Management of the ScotWind leasing round

How the Scottish Government is using offshore wind funding

AUDITOR GENERAL

Prepared by Audit Scotland
September 2026

Contents

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

Key facts

20	Lease options initially signed, with one subsequently terminated and another currently being terminated
28.8GW	The 2026 estimated target capacity for the 18 projects once they become fully operational, nearly three times the original 10GW estimate for ScotWind
£100,000/sq km	The maximum option fee price cap
£755m	ScotWind option fees, with £96 million used to support Scottish Government spending in 2022/23 and £65 million of INTOG option fees subsequently received
£95.6m	Interest earned on option fees between 2022/23 and 2025/26
£80m - £110m	Estimated maximum annual income over the 60-year lifetime of the leases assuming projects are fully operational with optimal production conditions
£29bn	Scottish supply chain commitments made by successful bidders, with ambitions for this to rise to £43.7 billion
circa £300m	The forecast remaining balance of offshore wind option fees in 2031, supplemented by any interest earned from 2026/27 onwards

Key messages

1 ScotWind was the first offshore wind leasing round in Scottish waters for a decade. It launched in 2020 and adopted an approach that focused on securing long-term economic benefits rather than maximising short-term revenues from an open auction. Focusing on longer-term returns offers potentially higher risks and rewards. No single business case was produced for the leasing round but the rationale for adopting a longer-term approach was clearly documented and scrutinised by the Crown Estate Scotland Board. It was then agreed by the Scottish Government. Whether the chosen ScotWind approach represents value for money will only be determined when it is clear how many sites have been developed.

2 Crown Estate Scotland initiated a pause and rapid review of ScotWind in 2021 when a rest-of-UK leasing round generated record revenue through an uncapped, open pricing approach. Crown Estate Scotland's Board drew on external advice and decided to increase the ScotWind maximum option fee cap from £10,000 to £100,000 per square kilometre. It considered a much higher cap but felt this would reduce the competitiveness of projects and the long-term economic benefits of the leasing round. The rapid review also put new mechanisms in place to discourage trading in option rights and encourage developers to deliver on their supply chain commitments. The latter need to be further strengthened for future leasing rounds. The first ScotWind leasing round awarded options for the majority of permitted marine development sites, which could limit the opportunity for future large-scale rounds.

3 The £755 million initially raised has been held and deposited by Crown Estate Scotland on behalf of the Scottish Government. Investments are made over a 12-month term to give ministers maximum access to funds. This has allowed the Scottish Government to use the ScotWind funds as part of its budgeting approach. However, it has limited Crown Estate Scotland’s investment options and associated financial returns. It is also not clear how the £96 million of ScotWind option fees and £7 million of interest drawn down to date by the Scottish Government has been used to support the transition to net zero, as originally broadly intended.

4 The Scottish Government expects to call upon a further £507 million of ScotWind funding by 2031. But it has not been clear about how it will make use of these funds, or how it will use the potential rental income of up to £80 - £110 million a year should all ScotWind projects become fully operational. The Scottish Government has also committed to establishing a ScotWind Wealth Fund by the end of the current parliamentary term. As this new policy develops ministers need to be transparent about its purpose and set out how it will operate.

Recommendations

Crown Estate Scotland, ahead of any future offshore wind leasing rounds, should:

- explore how the evaluation of supply chain development statements could form a greater part of bid evaluation scoring (paragraphs 33 and 38)
- review the structure and quantum of contractual remedies related to supply chain commitments as part of wider contractual frameworks (paragraph 51)
- continue its work to formalise business case development, in line with best practice and its responsibilities as a public body (paragraph 56).

The Scottish Government should:

- provide clearer, disaggregated plans for the use of offshore wind option fees to enable investment options to be explored (paragraph 68)
- develop longer-term plans for future leasing round option fees and forecast annual lease income received, and how these are to be administered and used (paragraphs 80 and 91)
- be more transparent about the use of offshore wind funding, reporting to parliament annually on:
  - how funding is to be used;
  - how it is expected to support outcomes; and
  - the impact of any change in its planned use (paragraph 88)
- develop the wealth fund approach and report publicly on its plans, and the longer-term aims of the fund, ahead of it being established (paragraph 93).

1. Introduction

Background

1. Formally announced in 2020, ScotWind was the first round of offshore wind leasing in Scottish waters for a decade, and the first leasing round since the establishment of Crown Estate Scotland. It offered developers the opportunity to bid for the rights to develop and build windfarms across designated seabed areas.

2. Concluding in 2022, the process resulted in 20 projects successfully securing seabed option agreements, with a then combined estimated 27.6 gigawatt (GW) of new generating capacity when fully operational. This is near to the current average daily demand for the entire UK. Successful projects are expected to include a mix of fixed-bottom and floating technologies. The leasing round exceeded the Sectoral Marine Plan for Offshore Wind Energy's assumed maximum generating capacity of 10GW, while remaining within the permitted development areas identified within it.

3. Since then, there has been significant public and parliamentary interest in the approach adopted during the ScotWind leasing round; why this differed from the approach used in the UK-wide round that was developed and delivered in parallel; the impact this had on the value of the option fees raised; and how the Scottish Government has been using the proceeds of the ScotWind leasing round.

4. This audit considers the arrangements and decision-making around, and management of, the ScotWind leasing round and examines:

- the governance and scrutiny arrangements around the auction rules, including any changes to pricing, and the final leasing decision
- how the ScotWind monies are being managed and used, and if this is consistent with public commitments and announcements
- what lessons could be learned and applied to any future leasing rounds.

5. Wider aspects of the Scottish Government's offshore wind investment programme, including separate arrangements for up to £500 million of public investment to support the growth of the offshore wind supply chain, will be considered in an audit of Renewable energy due to publish in October 2026.

Crown Estate Scotland

6. The Crown Estate is an independent public corporation that holds land and other assets in England, Wales and Northern Ireland in right of the Crown. Its assets are not the property of the government nor part of the Sovereign's private estate; but sit separately and distinct. The estate under its control is managed by a board of commissioners for the benefit of the nation, and net revenue profits are transferred for public use.

7. The Scotland Act 2016 established a process for devolution of the management of the Crown Estate's assets in Scotland, and the revenue generated from these assets to Scotland. Revenues are paid into the Scottish Consolidated Fund and are available to support Scottish Government spending plans, approved by the Scottish Parliament. As part of this process, all the Scottish functions of the Crown Estate Commissioners and the majority of Crown Estate assets in Scotland were to be transferred to Scottish ministers.

8. Crown Estate Scotland (Interim Management) was established in 2017 as the nominated body of Scottish ministers to manage the Crown Estate's Scottish functions and assets. The Scottish Crown Estate Act 2019 renamed this interim body as **Crown Estate Scotland**, effective from 1 April 2020.

9. Crown Estate Scotland's purpose is investing in property, natural resources and people to generate value for Scotland. There are various **statutory duties** it must fulfil while managing the estate, while also supporting delivery of the Scottish Government's aims and objectives.

The relationship between Crown Estate Scotland and the Scottish Government

10. As **a self-funding public corporation**, Crown Estate Scotland is a separate entity from the Scottish Government, with its chief executive the designated accountable officer and its board appointed by Scottish ministers. Crown Estate Scotland has a dedicated sponsorship team within the Scottish Government's Marine Directorate, overseen by the Director General Net Zero. Prior to 2023, the Marine Directorate was known as Marine Scotland.

11. The relationship between Crown Estate Scotland and the Scottish Government is set out within a framework agreement, which is regularly refreshed in line with guidance set out in the Scottish Public Finance Manual. This requires regular sponsorship meetings, and annual performance monitoring, as well as setting out the interaction between Crown Estate Scotland and Scottish ministers.

12. Scottish ministers set out their vision for the Scottish Crown Estate in a strategic management plan. Ministers approve Crown Estate Scotland's Corporate Plan, including strategic objectives and key targets (including

Crown Estate Scotland's statutory duties and functions are established by the Scottish Crown Estate Act 2019.

