Her Majesty's Treasury: Social Investment Tax Relief: call for evidence

Joint response by Community Energy England & Community Energy Scotland & Community Energy Wales

July 2019

INTRODUCTION

1. This is a joint response by Community Energy England & Community Energy Scotland & Community Energy Wales who together represent over 700 community energy groups and associated organisations across England, Scotland and Wales 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.

2. Our shared 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.

3. Community energy refers to the delivery of community led renewable energy, energy demand reduction and energy supply projects, whether wholly owned and/or controlled by communities or through partnership with commercial or public sector partners.

4. Community energy generation is not currently eligible for SITR despite promises that it would be after the withdrawal of eligibility for energy generation for tax relief under EIS, SEIS and VCF.

5. The minister for Energy and Climate Change has said that 'the future of energy is local' and that 'community energy a key cornerstone of government's ambition for transition to a low-carbon, smart energy system'. Despite these recent policy changes, such as the withdrawal of Feed-in Tariffs (FiTs) and Export Tariff and the imposition of increased rates of VAT on 'energy saving measures', have severely undermined this cornerstone.

6. Given the removal of these support mechanisms are severely damaging the ability of the sector to secure investment, grow and innovate and deliver community benefit there is a good case for the re-instatement of tax relief for community energy.

7. Community energy projects operate at a severe disadvantage to the commercial deliverers of renewable energy. They are subject to the same market conditions and yet are expected to deliver the renewable energy *plus* significant community benefit. Environmental Finance, advising Community Owned Renewable Energy (CORE - see 7.6 ff), has looked at social returns on community energy against commercial renewable energy and found that community energy returns at least twice as much benefit. Community shares are not attractive investments without tax relief to increase benefit and de-risk. They are high-risk,

illiquid, low return and long term. They do not allow the investor to realise any gain on the value of the investment as they are only redeemable (under strict conditions) at par. Additionally, due to community energy projects' links to actual geographical communities there are fewer sites to choose from.

8. Despite difficult times, community energy community benefit funds spent £978,000 on local community development in 2018 in England, Wales and Northern Ireland. At least £2 million was further contributed by Scottish community energy projects. Additional to this are as yet unquantifiable amounts of social, health, economic and energy system benefit (and reduced social costs) from carbon reduction, increased community cohesion and resilience, increased energy awareness, reduced fuel poverty, increased community health and wellbeing and improved financial security for local people through reduced costs, money staying local, increased employment and training opportunities. The energy transition requires an engaged citizenry and community energy is essential to achieving that. Passionate, expert, innovative, entrepreneurial, connected local people are much more trusted than government, corporates or agencies.

RECOMMENDATIONS

Our key policy recommendation is:

1. ***Include renewable energy projects owned and managed by community organisations as an eligible activity for SITR tax relief, provided the projects are not otherwise benefiting from UK government subsidies (excluding development funding).***
    - *(as it stands we believe community energy will not be receiving subsidy)*

Other policy recommendations are:

2. *Increase the lifetime investment cap from £1.5m to £5m per company*
3. *Establish criteria and a checking process that allows certain cooperative societies to benefit from SITR.*
4. *Develop a scheme whereby social investors can 'gift' a proportion or the whole of the value (and tax relief) of their investment to the business they are investing in.*
5. *Remove leasing and hiring activities and 'non-trade' financial activities from the list of excluded activities eligible for SITR.*
6. *'Buyouts' of businesses and assets were excluded from EIS from November 2015 and subsequently the expanded SITR. This should be enabled under SITR.*
7. *Remove property development from the list of excluded activities eligible for SITR, especially where an organisation's 'asset lock' prevents profiteering by property speculation.*

Subsidiary recommendations, clarifications, simplifications, technical adjustments are:

1. *Allow investors to qualify for SITR when investing in charities of which they are a trustee.*
2. *Allow employees (and members of cooperatives) to benefit from SITR on investments in their own companies.*
3. *Eliminate requirement to deduct tax at source from interest paid to investors, as it is a significant and unnecessary burden for social enterprises.*
4. *Ensure that social enterprises with subsidiaries that have been incorporated as companies limited by guarantee can still qualify for SITR.*

5. *Increase transparency on application rejections.*
6. *Improve lead times for securing advance assurance of eligibility for SITR from current 12 weeks. Performance should equal EIS i.e. 4-6 weeks.*
7. *Increase efficiency of tax reclaims.*

CALL FOR EVIDENCE QUESTIONS

1. Q1 If you are a social enterprise, are you interested in or planning to scale up? How do you intend to achieve this and how much do you hope to raise in investment?

1.1. Despite an extremely difficult year for community energy in 2018, as outlined in the State of the Sector report[1], with the reductions in the Feed-in Tariff removing the business case for many energy generation projects, 72% of the 275 community energy organisations in England, Wales and Northern Ireland stated they planned to continue with their energy activities in 2019. Electricity generation was planned by 88 organisations whilst 76 community energy organisations reported that they intended to develop projects including battery storage, flexibility services and P2P trading, reflecting an increasing focus towards innovations required in the future.

1.2. In 2018, there was an increase in investment raised to more than £40 million though more than half of that was debt due to the increased perception of risk in community energy due to policy inconsistency and waning government support. Community shares contributed £9.2m to project financing.

1.3. CASE STUDIES

1.4. Energy4All wishes to set up a "relighting with LEDs" community energy organisation, but the returns are too low to do this on any scale without SITR relief.

1.5. In London N10 En10ergy's strategy is to scale up and make the best contribution it can to the transition to clean renewable electricity. Although they do not yet know how much they will want to raise the tax regime will be a major factor in achieving ambitious carbon savings.

1.6. En10ergy has received pre-project funding from the London Community Energy Fund (LCEF) for two schemes and is currently considering how to fund more ambitious schemes.

1.7. See also case studies at 6.6ff 8.5ff and 8.11ff below.

2. Q2 Other than individual investors, what sources of finance do trading social enterprises seek and acquire?

2.1. Community energy prefers local equity investment via Community Shares due to the potential to engage the investors as active members and volunteers. As investors become members of a Community Benefit Society, they have the opportunity to get involved in shaping the direction and policy of the company they have invested in. Additionally, equity investment allows dividends to be flexed according to the

[1] The State of the Sector report is produced on an annual basis by Community Energy England and Community Energy Wales to assess community energy activity, barriers and opportunities in England, Wales and Northern Ireland. https://communityenergyengland.org/news/community-energy-state-of-the-sector-report-2019

performance of the company. The investments are often long term of up to 20 years. Loan investment is usually less flexible with fixed (short) term and fixed interest rates. The mechanisms for engaging lenders in the company are less obvious and established.

