

## **RIIO-3 Draft Determinations – Electricity Transmission**

### **Response to ETQ8 – Community Benefit Funding pass-through mechanism**

**Purpose:** To provide TOs with funding to enact the government's Community Benefit Funding policy

**Benefits:** Improved community buy-in to the construction of new ET infrastructure, reducing ET build times.

### **Do you agree with our proposed design of the Community Benefit Funding pass-through mechanism?**

#### **1 Summary**

Foundation Scotland welcomes the principle of a Community Benefit Funding pass-through mechanism. With almost two decades of experience in designing, administering, and evaluating community benefit funds across Scotland, our response highlights concerns with how administrative costs are currently defined and capped, noting that the conflation of administration, capacity-building, feasibility studies, and project delivery costs risks undermining communities' ability to maximise funds.

#### **2 Background**

Foundation Scotland is the UK's most experienced community benefit fund administrator, having supported the design and implementation of over 100 funds across Scotland since 2004. We work with over 400 communities involved with funds of varying values and operating under a range of governance structures. Clients include large utilities, developers, investment fund and asset managers, community companies and community councils.

Our work is built on principles of inclusivity, place-based development, and community leadership, working with developers, asset owners and communities to create long-term, transformative community benefit arrangements that create lasting social, economic and environmental value.

With the University of Strathclyde's Institute for Sustainable Communities, we recently co-authored the [Guiding Principles and Actions for Enhancing Community Benefit from Community Benefit Funds](#).

The community benefit arrangements we support are predominantly linked to renewable energy projects where community benefit to date has been voluntary but with significant industry commitment in Scotland to the Scottish Government's Good Practice Principles. Whilst this has been a very different environment to the regulated environment of the TO's community benefit system, we believe our learning and observations to be of value to the TO context and proposals for the pass-through mechanism. Our response is informed by our work with renewable energy businesses and is provided on the basis of sharing learning and observations.



### **3 Our experience of how administrative costs are met and what they comprise**

Our administrative costs are met in three different ways:

- i) The asset owner covers these over and above the community benefit fund.
- ii) The asset owner stipulates that any administrative costs must come out of the community benefit fund.
- iii) A hybrid approach whereby the cost is shared between the asset owner (paid over and above the fund) and the community (paid as a direct cost from the fund).

These costs cover the following types of activity:

- Holding, accounting for and safeguarding community benefit funds with high standards of financial integrity. This includes transparent reporting, robust internal controls, and the prudent stewardship of funds in line with their purposes. As a charity all funds we hold are charitable so funds are administered in line with our charitable purposes and charitable law.
- Working in partnership with a community body mandated to make decisions on fund strategy and spend. This includes for example providing assessments of applications to support that group to make objective, informed decisions.
- Distribute the community benefit fund in line with the fund strategy and guided by the decisions of the community body. This may take the form of running grant making programmes or commissioning specific activities on behalf of the community decision making body.
- Providing guidance and support to applicant organisations.
- Monitoring and reporting activity - to both the community decision making body and the project owner.
- Undertaking impact assessments or other relevant research to maximise learning, collaboration and outcomes that the fund might help achieve.
- Raising the profile of the fund through external communications with relevant local, regional or national stakeholders.

Prior to a community benefit fund starting, we will have undertaken a 'set up' phase. This is a significant piece of community engagement work, paid for separately by the project owner, that will usually involve some or all of the following:

- Working with stakeholders to finalise the area of benefit if this is not finalised.
- Drawing up a fund strategy that will set out the key purposes and outcomes of the fund and plans for fund distribution.
- Determining the optimum fund structure and governance arrangement.
- Putting in place that structure and arrangements.

This set up phase may take between six – 24 months. Costs are usually determined on a day rate and based on these kinds of deliverables.

## **4 Definitions and approach**

We note that both the DESNZ Guidance and the Draft Determination bundle together a wide spectrum of activity under 'administrative costs related to project delivery' and which we would suggest are confusing and potentially misguided.

For example, capacity building is not an administrative function. Capacity building is an ongoing aspect of good community development practice and community benefit funds are uniquely placed to build capacity in and between communities in a myriad of ways at multiple levels. This might be via themed Education & Training Funds, grants to enable organisations to grow and develop ahead of undertaking a particular project or specific project activity that enables others to build and extend their knowledge, skills or networks. Constraining capacity building within an overall 10% administrative limit we would suggest is unhelpful and potentially prohibitive of what communities may actually require.

Similarly with feasibility work. This is not an administrative cost. It is a project cost associated with a larger scale of capital project that a community may prioritise. It is not uncommon therefore for community decision makers we support to be awarding funds for feasibility studies and which will then inform the next planning stage for that project. Requiring feasibility work to be costed into an administrative budget will surely constrain the range and scope of opportunities that could be progressed.