Section 7 of the Act requires Crown Estate Scotland to:

- maintain and seek to enhance the value of Scottish Crown Estate assets
- maintain and seek to enhance income arising from those assets
- act in a manner best calculated to further the achievement of sustainable development in Scotland
- contribute to economic development, regeneration, social wellbeing and environmental wellbeing.

Crown Estate Scotland is a self-funding public corporation. All its revenue income, after operating costs and transfers to its capital account, is payable to the Scottish Consolidated Fund.

The block grant received by the Scottish Government is adjusted annually to reflect the devolved status of Crown Estate Scotland.

revenue targets); an investment strategy; and the policy and performance framework within which Crown Estate Scotland operates. Crown Estate Scotland provides recommendations and advice to Scottish ministers, with Crown Estate Scotland subject to written ministerial directions.

13. In line with this operating framework, money raised by Crown Estate Scotland, including through offshore wind leasing rounds such as ScotWind, is retained and accounted for by Crown Estate Scotland. Crown Estate Scotland then makes annual transfers to the Scottish Consolidated Fund. For non-offshore monies, Crown Estate Scotland transfers its operating surplus to the Scottish Consolidated Fund. Any drawdown of funds raised from offshore wind leasing is separately transferred to the Scottish Consolidated Fund to support the Scottish Government's budget as directed by Scottish ministers.

Note:

Within this report, we have not adjusted the option fees raised from the ScotWind leasing round, the interest since generated or future Scottish Government spending plans for inflation.

Developing the offshore wind industry

In 2015, the Scottish Government published the National Marine Plan which covers the management of both Scottish inshore waters (out to 12 nautical miles) and offshore waters (12 to 200 nautical miles). This overarching plan covers all marine activity including, but not limited to, sea fisheries; aquaculture; oil and gas; carbon capture and storage; and offshore wind and marine renewable energy.

It provides a policy framework for managing all developments, activities and interests in (or affecting) Scottish waters and sets out high-level objectives, general policies and sectoral policies. It is supported by regional marine plans. The National Marine Plan aims to support decision-makers to assess if new or existing marine activity is environmentally or economically sustainable and suitable for the areas.

In 2020, the Scottish Government published its Sectoral Marine Plan for Offshore Wind Energy. It aimed 'to identify sustainable plan options for the future development of commercial-scale offshore wind energy in Scotland, including deep water wind technologies, and covers both Scottish inshore and offshore waters'.

It identifies the areas of the seabed where offshore wind energy developments may be permitted. The plan was published prior to the launch of the ScotWind leasing round and was informed by industry stakeholder engagement, over both the draft plan and potential development opportunities that would arise from leasing rounds.

The sectoral plan reflects the Scottish Government targets for generating 50 per cent of Scotland's overall energy from renewable sources by 2030 and for complete decarbonisation of the energy system by 2045, recommitted to in its Climate Change Plan 2026-40. Furthermore, there is a target to establish 40GW of new offshore wind capacity by 2040.

The 2020 sectoral plan assumed a maximum potential generating capacity of up to 10GW under the ScotWind leasing round.

Offshore wind development is a plan-led process, with developments only allowed in permitted areas of the seabed specifically identified in the plan. Crown Estate Scotland was consulted during the development of the sectoral plan, and there was a clear understanding that ScotWind leasing would be for the geographical areas identified in the sectoral plan.

Both the National Marine Plan and Sectoral Marine Plan for Offshore Wind Energy are due to be refreshed, with the latter going out for consultation in 2025 and due for adoption in 2026.

The update is a revised assessment of the generation capacity of Scottish waters, considering advances in technology.

The plan is developed independently of market interest.

2. The ScotWind leasing process

Crown Estate Scotland managed the leasing round, instigated reviews and ultimately revised the initial pricing strategy. Scottish Government officials and ministers approved the approach taken and were aware of key developments and decisions.

Crown Estate Scotland worked collaboratively to develop the leasing approach, including the adoption of a capped pricing model

14. In November 2017, Crown Estate Scotland announced it would start seeking views over interest in leasing for a round of offshore wind development. This followed publication of the UK Clean Growth Strategy in 2017 which expressed an interest in additional offshore wind development in the 2020s, which would require lead-in time. The exact sites to be included in the leasing round would be determined and finalised in line with the Sectoral Marine Plan for Offshore Wind, published by the Scottish Government in 2020.

15. This would be the first round of offshore wind leasing developed by Crown Estate Scotland since the devolution of management from the Crown Estate, but three UK-wide leasing rounds had previously been developed and delivered, as well as one round specifically for projects in Scottish waters. Further work was also being undertaken across other areas of the UK in parallel to the development of the ScotWind leasing round.

16. A collaborative approach was taken to designing the leasing round, with a discussion document including early thinking on lease design shared with stakeholders including developers in May 2018. Workshops were held with local authorities, developers, consultants and other stakeholders to answer questions and to allow them to provide feedback. Feedback was reflected within the development of the leasing approach adopted for the ScotWind leasing round.

The rationale for adopting a capped pricing model was clearly set out, and approved by the Crown Estate Scotland Board

17. Under the offshore wind leasing model, developers initially bid for options related to specified areas of the seabed. This grants exclusive access to the site for the development of an offshore wind farm, and the option to subsequently sign a long-term lease should that option be taken up by the developer. Options are purchased and fees are non-refundable should the developer not take up the leasing right.

18. External advice was sought from Aurora Energy Research who provided a report commissioned by Crown Estate Scotland to support leasing design, primarily to assist with commercial and economic decisions. The report included consideration of the context of offshore wind in the UK, as well as a review of international examples. It provided analysis of the impacts of different option fee levels on the ability of Scottish projects to compete with wider UK ones. It noted that there are more challenging environmental factors associated with developments in Scottish waters and geography, which are generally accepted as resulting in higher development and capital costs.

19. The lease design was taken to the board in November 2018 for approval. Two guiding objectives for the leasing round were agreed at this point:

- To secure new offshore wind projects for Scotland by designing leasing compatible with stakeholder requirements and attractive to developers.
- Seeking to maximise the local and national benefit flowing through those projects which are secured.

20. Crown Estate Scotland was clear that the price cap was specifically adopted to avoid the leasing process operating solely as a price-based competition and to reduce the risk of excessive upfront costs impacting project viability. Rather than an emphasis on only option fee income generation, there was a consistent longer-term focus on securing subsequent lease agreements, and therefore the ongoing (higher) income associated with them; and ensuring that projects would continue to remain both viable and competitive to support realisation of the wider supply chain benefits.

21. The Crown Estate Scotland board approved the overall leasing approach in 2018 and submitted advice to Scottish ministers.

Option prices, lease terms and other aspects of the contracts were developed prior to the initial leasing round launch

22. In 2018, provisional option fees were set at £2,500 and £5,000 per sq km, leases were to be for 50 years and would include discounts on rent payments based upon economic benefits to Scotland. Following legal advice and risk analysis, rather than discounts for economic benefits, a requirement for Supply Chain Development Statements (SCDSs) in support of option agreements was introduced. This change in approach was outlined to Scottish ministers in 2019 (paragraphs 35–37).

23. The **final lease approach** was agreed by the Crown Estate Scotland Board in January 2020, with advice again submitted to Scottish ministers at this point. This advice was accepted, and approved, by Scottish ministers. The ScotWind leasing round was launched in June 2020 with option fees set at either £2,000, £6,000 or £10,000/sq km for bids across all sites.

After the launch, the results of the Round 4 leasing round covering the rest of the UK led to a review of the ScotWind option pricing level

24. The results of The Crown Estate UK Round 4 leasing were announced in February 2021 with option fees under the open pricing approach, adopted for the first time, being significantly higher than anticipated. Round 4 options secured fees of £879 million per year paid over a period of up to ten years (or until projects received planning permission), therefore potentially over £8 billion for sites with an estimated generating capacity of 8GW. This level of return reflected high market demand and a constrained supply of seabed sites being offered for development. Round 4 has subsequently been identified by a range of stakeholders and commentators as resulting in unexpectedly high returns due to specific market conditions; and the high option prices could impact future prices and subsidy levels for the power generated by the developments under existing contractual mechanisms.