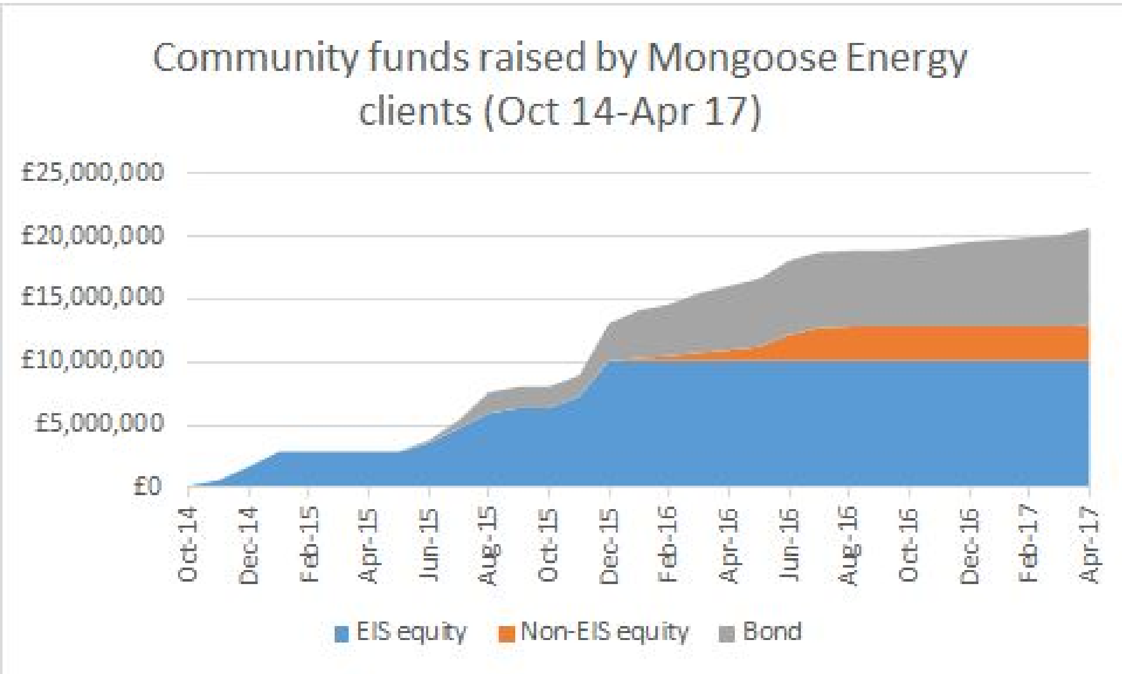
2.2. Community energy is particular in the social investment sector in almost always requiring significant development funding and up-front capital investment to access a long term source of income to lever community benefit.

2.3. Tax relief has been key to getting the investment that established the sector and its withdrawal has negatively affected the sector's ability to raise capital.

2.4. Below is a graph of community share offers by Mongoose Energy clients which covers 31 months from Oct-14 to Apr-17 and illustrates the increasing dependence of the sector upon debt as in the absence of tax relief equity investment became more risky and less rewarding.

2.5. In the first 15 months (until the removal of EIS), a total of £13m was raised of which 77% was community shares and 23% was through bonds. In the following 16 months, £7.6m was raised of which 37% was shares and 63% was bonds. This equates to a drop in total funds raised of 42% and a drop in funds raised via community shares of 72%.

2.6.



2.7. Evidence from the State of the Sector report shows (below) that community energy projects in England, Wales and Northern Ireland relied on a great diversity of sources for their development funding in 2018. The largest segment came from government grant funding such as the Rural Community Energy Fund and the Welsh Ynni Lleol (Energy Local) but both these are geographically limited.

2.8. Of the (comparatively low) £40m of project funding raised in 2018 over half (£23.1m) was loans, the opposite of what was happening before the withdrawal of all tax relief for community energy in 2015.

2.9.

3. Q3 How difficult or easy is SITR to access for social enterprises?

3.1. SITR is not currently available for community renewables (the largest segment of impact investing on crowd-funding platforms) due to ‘power generation’ being excluded.

3.2. If ‘energy generation’ were to be allowed as a result of this call for evidence it would be useful if lead times for securing advance assurance of eligibility for SITR were aligned with those for EIS which are 4-6 weeks rather than up to 12 weeks for SITR. See Q4 for the importance of speedy turn-around of financial completion.

3.3. **Recommendation:** *Improve lead times for securing advance assurance of eligibility for SITR from current 12 weeks. Performance should equal EIS i.e. 4-6 weeks*

4. Q4 What are the factors that lead to a successful trading social enterprise?

4.1. A key factor related to establishing a successful trading social enterprise is a speedy turn-around of any share offer to enable a smooth and timely installation. This has been especially true during recent years of policy uncertainty when failing to meet an installation deadline can mean missing out on a subsidy that was essential to the business model.