We would query also what staff costs are being referred to at 3.71. Are these staff costs of the TO team coordinating the various community benefit schemes or are these staff costs of organisations delivering projects funded by the community benefit fund? We would urge for it to be the former and which along with third party administrator costs, marketing and PR costs are, in our view, the core components involved in running or administering a community benefit scheme or fund.

Governance could also be a feature, depending on operational models. So for example, where we are supporting an incorporated body with administration of community benefit, their governance costs are covered by their community benefit income. They also pay our costs as their third party, independent administrator – from their community benefit income.

However when we support a community body to operate as the fund decision maker but that is not a formal organisation (for example a community panel with representation from different community bodies) then we absorb the fund's governance costs as we are fulfilling the required fiduciary and governance responsibility on behalf of the community.

We would therefore suggest being much clearer about definitions and terms regarding eligible administrative costs and de-couple them from any administrative costs related to delivery of projects identified by the communities and which are a legitimate cost to the community benefit fund.

One further observation about the risk of conflating fund administration and administrative costs related to project delivery is that this will require an excessive and disproportionate focus on the budgets of bids and proposals rather than the outcomes they are trying to achieve. We are not suggesting that costs are insignificant. Of course they are core to sound project management but not exclusively so. So rather than assessing proposals and bids on merit, informed hopefully by community plans and priorities, the current draft determination appears to be suggesting that all administrative costs for projects can only be considered for

support if they meet this pre-determined cap. In turn projects awarded funds may then be subject to a reporting system disproportionately focused on value for money rather than outcomes. We think both need to be in balance or the approach risks being unduly restrictive and administratively complex and therefore in and of itself costly and uneconomic.

## **5 Costs**

Notwithstanding the queries outlined in the previous section related to what is actually included in this allocation, it is challenging to determine the reasonableness of the 10% cap because without the actual fund or portfolio costs and sense of community context then 10% is somewhat meaningless.

For example, for smaller funds within communities that need a lot of support and where capacity is low, 10% may not provide sufficient resource to support the community to maximise the fund. Equally for a very large fund or particularly high value portfolio, then up to 10% may provide a very significant even excessive budget.

Our costs for administering funds can range from 4% - 12% and which reflects our learning that a one-size-fits-all administrative approach is inadequate. So we try and take a more flexible approach and determine a cost informed by the fund size, community context, community capacity and stakeholder landscape.

Where we can pool funds into a single 'one stop shop' arrangement for a community or communities then costs can reduce. This is not dissimilar to the portfolio approach being proposed and which can indeed be more cost inefficient for all while maximising social, economic, and environmental outcomes.

We note that the recent DESNZ Working Paper on Community Benefit and Shared Ownership quoted the Irish government's ORESS and RESS schemes that set a limit of 30% of the fund that can be spent on administration. In our response on the appropriate cap on spending from the fund for administrative functions we noted this amount appeared excessive and that considerations when determining ongoing administration costs (as distinct to the set-up phase) will include the size of the fund, the range of distribution mechanisms in use, the developmental stage of the decision-making body and wider public affairs and stakeholder management work related to the fund. Given the uncertainty about what may be proposed as good practice or indeed required standards going forward it is surprising to note the significant discrepancy in community benefit administration costs between the Irish example (a regulated scheme) and the proposed equivalent for RIIO-3 (also a regulated scheme).

And finally on costs we understand that the 10% figure is a cap on what the TO can recover from customers via pass-through. It is not actually a cap on how much the TO can spend on administration. The TO can spend to the level they think is worthwhile and which may actually reduce delivery costs in the future. Indeed spending the required amount – and which will be variable depending on context – may stand a better chance of securing the community buy in to more efficient build out that is sought.

## **6 Conclusion**

We understand that managing community benefit funds entails a fiduciary duty of stewardship, transparency, and accountability. Clearer guidance on eligible costs is essential to uphold public trust and ensure funds are safeguarded and used as intended.

Nevertheless whilst we support the principle of the pass-through mechanism we would urge Ofgem to provide clearer information about what is in scope within the 10% administrative cap alongside some thorough definitions and worked examples.

By doing so, the mechanism will be more transparent, realistic and proportionate, and stand a greater chance of being supportive of community plans and priorities—ensuring that the significant investment in community benefit delivers lasting and meaningful value for communities and wider society. In some instances however we note that this may only be achievable if additional investment is made by the TO over and above what can be recovered via pass-through.

For noting, we thoroughly endorse the response to ETQ8 from Glenkens and District Community Action Plan Steering Group who helpfully highlight the practical challenges of the proposed approach via the Housing case study, the benefits of bringing forward funds and the need to accept that an overly compliance led approach may null the innovation and transformative impact these funds could enable.

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