25. At this point the maximum level of option fees that could be raised by ScotWind were a one-off payment of £86 million, under the £10,000 per square kilometre option fee price cap. Despite representing a shift in market conditions, the results of the Round 4 leasing were deemed not to be directly applicable to Scotland. This reflected Crown Estate Scotland's assessment of the following factors:

- There are challenges with developing the sites included in ScotWind, including the depth of the sites.
- The majority of ScotWind projects would require floating foundations which were still in the early stages of development.

Key components of the **final** ScotWind **leasing approach** included:

- a ten-year option period, with a one-off non-refundable option fee paid upfront
- a 60-year lease term (allowing for two cycles of windfarm installation), with rent payable per megawatt hour (MWh) linked to inflation
- an SCDS outlining details of proposed supply chain spend, to be updated at least every three years throughout the option period.

There were also contractual remedies included for failing to achieve commitments and a disposal premium for the first three years of the option period to discourage secondary trading.

It should be noted, however, that option periods can be extended past the initial ten-year period.

- There are challenges associated with grid connections and transmission charges from Scottish sites which present ongoing costs to projects that can further impact their competitiveness.

26. The decision was taken to pause ScotWind leasing to allow for a 'rapid review' of the lease design to be conducted. This was specifically designed to consider the implications of the Round 4 leasing round and prevailing market conditions on ScotWind.

The rapid review process was informed by external advice and resulted in an increase to the price cap, and this change was approved by Scottish ministers

27. In early 2021, before the deadline for ScotWind applications, the 'rapid review' was undertaken by Crown Estate Scotland. The scope of the review was agreed with the Scottish Government and included investigating the likely implications of increasing both option fees and the SCDS termination threshold; and strengthening change of control measures should option holders look to sell on their rights. The review was informed by external advice on pricing from two different consultants, Aurora Energy Research Limited and then, subsequently, JLL. JLL were engaged by Crown Estate Scotland specifically to test the findings of the Aurora Energy Research report.

28. Factors considered when examining potential revised approaches included income generation, impacts on supply chain development, the longer-term prospects for offshore wind and, therefore, delivery of the Scottish Government's net zero targets. Investor confidence and risk (including legal risks), and overall public acceptability given the potential to be seen to be so divergent from Round 4 were also considered. The review considered a range of approaches which varied from retaining the original maximum price of £10,000/sq km to open market bidding.

29. Concluding in March 2021, Crown Estate Scotland's Board's new preferred approach was to increase the maximum option fee ten-fold to £100,000/sq km, alongside other measures (Exhibit 1, page 15). The decision was influenced by the competing priorities of higher option fee levels and maintaining project competitiveness, and therefore the chances of projects ultimately being developed and longer-term leases being taken up. It was noted that there was the potential room to increase option fees by up to 50 times (to £500,000/sq km) but the board decided that this presented a greater risk to projects ultimately remaining competitive, based upon the external advice from Aurora.

30. The decision on revised option fee pricing was taken in-line with the guiding objectives for the leasing round (paragraph 19) and while considering Crown Estate Scotland's wider statutory obligations. The decision by the board was shared with Scottish ministers for approval, subject to the finalisation of the JLL report. Following the results of the report being communicated to ministers, approval was granted by the Scottish Government.

Exhibit 1.

Changes resulting from the rapid review process

As well as a ten-fold increase in pricing, there were other changes that resulted from the 2021 review.

The previous maximum price being increased **from £10,000 per sq km to £100,000 per sq km**

The per cent of Supply Chain Development Statement commitments that applicants must meet to be eligible to request a lease **increased from 10% to 25%**

Further change of control provisions for resale of options to mitigate the risk of a secondary market in ScotWind lease options developing, including a **contractual mechanism to clawback profits** arising from the sale of option agreements to third parties

Source: Crown Estate Scotland

Clear criteria were set out for awarding option rights, including in relation to supply chain development

31. Detailed guidance, including a leasing guidance document for applicants, was produced that set out the minimum requirements for applications. These were initially published in June 2020, with final versions published following the rapid review in April 2021. The revised guidance reflected the changes outlined in Exhibit 1.

32. The ScotWind offer document set out the aims of the evaluation approach which were to determine if the application was likely to result in a successful project and to resolve any competing interests between projects. The evaluation process was managed by Crown Estate Scotland, with external expertise provided to the review teams. Staff from Crown Estate Scotland then acted in a moderating role, with detailed internal guidance produced for staff working on the evaluation.

33. Applications were graded against seven different areas. If an application failed in any part of the first section, the evaluation was not progressed. This section included basic information such as area, capacity and provision of an eligible SCDS, rather than an evaluation of the SCDS. Option rounds take place years before projects reach financial and contractual certainty which can make it difficult to assess supply chain commitments on a consistent basis when appraising bids. A minimum score in any part of the application would result in the overall application failure. Once projects had received their scores, applications were ranked and sites awarded.

34. The fixed cap approach allowed for a numerical aspect to be applied to overall rankings and improved certainty to Crown Estate Scotland, while also serving to remove barriers for applicants needing to calculate the fair value of the seabed at the application stage. Projects that had met the minimum requirements but not been successful were able to apply during a clearing round for any remaining sites.

Supply chain commitments were not considered in the final decisions about awarding lease options

35. The approach taken to produce benefits for the Scottish Supply Chain developed over time. In the lease design approved in November 2018, there was an intention to incentivise development in Scotland through the provision of a sector wide rent discount if a pre-agreed level of economic development was met.

36. The approach was tested by Crown Estate Scotland with legal advisors and Scottish Government officials. The Scottish Government State Aid team (now the Subsidy Control team) advised that there were challenges with this approach and that it was a high-risk strategy from a state aid perspective. Feedback from Scottish ministers in summer 2019 led to the approach being amended.

37. The introduction of the alternative, the SCDS, was agreed by the Crown Estate Scotland board in January 2020, following engagement with the then Cabinet Secretary for Finance, Economy and Fair Work, and the then Minister for Energy. This introduced **contractual remedies** into the SCDS up to termination of an agreement if a project failed to meet enough of its commitments, such as spending with Scottish-based suppliers while developing the project. Alongside commitments, SCDSs also include more aspirational ambitions for further supply chain development. The revised approach was launched at a supply chain summit held by the Scottish Government with sector, industry and trade union representation in January 2020. Crown Estate Scotland invited feedback on the design of the SCDS in June 2020.

38. The final SCDS asked developers to set out their anticipated expenditure broken down across **four geographic regions** and **four project phases**. There was no specific requirement on where a project impact should be focused across the four regions. The SCDS was not, however, fully evaluated as part of leasing decisions as it was felt that the information available would not be robust enough to support decisions to accept or decline applications (paragraph 33). Developers must update

Contractual remedies are legal options that can be applied if elements of a contract are not fulfilled. Within the ScotWind option agreements there are a number of mechanisms in place which aim to ensure that contractual provisions and lease award conditions are met. These include financial consequences for failing to meet supply chain commitments; clawback of profits resulting from secondary market trading of option rights; and revoking the ability to secure a lease.

The **four geographic regions** within SCDSs are: Scotland; the rest of the UK; the European Union; and elsewhere.

The **four project phases** are: development; manufacturing; installation; and operational (over the early phases of a project).

their SCDS throughout the option period, reflecting project specifics such as timing and technology and supply chain development progress. Crown Estate Scotland is able to turn down updates if insufficient evidence to support changes is provided. In those instances, the previous SCDS would remain current. There are a range of factors that make including formal assessment of SCDSs within initial bid evaluations challenging, but Crown Estate Scotland should explore potential mechanisms to allow future bid evaluations to be informed by the initial SCDSs submitted.

Twenty lease options were awarded across the initial and clearing rounds, raising £755 million in option fees and utilising the majority of the permitted development areas

39. In January 2022, Crown Estate Scotland announced the outcome of the application process with 17 projects awarded option agreements from the 74 applications. Three additional option agreements were announced in August 2022 following completion of the clearing round which received 14 applications. Not all applications were made at the £100,000 per sq km maximum pricing level, but all successful bids came in at around the maximum price level.

