FINAL.pdf

Market ability to provide former public land buildings (e.g. schools)

The Scottish Public Finance Manual (SPFM) sets out the guiding principles public bodies must consider when acquiring or disposing of assets and property. Public bodies have a duty to ensure that all disposals of publicly owned land and buildings are conducted in fair and transparent manner which achieves the best outcome for the taxpayer. Publicly owned assets are therefore generally to be disposed of at Market Value, as defined in the International Valuation Standards (as used in the Royal Institution of Chartered Surveyors Valuation Professional Standards) but also reflecting any special value and the effect of any voluntary conditions imposed by the seller.

However, where there are deemed to be wider public benefits, consistent with the principles of 'Best Value', to be gained from a transaction, public bodies can consider disposal of assets at less than Market Value. This includes supporting the disposal of assets to community bodies, where appropriate.

There has been pressure on public sector finances over the last decade. This has meant that many local authorities and public organisations have undertaken strategic reviews of property and assets under their ownership with a view to streamlining and keeping property holdings at a minimum to meet current and future anticipated needs. Anything which does not meet current or anticipated future needs may be sold on the open market. The availability of assets such as school and other public buildings on the open market will therefore be dependent upon a variety of economic, demographic and political factors.

The Community Empowerment (Scotland) Act 2015 sets out the rights for community bodies to seek to acquire rights in any land and property held by a named public body; otherwise known as a Community Asset Transfer. While this route has been successful in a number of instances, it has been viewed by some as becoming increasingly onerous and bureaucratic and therefore has perhaps not helped to provide public assets for community ownership as far as it could.