5. Q5 Do you think social enterprises need private investment and for what purposes?

5.1. As mentioned in Q2, community energy is particular in the social investment sector in almost always requiring significant development funding and up-front capital investment to access a long term source of income to lever community benefit.

5.2. In the recent State of the Sector report, difficulties around 'access to finance' was cited as the second reason (after 'reduction in Feed-in Tariffs') for projects having stalled. Of the 69 projects that stalled in 2018, 22% stalled at the financing stage. The greatest challenges faced in 2018 centred around the reduction of support mechanisms including the Feed-in Tariff. The absence of tax-relief since 2015 has only compounded those challenges.

6. Q6 Is tax the most appropriate government lever for supporting funding for social enterprises?

6.1. It is almost the only lever left for the government to support community energy since the withdrawal of the Feed-in Tariffs (FiTs). When tax relief was withdrawn for energy generation it was argued projects should not receive two types of government support. Since the ending of FiTs community energy now receives no government subsidies and there is a good argument for enabling SITR to address the disadvantage that the sector experiences of competing for finance with commercial renewable energy and delivering community benefit.

6.2. Correspondence with HMT included this statement which indicates the misconception related to the risk profile of community energy: "*There is no specific State aid restriction on community energy being part of the scheme [SITR]. Certain activities are excluded from the scheme as they risk diverting finance away from higher risk social enterprises struggling to access finance. Energy generation and storage are excluded from the scheme because it entails lower-risk, asset-backed activities often benefitting from a predictable or guaranteed income stream.*"

6.3. An example from Newport Solar shows the risks to community energy projects and why tax relief is merited. The project has EIS tax relief. Thorough due diligence research was done in contracting a solar installer with a good reputation, but during the installation phase the contractor went out of business, with some of the project finances. The administrator's decision (in the project's favour) took 2 years by which time the project required a significant amount of administrative work to bring it back to a level where income generation from the Feed In Tariff was predictable.

6.4. Directors have worked on the project without taking any fees since 2013 so that the residents with the solar (all in fuel poverty) continue to get a good service, whilst also continuing to service the portfolio for the investing community. The rate offered was 7% initially, and it was dropped to 5% after the first 2 years.

Directors also made sure CAF Venturesome loan of £50k was paid out over the first 7 years. The Society is about to start to pay capital repayments back to investors for the first time, although finances are still very tight. The likelihood of investors receiving all their monies back in full would have been very unlikely if the directors had not committed to 6 years of voluntary work on behalf of the local and investing community. This project is an example of the inherent risk of community energy projects, where you are combining low carbon technologies with project and financial risk.

6.5. Since the sector is very dependent on raising significant up-front investment before it can access the income stream which will bring the community benefit, anything that de-risks and incentivises retail investment especially among local people who may be unaccustomed to social investing is critical to getting these projects going.

6.6. CASE STUDIES

6.7. See the graph at 2.6 above relating to the difficulty Mongoose energy experienced in attracting equity investment post EIS.

6.8. Repower Balcombe decided not to proceed with its 5 megawatt solar farm after the withdrawal of EIS and non-availability of SITR in 2015. The solar farm proceeded anyway but in commercial ownership.

6.9. Low Carbon Gordano (LCG) in Bristol raised £3.1m in 2014 and 2015 under EIS. They did a rule change to have a statutory asset lock so that they would be eligible for SITR when EIS finished, but SITR then was not eligible for community energy schemes. Lack of SITR (or other tax incentive) is one of the factors leading to lack of new projects. Since 2015, LCG has raised £450k in bonds. The disappearance of the FiT has also been a big factor in potential projects not being feasible.

7. Q7 What criteria would be best measure of success for SITR?

7.1. A significant increase in Social Investment including community energy schemes of all sizes enabled to scale by accessing support through tax relief.