40. The Sectoral Marine Plan identified a total area of 12,812sq km as suitable for offshore wind development but capped the development areas offered to the market at 8,600sq km. The original projects cover approximately 7,300sq km and an additional area of around 560sq km was added through the clearing process (from a total available area of around 750sq km across clearing sites). Combined, options cover a total area of 7,904sq km. Options therefore were offered for around 92 per cent of the capped permissible development area identified within the sectoral marine plan, and 62 per cent of sites considered suitable for offshore wind developments, potentially constraining how the remaining area can be utilised or included within any future leasing rounds.

One option has been terminated by the option holder, and another is in the process of being terminated, with no refund of option fees but reducing potential generating capacity

41. Options have since been terminated on two areas of seabed but, with options offered on a non-refundable basis, this did not result in any option fees being returned by Crown Estate Scotland:

- The CampionWind option owned by Shell was terminated in November 2025. Following a stake-swap agreement with its development partner Scottish Power Renewables, Shell assumed 100 per cent ownership of CampionWind and returned its option rights as part of its wider corporate exit from renewables generation. Scottish Power Renewables now have 100 per cent ownership of the comparably sized MarramWind option which was also previously jointly owned.

- A second option is in the process of being terminated by Ocean Winds for the Arven South site, citing the lack of a viable grid connection and no alternative route to market.

42. Reflecting these changes, there would be an estimated generating capacity of 25.1GW across 18 ScotWind sites. Capacity increases have, however, been identified by developers as work has progressed at six sites resulting in the remaining current intended capacity increasing to 28.8GW. Both the original and current predicted capacity is higher than the expected 10GW in the Sectoral Marine Plan published in 2020.

43. Of the 18 projects, at the end of August 2026, two have now received consent for development (West of Orkney and Caledonia) and 16 remain in development (ten have submitted consenting applications and six are at pre-application stage). Annual per GWh lease payments will commence once projects become operational, with annual rental payments increasing as generating capacity increases until all projects reach full maturity (Exhibit 2, page 19). Selected project information is provided in the Appendix (page 36) to this report.

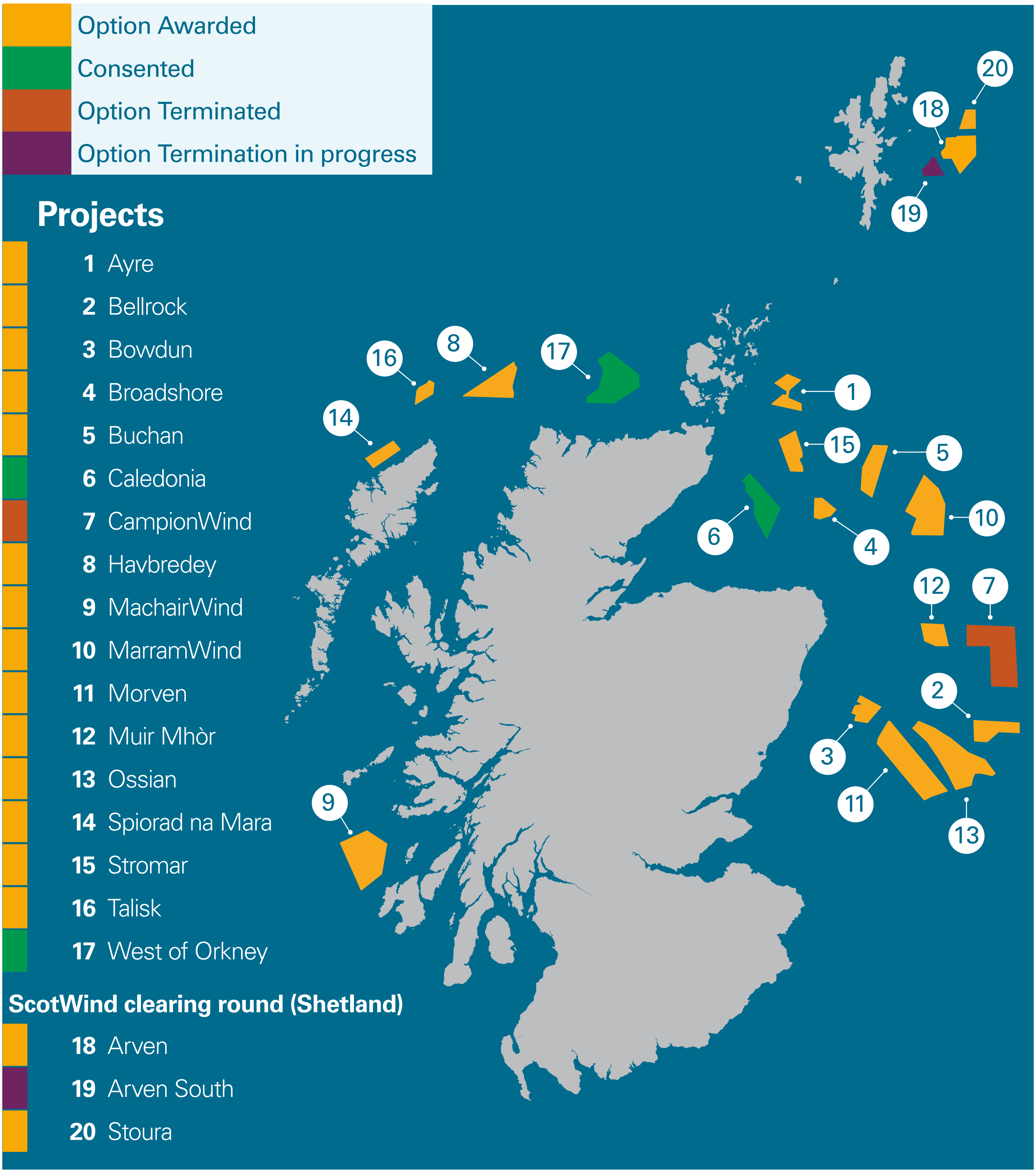
Current supply chain statements indicate a commitment to around £29 billion of Scotland-based supply chain spending, with an ambition of up to £44 billion

44. Across the 20 projects, initial SCDSs published in 2022 committed to £28.8 billion of expenditure in Scotland, with an ambition set by the developers to achieve £41.7 billion. Updated SCDSs were received from all projects in 2023, with further updates received for 16 projects in 2026 and, following the option for CampionWind being returned, commitments related to this project have been set to nil.

45. From the latest available SCDSs for all 20 projects:

- Excluding CampionWind, 12 projects have revised their SCDS expenditure since 2022, with committed expenditure in Scotland increasing overall. Five are showing an increase, two a decrease and five no change in Scottish expenditure commitments.
- The proportion of Scottish total committed spend has, however, decreased from an initial 38 per cent to 30 per cent (and from 50 per cent of ambitions to 45 per cent).
- The latest SCDSs for all 20 ScotWind projects commit to £29.0 billion of expenditure in Scotland, with an ambition of £43.6 billion. This means an average of £1.5 billion is now committed per project (with an ambition of £2.3 billion per project).

Exhibit 2.
ScotWind lease option agreements
Twenty ScotWind options agreements were signed in 2022, but two will not be going ahead.



Source: Crown Estate Scotland

- Scottish commitments across the four project phases now amount to £2.5 billion (development); £14.5 billion (manufacturing and fabrication); £6.1 billion (installation); and £6 billion (operation for the first stages of each project).
- Some supply chain benefits will also have been realised from development of the two projects being returned until the point where the options were handed back (Exhibit 3, page 21).

The remedies within leasing contracts, particularly those related to supply chain commitments, should be strengthened in future leasing rounds

46. During the iterative development of the ScotWind leasing approach two significant contractual remedies were introduced, one focused on developers subsequently selling on option agreements and the other aimed at ensuring supply chain commitments would be met.

