BROKEN PROMISES

HOW THE GOVERNMENT BROKE ITS WORD TO THE COMMUNITY ENERGY MOVEMENT

In Spring 2015, after a campaign which had clearly demonstrated the many social and environmental benefits that community energy brings to local communities, the Government (i.e. the Treasury) gave repeated written assurances as part of the final states of the Finance Act that it would give the community energy sector 6 months notice of the removal of Enterprise Investment Scheme (EIS) tax relief, which is vital to the success of many community energy projects.

Since the spring of 2015 the community energy sector has been developing their business plans in the belief that the Government would honour this promise to give **a minimum of 6 months notice of any significant tax changes.** Community groups across the country, many of them run by volunteers, have been making plans to launch share offers and raise the funds for dozens of energy projects in reliance on these assurances.

Government statements in March 2016 included:-

- **The Budget Statement of March 2015**:-
  "2.77 Venture capital schemes: renewable energy – As announced at Autumn Statement 2014, companies benefiting substantially from subsidies for the generation of renewable energy will be excluded from also benefiting from EIS, SEIS and VCTs with effect from 6 April 2015, with the exception of community energy generation undertaken by qualifying organisations which will in future become eligible for the Social Investment Tax Relief (SITR). ***The government will allow a transition period of 6 months following state aid clearance for the expansion of SITR before eligibility for EIS, SEIS and VCT is withdrawn. (Finance Bill 2015) (y)****"* (paragraph 2.77)

- To coincide with the Budget Statement the Treasury published a background document with more details of the changes[1] which confirmed that
  "*Budget 2015 announced the transitional provisions for community energy organisations moving from the tax-advantaged venture capital schemes to SITR.* ***Provisions to exclude all community energy organisations from EIS, SEIS and VCT will take effect 6 months after the confirmation of state aid approval for the expansion of SITR.*** *Qualifying community energy organisations will be able to use SITR from that date. Co-operatives and other non-qualifying organisations that benefit substantially from subsidies for the generation of renewable energy will no longer be eligible for tax-advantaged investment under the schemes once the transition period has elapsed.****"***

[1] Overview of Tax Legislation and Rates HM Treasury and HM Customs and Excise March 2015 e

- Some members of the CE sector also received an email from a Treasury Official on 18 March which said Government had not removed tax relief from community energy "on the grounds that these projects faced higher risks due to their social purpose"and that:
"To provide a smooth transition from the venture capital schemes to SITR, the Government announced in Budget 2015 that all community energy organisations will continue to qualify for the venture capital schemes for 6 months following EU state aid clearance of a larger SITR scheme. This provides a reasonable period for adjustment and more certainty to affected groups."

- A statement to the same effect that there would be **6 months notice** was also made by the Chief Secretary to the Treasury in response to a written parliamentary question submitted by Roger Godsiff MP in March 2015[2].

On Monday, 26 October and without any prior warning the Government (David Gauke MP) announced during the final debate on the Finance Bill in the House of Common that it was removing EIS for the community energy sector on 30 November (i.e. in five weeks time). The statutory instrument implementing this change was published the next day, 27 October[3].

The Government also announced during the same debate that community energy organisations will not be eligible for Social Investment Tax Relief when state aid approval is received. This represents a second broken promise. No proper explanation has been given for this reversal and betrayal of trust.

The changes have come as a seismic shock to community groups, large and small, up and down the UK. They are causing particular turmoil with existing community share offers which were open and due to run beyond 29 November. Government seems to have completely disregarded the fact that many community energy projects are social enterprises and just like any other business they need financial and regulatory certainty and stability. This U-turn by the Government has already caused the failure after years of work of a number of share offers and projects[4]. Many groups are now launching share offers at short notice in an attempt to complete excellent projects which will not only contribute to reductions in carbon emissions but also generate generous community benefits.

CEE also believes that these tax relief changes will have a potentially devastating impact on the pipeline of projects due to be launched in the next six months. Tens of thousands of pounds has already been spent at the development stage of these projects on items such as feasibility studies, planning, structural surveys, legal fees and EPC certificates. Projects affected include a large number to install rooftop solar on schools and other community buildings which were the type of installations the Government once actively supported[5]. Financial margins are tight and without the benefit of tax relief the organisers of many projects are feeling very apprehensive and think they may now struggle to raise the equity required.

Community Energy England
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[2] Energy: Taxation: Parliamentary written question – 227626
[3] SI 2015 No 1836
[4] Repowering Balcombe (100% community owned field array solar), Mapledurham (anaerobic digestion), Abingdon Hydro
[5] For instance "*Power to the pupils" Solar PV for schools – The benefits* (DECC leaflet April 2014)