



HM Revenue & Customs: Open Consultation on Draft legislation: VAT (Reduced Rate) (Energy-Saving Materials) Order 2019

Response by Community Energy England May 2019

Community Energy England

Community Energy England (CEE) was established in 2014 to provide a voice for the community energy sector, primarily in England. Our vision is of strong, well informed and capable communities, able to take advantage of their renewable energy resources and address their energy issues in a way that builds a more localised, democratic and sustainable energy system.

Membership of CEE totals over 200 organisations. The majority of member organisations are from the community energy sector but the membership extends across a wide range of organisations that work with and support the community energy sector. Our members are involved in the delivery of community-based energy projects that range from the generation of renewable electricity and heat, to the energy efficiency retrofit of buildings to helping households combat fuel poverty.

Community energy projects are already engaging thousands of local people, mostly as volunteers, in delivering low carbon electricity, new investment, community benefit funds, fuel poverty work and more.

Introduction

The VAT proposals favour consumption of energy on which 5% VAT is charged, against energy saving which will be charged at 20%. This disregards the urgent need for 'rapid and far-reaching transitions in energy, land, urban and infrastructure (including transport and buildings), and industrial systems (high confidence). These systems transitions are unprecedented in terms of scale and imply deep emissions reductions in all sectors, a wide portfolio of mitigation options and a significant upscaling of investments in those options' [IPCC 1.5 degree report]. The UK led the way by harmonising VAT for energy interventions at 5% which helped the solar industry establish. So, this is a backward step at a deeply inappropriate moment and comes on the back of a list of negative policy changes affecting the roll-out of renewable energy in the UK. This will increase job losses and drive away investment. It will damage the UK's ability to meeting legally binding climate targets and clean energy targets.

Context for and impacts on Community Energy

Recent changes in subsidies and export tariffs have placed significant challenges on the community energy sector. Tax now plays a bigger role in viability calculations. Tax relief has been removed from community energy installations with serious impacts on investment levels. Business rates levied on solar projects has also impacted many projects. We need as

many people to take a stake in the energy system as responsible consumers – and as generators and ultimately energy owners and controllers. VAT increases will abort many of the projects on which a more democratised and distributed energy systems should be built. Smaller community energy organisations are often not VAT registered and an increase of 15% on installation costs will be a huge blow to their projects. For larger VAT registered organisations, it will present a serious cash-flow issue between paying the VAT and reclaiming it. The impact assessment's conclusion that the measure will have no impact on civil society organisations is therefore false.

Many community energy projects are installed on social housing and community buildings, bringing community benefits in terms of reduced service charges for communal energy use. Recent experiments are also delivering benefit to residents in terms of reduced energy bills in their flats. This will help to alleviate fuel-poverty. Most community energy projects operate a community benefit fund which in many cases is dedicated to energy efficiency projects which increase energy and carbon saving and well-being.

That businesses supplying ESM should be affected should be a strong incentive not to pursue this measure since it yields negligible benefit to the exchequer. In the aftermath of withdrawal of subsidy for solar we saw an estimated 18,000 job losses in the solar industry, with all the associated social costs.

That anything that impeded progress on rolling out energy efficiency and renewable energy should be assessed as having 'negligible environmental impacts' must be questioned, particularly in light of Parliament declaring a climate emergency.

Key asks

We ask the government to protect a progressive and right-minded policy that has helped begin the urgent transformation of the energy system towards a distributed, renewable model with many engaged community stakeholders. As such we call on the government to keep the 5% VAT level for all renewable, storage and flexibility technologies, not just for those that meet the proposed exceptions.

Since the state aid clearance allowing lower VAT on Energy Saving Materials is based around 'social good' not 'environmental good' this is justification enough to retain the VAT relief.

Tackling climate change is not just an 'environmental good'. Without a stable climate there is no 'social good'.

Community energy, as well as increased involvement of householders in energy generation and efficiency, bring significant social benefit. Those involved are more energy conscious and reduce consumption. They are trusted partners, advocates and effective deliverers of local energy efficiency schemes. In the future this will also apply to smart systems and grid flexibility. The former bring benefits in terms of reducing the social costs of fuel poverty and both in terms of reducing the need for new generating capacity and having a more resilient energy system at a lower cost.

Consistent policy

Since the original consultation in 2015/16 the government made several commitments that VAT would not be increased on energy saving measures. It was claimed that David Cameron had "secured a great victory for VAT and for solar". However, nothing was written into legislation.

Since 2014 the government has changed the rules repeatedly about subsidies available for solar and onshore wind under the renewable obligation (ROCs) scheme and the Feed-in Tariff (FiT) which has caused the newly established and growing onshore renewables industry to stall and contract. Contracts of Difference have not been available for onshore wind and solar. This has resulted in many bankruptcies and the loss of thousands of skilled jobs.

This government has presided over a 94% reduction in energy efficiency installations. The energy efficiency industry barely exists.

Now is a time with the collapse of new nuclear, the coal phase-out, reducing domestic gas resources and urgent need for decarbonisation recognized by a large majority of the population, to facilitate renewable energy by every means possible. It has been possible for the last 3 years, surely it is possible to continue.

It is increasingly difficult to initiate new renewable energy projects and even more difficult to create new community energy projects. In 2017 only one new project started and 66 stalled.

Storage at the local level is likely to be central to distributed grid management or flexibility services. So even if not installed at the same time as a solar installation it can have great benefit in delivering a more efficient, resilient, low-carbon and low-cost energy system. Storage whenever it is installed should be subject to the 5% VAT rate.

Summary

- Current VAT changes come after a series of body-blows to renewable energy and community energy in particular. It is difficult to make a business case for small-scale projects.
- Investment will be deterred, and projects will not happen as a result of the extra costs.
- Jobs will be lost in the industry with associated skill-losses and social costs. Competition will be reduced.
- Community energy (and domestic renewable energy installations) bring multiple 'social goods' – enough to justify retaining the 5% VAT under the ECJ ruling.
- Distributed energy and flexibility are necessary to help the move towards a decarbonised, sustainable and fair energy system. Support is necessary during the transition.
- Storage will be central to local flexibility markets. This measure will damage investment in the build-out of local storage technology.
- The transition from Feed-in Tariffs to Smart Export Guarantees (SEG) threatens the viability of new renewable installations.
- Proposals in the Targeted Charging Review will further impact the viability of small-scale and local energy.
- Renewable energy and storage should be facilitated by the government by every means possible to achieve the urgent decarbonisation that is necessary. They are fundamental to the government's Industrial Strategy and Clean Growth Plan.
- Increased penetration of renewables reduces energy costs overall, which releases more money to stimulate the real economy.

Summary of asks

We ask the government to protect a progressive and right-minded policy that has helped begin the urgent transformation of the energy system towards a distributed, renewable model with many engaged community stakeholders. As such we call on the government to keep the 5% VAT level for all renewable, storage and flexibility technologies, not just for those that meet the proposed exceptions.

This can be justified on grounds of:

- The Climate Emergency that is supported by 63% of the British population.
- The important social good that is tackling climate change and that is brought by community energy and individual residents installing renewable generation, storage and energy efficiency technology.
- The importance of supporting the transition to a distributed, democratised, smart system.
- The importance of encouraging, not deterring, investment in this new energy future.
- Taking account of other negative impacts from changes in government policy on the roll-out of this new energy future.

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