47. A secondary market in ScotWind options would be expected to emerge if the true value of the seabed rights optioned was significantly above the price cap imposed. Any decision to sell rights on would, however, also be influenced by the expected potential profit from going ahead with the subsequent lease and ultimately developing the project. The option holder's decision is therefore influenced not only by the option price, but also the overall profitability of developing the projects. Overall profitability is influenced by the rent conditions set by per MWh charges under the leases as well as the initial development and capital costs. Any changes in control require Crown Estate Scotland approval.

48. Were any options to be sold on by successful bidders, the profits would go to them, and not Crown Estate Scotland. It would also impact the relative competitiveness of the project, and therefore the overall viability, by increasing overall development costs. This could potentially decrease the likelihood of progressing the project. To discourage this type of trading, Crown Estate Scotland introduced a disposal premium covering the first three years of the option period, which would redirect a proportion of the profits from these transactions to Crown Estate Scotland. Four years into the ten-year option agreements only two options have been terminated, with Shell failing to find a buyer for its rights prior to handing them back (paragraph 41). This suggests that projects have remained competitively priced and viable. There have, however, been 15 instances where control of option rights has changed, five within the first three years. Crown Estate Scotland did not object to any of the transactions within the three-year period. Such transactions are a longstanding feature of offshore wind projects and trading prices will be influenced by development costs already incurred.

49. Prior to formal lease issue, a final Contracted Position Statement is required from developers and tested against the SCDS with financial consequences for significant variations across each stage and each

Exhibit 3.

Current Scottish supply chain commitments total £29 billion

Depending on a range of factors, the aspirational targets for Scottish supply chain spending amount to £43.7 billion.

		£ million		£ million (per cent)	
Projects	**Last updated**	**Total committed**	**Total ambition**	**Scottish committed**	**Scottish ambition**
Arven	2023	3,697	4,580	2,307 (62%)	3,282 (72%)
Ayre	2026	2,820	2,820	1,002 (36%)	1,386 (49%)
Bellrock	2026	3,968	4,942	1,715 (43%)	2,656 (54%)
Bowdun	2026	4,605	4,623	875 (19%)	1,745 (38%)
Broadshore	2026	1,753	2,209	832 (47%)	1,245 (56%)
Buchan	2026	4,683	4,796	1,456 (31%)	2,369 (49%)
Caledonia	2026	5,651	5,651	1,696 (30%)	2,844 (50%)
Havbredey	2026	4,837	5,360	821 (17%)	1,645 (31%)
MachairWind	2026	6,397	6,395	2,120 (33%)	2,730 (43%)
MarramWind	2026	11,513	11,292	4,660 (40%)	6,510 (58%)
Morven	2026	7,144	7,144	1,126 (16%)	2,228 (31%)
Muir Mhor	2026	2,097	2,097	273 (13%)	1,053 (50%)
Ossian	2026	20,491	17,347	5,416 (26%)	6,710 (39%)
Spiorad Na Mara	2026	2,300	2,595	406 (18%)	865 (33%)
Stoura	2023	2,244	2,181	332 (15%)	769 (35%)
Stromar	2026	3,288	4,244	1,483 (45%)	2,266 (53%)
Talisk	2026	3,023	3,023	778 (26%)	1,271 (42%)
West of Orkney	2026	4,029	4,029	932 (23%)	1,104 (27%)
Options since terminated:					
Arven South	2023	1,133	1,382	724 (64%)	1,006 (73%)
CampionWind	2026	0	0	0	0
Total		**95,673**	**96,709**	**28,954 (30%)**	**43,684 (45%)**
Average		**5,035**	**4,835**	**1,524**	**2,299**

Note: Supply Chain Development Statements for 16 of the original round of 17 projects were updated in 2026, with CampionWind reduced to nil due to being handed back. Updates for two of the three clearing round projects will be due later in 2026, with an adjustment also to be made for Arven South being handed back.

Source: Crown Estate Scotland

geography. The contractual remedies introduced for failing to meet SCDS commitments within the contracted position statement are a range of financial penalties that increase with the percentage of how far short from the commitments the contracted position is within each category. The combination of four geographic locations and four project stages mean there are 16 categories and penalties are based upon the maximum variation in any one category:

- Delivery of above 25 per cent but less than 50 per cent of any one SCDS commitment is subject to a maximum penalty of £250,000.
- If less than 25 per cent of any one SCDS commitment feature in the contracted position statement, then the option holder will not satisfy the conditions to enter a lease.

50. The threshold of SCDS commitments that a supplier must meet to request a lease was raised from ten to 25 per cent during the 2021 rapid review. Even as part of a wider contractual framework, given the magnitude and scale of option fees and the potential revenue streams arising for developers from 60-year leases, a maximum penalty of £250,000 is unlikely to act as a deterrent for failing to deliver up to 75 per cent of a specific SCDS commitment, particularly when there are opportunities to revise the SCDS during project development (paragraph 38).

51. Crown Estate Scotland states that this approach is one mechanism for ensuring that Scottish offshore wind projects remain competitive and to secure longer-term benefits, due to higher cost bases. Consideration should be given to the appropriate threshold and level of supply chain commitment remedies for future leasing rounds, as part of wider contractual frameworks, to ensure that they act as a meaningful contract mechanism.

Appropriate governance arrangements were put in place by Crown Estate Scotland, and significant decisions were subject to internal scrutiny, but no business case was prepared

52. Since being established in 2017, and becoming a permanent public organisation in 2020, Crown Estate Scotland has made progress in developing and embedding appropriate and effective governance arrangements. Appointed auditors have not raised significant concerns around overall governance.

53. Reflecting its strategic importance, oversight of both the development and progress of the ScotWind leasing round rested with Crown Estate Scotland's Board. Major decisions were considered by the senior management team then presented to the board for approval, with papers setting out proposals alongside detailed briefings, and there is evidence of active scrutiny taking place. Risks around ScotWind were managed as part of the corporate approach to risk, reporting to the Audit and Risk Committee under delegated authority from the board.

54. The board actively considered the initial ScotWind leasing proposal, the results of the rapid review, and subsequent strategic decisions prior to the leasing round closing in 2022. Risks around the leasing round continue to be appropriately monitored corporately.

55. Crown Estate Scotland, however, did not produce a singular business case for the ScotWind leasing round, instead taking an iterative approach to the design process. It considered that this was needed in part to maintain flexibility to react to market conditions, but also reflected the newness of the organisation, both in terms of size and maturity.

56. The process taken in designing the leasing round included aspects that would be expected in both outline and full business cases, and the process was supported by stakeholder engagement. Key documents and decisions were communicated to the Crown Estate Scotland Board and, where appropriate, advice was sent to Scottish ministers for decisions to be ratified. Crown Estate Scotland has since progressed its approach to business case development, introducing a standardised approach across projects. Crown Estate Scotland should, however, continue to review how it can reflect public sector business case development best practice guidance published by both the Scottish Government and HM Treasury within the standardised approach it has now developed.

The Scottish Government was kept informed of important developments, and ministers approved significant decisions, including the decision to award options

57. The dedicated Crown Estate Sponsorship Team within the Scottish Government's Marine Directorate regularly engages with Crown Estate Scotland, in accordance with the relationship and governance arrangements set out in a framework document. The framework is reviewed, in line with the Scottish Public Finance Manual, and has been refreshed twice since Crown Estate Scotland became a permanent public organisation in 2019.

58. As well as formal sponsorship interactions, there was continued engagement between the Scottish Government's Marine Directorate (then known as Marine Scotland) and Crown Estate Scotland during the development of the ScotWind leasing round. A quarterly ScotWind Programme Board was established, jointly chaired with Crown Estate Scotland, which included representation from relevant Scottish Government directorates to ensure strategic and policy matters were appropriately considered.

59. At key stages the Scottish Government was provided with information by Crown Estate Scotland, commissioning external advice as appropriate to supplement this:

- In March 2020, Strathclyde University's Centre for Energy Policy were commissioned by the Scottish Government to analyse commercial aspects of the ScotWind leasing round.
- In early April 2020, Crown Estate Scotland sought the approval of Scottish ministers for the final approach to the SCDSs.
- At the end of April 2020, Crown Estate Scotland's board sought the approval of Scottish ministers of the overall ScotWind leasing approach prior to formal launch of the leasing round in June 2020.
- In March 2021, following the conclusion of the rapid review process, Crown Estate Scotland submitted the results to the Scottish Government, including recommendations for ministerial approval. Scottish ministers sought further assurances from Crown Estate Scotland and, ultimately, accepted the recommendations and conclusions put forward.

60. The Scottish Government had no formal role in the rapid review process, placing reliance on the arrangements and processes put in place by Crown Estate Scotland. As the leasing round progressed towards its formal conclusion, ministers were briefed on progress, including detail about generating capacity being higher than initially forecast; forecast option fee income and expected outcomes; and wider considerations.

The ScotWind leasing round directly impacts the potential for further large-scale leasing rounds in the medium term

61. The Sectoral Marine Plan for Offshore Wind Energy placed spatial limits on development rather than generation capacity limits. Due to the level of interest in the leasing round the Scottish Government agreed with Crown Estate Scotland's decision to award 17 option agreements, with the potential for a subsequent clearing round, that utilised the vast majority of the areas permitted for development under the sectoral plan (paragraphs 39–41),

62. With option agreements running for ten years, and not due to expire until 2032, the size of the geographical footprint of the developments offered under the ScotWind leasing round has limited the opportunity for further larger-scale leasing rounds to take place until:

- current option agreements expire or contractual remedies result in suppliers not being able to request a lease;
- current option agreements are terminated; or
- there is an expansion of permissible development areas.

63. This impacts the level of further option fees that can be raised. The increased generating capacity estimated from the ScotWind leasing round, however, will potentially result in higher annual payments than originally assumed once projects become operational.

Innovation and Targeted Oil & Gas (INTOG)

In 2022, Crown Estate Scotland launched the Innovation and Targeted Oil & Gas (INTOG) leasing round. INTOG was for offshore wind projects that will directly reduce emissions from oil and gas production and boost further innovation. It was separate and distinct from the larger ScotWind leasing round that preceded it.

INTOG was designed to help achieve the targets of the North Sea Transition Sector Deal. Developers were able to apply for seabed rights to build two types of offshore wind project:

- IN - Small scale, innovative projects, of less than 100MW
- TOG - Projects connected directly to oil and gas infrastructure, to provide electricity and reduce the carbon emissions associated with production.

INTOG differed from ScotWind in scale, with ScotWind focusing upon commercial scale developments generating in excess of 100MW.

Crown Estate Scotland did, however, look to learn lessons from the ScotWind leasing round that could be applied to INTOG. This resulted in a minimum option reserve price rather than a maximum price cap being applied, and a different lease rental mechanism for TOG projects.

This audit has not considered the arrangements for the INTOG leasing round.

3. Management of the ScotWind proceeds

The Scottish Government and Scottish ministers control how, and when, the money raised from the ScotWind leasing round is used.

Option fees and the interest they earn are held by Crown Estate Scotland, but can be transferred for Scottish Government use

64. Under the legislative framework that set up Crown Estate Scotland the £755 million of ScotWind option fees raised in 2022/23 was retained by them. For internal purposes, ScotWind and INTOG balances are held separately but effectively managed as a single 'offshore wind' fund that is invested and generates interest. During 2024/25 and 2025/26 Crown Estate Scotland received £65.1 million from the payment of INTOG option fees.

65. Prior to 2020/21, Crown Estate Scotland considered option fees as capital income. During 2020/21 a review of this policy was undertaken, including taking legal advice, and it was determined that the option fee income should be treated as revenue. This means the net surpluses are permissible for transfer into the **Scottish Consolidated Fund**, with balances held and deposited until drawn down by the Scottish Government.

The **Scottish Consolidated Fund** receives sums which have been voted by the UK Parliament as well as receipts collected from other sources such as devolved taxes and Scottish Income Tax. Sums paid out of the Fund are used to support spending plans approved by the Scottish Parliament in the annual Budget Act.

Crown Estate Scotland investment of the funds requires Scottish Government authorisation

66. Upon receipt of the option fees, Crown Estate Scotland engaged with the Scottish Government about how to recognise them to ensure they were properly accounted for, and to ensure that drawdown of funding could be appropriately managed. Under the agreed arrangements, Crown Estate Scotland is effectively holding and depositing money on behalf of the Scottish Government, meaning they require authorisation from the Scottish Government to invest funds.

67. Crown Estate Scotland recognise that continually holding and depositing money on behalf of the scottish Government presents a corporate risk to them, adding it to its corporate risk register in 2025/26. Crown Estate Scotland sought clarification from the Scottish Government on this matter and were advised that the current arrangement is necessary to allow annual budget flexibility (paragraph 75).

Retaining flexibility for accessing the funds has impacted how the option fees have been invested

68. To maintain flexibility and the ability to drawdown funds as needed, the Scottish Government has directed Crown Estate Scotland to only deposit money on 12-month terms. Investment has also been determined in accordance with Scottish Government treasury management policies, and the funds can only be placed with approved Scottish Government counterparties. This limits the investment options available to Crown Estate Scotland and there is a trade-off between maintaining short-term access to the funds and the ability to maximise returns on investment.

69. Since 2022/23, ScotWind option fees (and subsequently INTOG option fees), have been deposited with NatWest/RBS on terms of up to 12 months, broadly aligned to the financial year-end, to ensure that money is available to the Scottish Government as required. A working balance is also held in a call account to allow instant access.

70. The interest generated each year is re-invested. Crown Estate Scotland identified up to £21 million of ScotWind-generated interest for enablement and operational costs associated with ScotWind options and developments. While ministers agreed that direct ScotWind costs could be met from ScotWind revenues, future investment proposals remain subject to further consideration and approval.

71. ScotWind monies have been accessed by Scottish ministers on two occasions since the option fees were received:

- In 2022/23, the Scottish Government elected to drawdown £103 million of funding to support the Scottish budget (£96 million of the option fees and £7 million of the interest generated).
- In 2023/24, Scottish ministers authorised £5 million of ScotWind monies to be transferred to Crown Estate Scotland's capital account. This was to enable the purchase of land at Port of Nigg. The transfer took place in 2024/25 and the land was then leased to Sumitomo for the development of a high voltage direct current cable factory.

72. INTOG option fees have been invested on the same terms as ScotWind fees by Crown Estate Scotland (Exhibit 4, page 28).

Exhibit 4.
Option fees are invested and generate interest
At the end of 2025/26, option fees and interest mean that £800 million of offshore option fee income, from both ScotWind and INTOG, remains available for future use.

£ million	2022/23	2023/24	2024/25	2025/26	Total
Option fees received					
Scotwind	755.2	0	0	0	**755.2**
Intog	0	0	55.1	10	**65.1**
					820.3
Interest on balances	10.2	21.8	32	31.6	**95.6**
Scottish Government drawdown	103	0	0	0	**103**
Crown Estate Scotland expenditure	0	0	5	0	**5**
Balance carried forward	662.4	684.2	766.3	807.9	**807.9**
Held on term deposit	642.5	653.4	740.5	780.7	**780.7**
Held on call	20	30.7	25.7	27.2	**27.2**

Note: Accrued interest has been included within the money held on term deposit. Figures may not sum due to rounding.

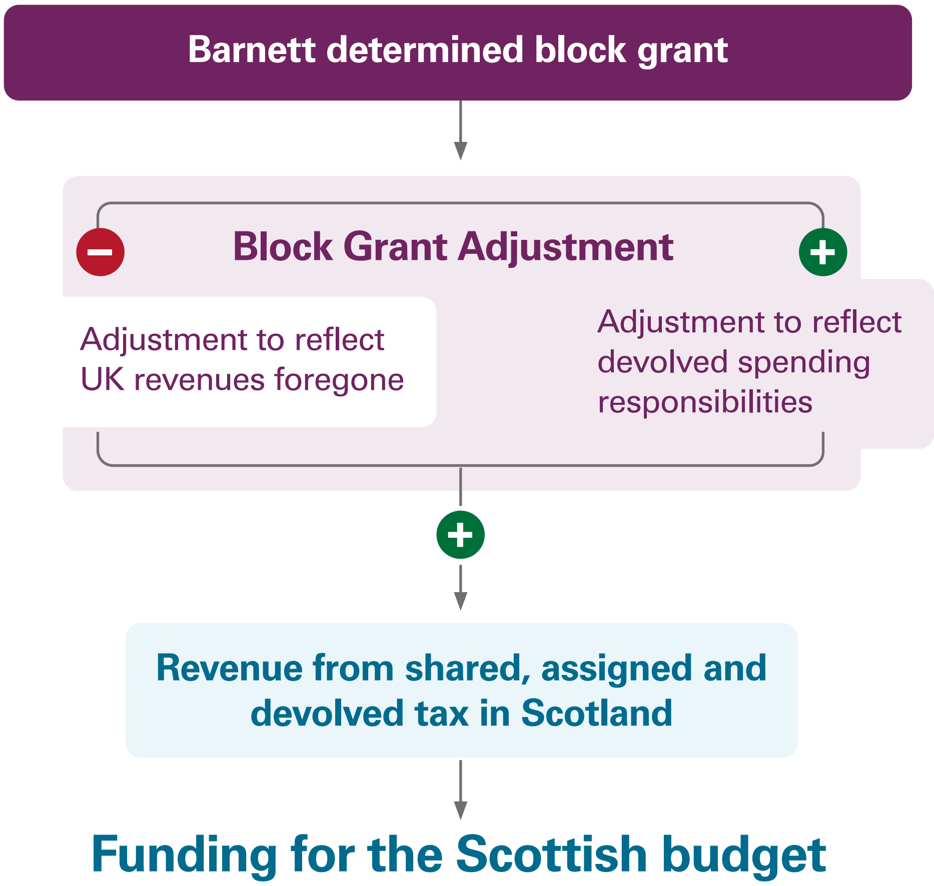
Source: Crown Estate Scotland

The offshore wind funds held by Crown Estate Scotland provide the Scottish Government with additional flexibility to manage its budget across years

73. The Scottish Government budget is subject to the arrangements set out under the Fiscal Framework agreed with the UK Government, last updated in 2023. Under the agreed framework, the block grant from the UK Government to the Scottish Government is subject to a series of adjustments to reflect devolved powers, including income tax and elements of social security spending (Exhibit 5, page 29).

Exhibit 5.
The fiscal framework

A baseline adjustment is made to the block grant to reflect devolution of Crown Estate Scotland, but offshore wind funding transferred from Crown Estate Scotland is additional to the Scottish block grant.



Source: Audit Scotland

74. The Scottish Government is legally required to set a balanced budget each year, meaning that it must set out at the start of the financial year how it intends to fund its spending commitments. To enable this, it has access to the following main flexibilities under the fiscal framework:

- Capital borrowing: an annual limit of £491 million, up to a cumulative total of £3.3 billion, in 2026/27. The amount that the Scottish Government can borrow is therefore influenced by past policy and commitments.
- Resource borrowing: an annual limit of £657 million, up to a cumulative total of £1.9 billion, in 2026/27. This can only be used to manage in-year cash shortfalls and forecasting error related to devolved tax receipts.
- The Scotland Reserve: allows the Scottish Government to move funds between financial years. The reserve can be used to carry

forward resource and capital funding, and financial transactions, up to a combined limit of £764 million in 2026/27. It provides an important mechanism for the management of annual underspends and overspends across years.

- Each year the above limits increase with inflation.

75. The option fees raised from ScotWind and INTOG exceed the limit of the Scotland Reserve. Any partial transfer of these funds from Crown Estate Scotland into the Scotland Reserve would limit the ability of the Scottish Government to utilise the Scotland Reserve for its intended purpose of allowing management of the Scottish budget across years. In practice, this means the transferred funds would be required to be used in the same year or, potentially, result in a loss of funding to the Scottish Government due to breaching the Scotland Reserve limit.

76. This is the primary reason why the Scottish Government has elected to authorise investment of the funds by Crown Estate Scotland on its behalf. Crown Estate Scotland managing the funds allows the Scottish Government to benefit from the interest they generate and to draw upon them as required, in support of both resource and capital budgets, without impacting its ability to make use of the Scotland Reserve as it was designed to be used. This provides the Scottish Government with additional flexibility to manage its budget across years.

In practice, the Scottish Government uses offshore wind money as a budget management tool

77. Presenting a balanced budget to the Scottish Parliament each year means that total funding must be sufficient to meet all spending plans contained within the budget.

78. In recent years, the Scottish Government has relied upon the drawdown of ScotWind and INTOG funding to present a balanced budget, planning on the basis of drawing down some income from ScotWind/INTOG option fees to fund its proposed budget and to underpin medium term plans. The option fee funding once drawn down, however, will not be available for future years. Decisions on the funding assumptions to be reflected in the Scottish budget, including offshore wind, are taken by Scottish ministers on the advice of officials. The Scottish Government's Funding Governance group, led by the Director General Exchequer, Strategy and Performance and including the Chief Financial Officer and other directors, provides this advice.

79. In practice, the Scottish Government manages offshore wind money as a year-end balance that is drawn down based on need. The block grant can be subject to in-year revision, including receipt of Barnett consequentials from changes in UK Government spending plans, and the Scottish Government's own spending plans can change in year. The final amount drawn down often varies from the figure assumed in the budget approved by Parliament.

80. Using ScotWind money in this manner contributes to the wider **financial management challenge** facing the Scottish Government as it looks to address fiscal sustainability and reform pressures. Placing reliance upon offshore wind funding means that the budget year starts in a non-recurring balanced position. This can have a significant organisational impact, potentially weakening budgetary control. As the Scottish Government continues to progress its public service reform agenda, the impact of the current approach of using ScotWind money and other non-recurring sources of funding to address underlying cost pressures should be considered more fully.

Limited use of the option fees has been made so far, with planned use reducing in-year as part of managing the overall Scottish budget

81. The Scottish Government drew down £96 million of option fees and £7 million of interest from Crown Estate Scotland in 2022/23. Every Scottish budget from 2023/24 has assumed the drawdown of further funding, but the Scottish Government has delivered a balanced outturn in each of these years without making any draw downs. The Scottish Budget for 2026/27 assumes that the Scottish Government will drawdown £80 million of offshore wind money in-year (Exhibit 6).

How the Scottish Government is addressing the **financial management challenge** it is facing forms part of our annual audit reporting and the accompanying Section 22 report prepared by the Auditor General for Scotland. The 2025/26 reports on the Scottish Government are due to publish in October 2026.

Exhibit 6.

£96 million of option fees have been drawn down by the Scottish Government, with another £80 million forecast to be used to support the 2026/27 budget

In other years the Scottish Government has not required offshore wind funding to deliver a balanced year-end outturn against budget.

	Financial year				
£ million	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Draft Budget	40	310	200	336	50
Budget Amendments	0	0	0	28	30
Autumn Budget Revision	56	0	224	0	
Planned	**96**	**310**	**424**	**364**	**80**
Resource	96	310	424	23	80
Capital	0	0	0	341	0
Spring Budget Revision	0	0	-424	-188	
Year end decisions	0	-310	0	-176	
Final drawdown	**96**	**0**	**0**	**0**	

Source: Scottish Government budget documents

82. The difference between planned and actual drawdown figures, while managed internally by the Scottish Government, directly impacts Crown Estate Scotland as it necessitates invested funds to be held on the basis that they are readily accessible as part of the Scottish Government's year-end budget processes. It also means that Crown Estate Scotland lacks longer-term certainty about the length of time they will be managing significant investments on behalf of the Scottish Government (paragraph 67)

The Scottish Government plans to use £0.5 billion of offshore wind funding over the spending review period

83. As part of the 2025/26 budget, the Scottish Government set out plans to potentially make use of offshore wind funding from 2025/26 to 2030/31. At the time, £683 million of funding was due to be deployed in support of both capital and resource budgets. With the reduction of the 2025/26 requirement to nil, the forecast is now that around £500 million of the £808 million currently held by Crown Estate Scotland could be called upon (Exhibit 7).

The Scottish Government could be more transparent about how it intends to use offshore wind monies to support the public commitments it has made

84. The Scottish Government has made several commitments about the intended use of the funding it has available from the ScotWind option fees since the end of the leasing round.

Exhibit 7.

Planned use of offshore wind monies until 2030/31

The Scottish Government is planning to use around £500 million of offshore wind funding by 2031.

	Financial year					
£ million	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Capital	0	92	0	99	0	191
Resource	80	236	0	0	0	316
Total	**80**	**328**	**0**	**99**	**0**	**507**

Source: Scottish Government

85. Commitments around ScotWind from Programmes for Government since 2022 sit alongside its wider climate, net zero and just transition strategies and policies, and include:

> 'invest some of the lease income in actions which tackle the twin crises of biodiversity and climate change' (2021/22)

> 'facilitate the development of an offshore wind supply chain to make good on commitments averaging approximately £1.4 billion of investment per project, as part of the potential development of almost 28GW of offshore wind energy through ScotWind' (2022/23)

86. Similarly, in its budget documents and medium-term financial strategies, the Scottish Government has indicated how it intends to use the funding:

> 'we will ensure all annual revenues from ScotWind, due to be confirmed early in 2022, are invested in projects that support Scotland's transition to Net Zero' (2022/23 budget).

> '[then] used, as planned, to invest in addressing the climate and biodiversity crises'. (Emergency Budget Review 2022/23)

87. Since then, however, the planned drawdown of ScotWind and offshore wind funding has been included as part of overall fiscal resource funding, and managed down in-year. In recent budget documents, medium-term financial strategies and spending reviews, the Scottish Government has set out the intention for ScotWind funds to be used to support climate and net zero priorities and to provide flexibility to smooth funding across years. In practice, however, the funding has generally been used as a means of managing the risks around the overall budget position. Forecast drawdown has primarily been identified for deployment to support resource spending, and planned capital elements were not assigned to specific projects (Exhibit 6). Similarly, future planned drawdown is weighted towards day-to-day spending (Exhibit 7) despite the most recent spending review noting:

> 'As in recent years, our opening position will assume initial forecast allocations of Crown Estate revenues to support both the resource position and support climate action through priority capital projects.'

88. This lack of specificity about how drawn down funding is to be used, while intended to enable offshore wind funding to be used as flexibly and responsively as possible to manage the annual budget position, makes it more difficult to identify if funding is being directed towards previous public commitments. It also potentially represents a delay in progressing strategically important projects in support of those commitments and the outcomes and indicators they are intended to support. The Scottish Government could do more to inform Parliament and others of what specific spending the money is intended to support.

The Scottish Government must set out the purpose of the proposed ScotWind Wealth Fund before it is established

89. By 2031 it is forecast that around £300 million of the ScotWind and current INTOG option fees are likely to still be available for use by the Scottish Government, supplemented by any interest earned from 2026/27 onwards. As well as this, the option period runs until 2032 meaning that developments are likely to become active, and leases activated, in the coming years and begin to generate annual payments based upon the energy they generate.

90. Crown Estate Scotland and the wider industry forecast rental income in an approximate range of £3 million to £4 million per GW per year will be generated from planned offshore wind projects as they become operational and mature over the coming decades. Given the 60-year length of leases, it is estimated this will generate in the region of £80 to £110 million each year, or between £5-6 billion over the lifetime of the leases, should all projects become fully operational with optimal production conditions. These figures represent a long-term potential revenue stream and realising this level of income is dependent on a number of factors.

91. It is not currently clear how the Scottish Government intends to administer or make use of these funds. In its 2026 manifesto, the Scottish National Party committed to establishing a 'ScotWind Wealth Fund', with the now Scottish Government further committing in June 2026 that this will be established by the end of the current parliamentary term.

92. It is yet to be determined how this fund will operate within the context of the current fiscal arrangements; if it will include remaining option fee income at the time or be a vehicle for depositing annual income over the eventual lease period; or the nature of investments it may undertake.

93. While this is a developing policy matter, it is important that the Scottish Government clearly and transparently communicates the purpose and parameters of the fund prior to it being established, and if commitments around annual ScotWind revenues supporting the transition to net zero extend beyond the option fees and apply to subsequent lease income once projects become active.

What is a wealth fund?

Sovereign wealth funds can take many forms but are generally underpinned by a state-owned investment fund managed by a government to administer, invest and generate funds for the benefit of national wealth and wellbeing.

Their primary goal is to invest budget surpluses, the proceeds from trade operations or natural resource revenues, in domestic and global assets to generate long-term returns for the country's people and economy.

The exact purpose of current individual established sovereign wealth funds varies, but generally accepted usage includes:

- to stabilise government budgets and the wider economy from external economic shocks, for example movement in commodity prices
- strategic development, for example for investment in public infrastructure or in support of strategically important industries
- as a means of saving the proceeds from finite resources for future use, including considering aspects of intergenerational fairness and redistribution.

There is normally a longer-term horizon to the investment and use of funds than in comparable commercial funds, with less of an emphasis on rates of return and a generally higher risk tolerance due to this.

Appendix

Selected information about the 20 ScotWind projects (August 2026)

Projects	Developer	Current Status	Project type	Initial target capacity	Revised target capacity	Option fee (£million)
1. Ayre	Qair	Applied for consent	Floating	1,008	1,008	20
2. Bellrock	Nadara	Applied for consent	Floating	1,200	1,800	28
3. Bowdun	DEME	Applied for consent	Fixed	1,008	1,008	18.7
4. Broadshore	Nadara	Pre-application	Floating	500	900	13.4
5. Buchan	BayWa r.e., BW Ideol, Elicio	Applied for consent	Floating	960	960	33
6. Caledonia	Ocean Winds	Consented	Mixed	1,000	2,000	42.9
7. CampionWind	Shell	Option Terminated	Floating	2,000	3,000	86
8. Havbredey	Northland Power, ESB	Pre-application	Floating	1,500	1,500	3.9
9. MachairWind	ScottishPower Renewables	Applied for consent	Fixed	2,000	2,000	75.4
10. MarramWind	Scottish Power Renewables	Applied for consent	Floating	3,000	3,000	68.4
11. Morven	JERA Nex bp, EnBW	Applied for consent	Fixed	2,907	2,907	85.9
12. Muir Mhòr	Fred. Olsen Seawind	Applied for consent	Floating	798	1,000	20
13. Ossian	SSE Renewables, CIP, Marubeni	Applied for consent	Floating	2,610	3,528	85.9
14. Spiorad na Mara	ESB, Northland Power	Applied for consent	Fixed	840	900	16.1
15. Stromar	Nadara	Pre-application	Floating	1,000	1,500	25.6
16. Talisk	Magnora Offshore Wind	Pre-application	Floating	495	495	10.3
17. West of Orkney	RIDG, Corio Generation, Total Energies, Maxio	Consented	Fixed	2,000	2,000	65.7
Total for 17 initially awarded projects (rounded)				**24,826**	**29,506**	**699.2**

Cont.

Projects	Developer	Current Status	Project type	Initial target capacity	Revised target capacity	Option fee (£million)
ScotWind clearing round (Shetland)						
18. Arven	Ocean Winds, Mainstream	Pre-application	Floating	1,800	1,800	36
20. Arven South	Ocean Winds, Mainstream	Option termination in progress	Floating	500	500	10
19. Stoura	ESB	Pre-application	Floating	500	500	10
Total for 3 awarded projects				**2,800**	**2,800**	**56**

Total	**27,626**	**32,306**	**755.2**
Total excluding terminated leases	**25,126**	**28,806**	

Management of the ScotWind leasing round

How the Scottish Government is using offshore wind funding

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500
www.audit.scot

ISBN 978 1 918486 23 0 AGS/2026/7