7.2. The best measure of success would be by how much SITR incentivises investment that generates a social as well as a financial return. This should include an assessment of whether the capital might otherwise have been allocated to ventures that are a more attractive prospect in narrow commercial terms. Importantly, the extent to which SITR enables a ‘democratisation’ of social investment among people who might otherwise not invest at all should also be a key success measure.

7.3. Social enterprises often seek to do low profit/break even projects because that is delivering their mission. Paying high rates of interest on commercially borrowed money if it can be obtained probably precludes this. Part of the mission of a social enterprise is usually that the returns on capital are fair and capped. Much bank financing falls outside these criteria.

7.4. It must be noted that many SITR-eligible enterprises are small and growing only steadily. This is further limited by the current restrictions within SITR on ‘trade’ and excluded activity.

8. **Q8 Is the SITR limit of £1.5 million appropriate?**

8.1. No. It should be increased to £5 million at least to enable larger community energy projects. A number of community energy businesses will have more than £5m invested by the end of this year and will be disadvantaged even if the cap is set at £5m. These investments were mostly made when FiTs subsidies applied and are the organisations that have the experience to negotiate the still very challenging environment for community energy and deliver successful projects. One member affected by this suggests that the cap should apply to projects rather than companies.

8.2. Partnerships with local authorities with large Power Purchasing Agreements will enable community energy to take on much larger projects, ensuring increased social impact for the local area.

8.3. Communities are also looking at purchasing existing renewable assets to leverage community benefit from them.

8.4. These new types of arrangements will require larger amounts of investment to make them work.

8.5. CASE STUDY:

8.6. Community Owned Renewable Energy LLP (CORE and CORE Home Nations) deliver a £50m investment programme on behalf of Big Society Capital and the Power to Change Trust. Its mission is to purchase 1MW-10MW UK based ground mounted solar PV projects from commercial vendors, and through a managed process, transfer these into community ownership over a 3 year period utilising the most appropriate of the various methods of community investment (community shares, retail bonds etc). Over the last 2 years CORE has acquired 8 projects totalling c.40MW of sites for potential future community ownership.

8.7. In order to transfer the sites into the community, over the next 2 years, CORE will need the potential community energy groups that want to own the projects to raise in the region of £15m of community investment. CORE works with existing local community energy groups, where they exist, and cultivates new relationships to other types of community development organisations where they do not, to ensure that these projects, and their surpluses are tackling demonstrable local social need. The groups are involved from day 1, regardless of whether they formally own the assets, to direct the valuable surpluses generated from the projects into their local communities and over time, hope to raise sufficient funding to own 100% of the projects.

8.8. For the 6-7 community energy groups with which CORE will be working to raise on average £2m of community investment, each is a significant challenge. Unlike purely commercial renewable energy, the returns to community investors are fixed with excess surpluses being granted to local charities and social enterprises to deliver impactful activity into their local communities. That means that the risk/ reward balance is skewed as community investors take equity risk for a fixed financial return at the expectation of improved local social and environmental outcomes (or public good). CORE's community energy partners are moving into unsubsidised projects, electric vehicle charging infrastructure, distributed rooftop solar and battery projects, all designed to deliver enhanced public benefit.

8.9. The re-introduction of Social Investment Tax Relief would be catalytic in helping our community energy partners (all structured as asset locked community benefit societies typically owning community interest company project vehicles) to raise the funding they need to take over the full ownership of assets from CORE, branch out into new and emerging technologies, raise the risk investment required to develop further projects, and ultimately scale and grow their valued local social and environmental impact.

8.10. CORE is a limited life programme, and SITR could allow community energy groups to raise their own equivalent funding and dispense with the need for CORE in the market in the first place, allowing local ownership of valuable renewable energy assets, creating local economic value and delivering funding for local commissioning solving local social and environmental needs.

8.11. CASE STUDY

8.12. Bath and West Community Energy (BWCE) is a Community Benefit Society established in 2010. It has a £1.5 million turnover and £6.5 million net assets. BWCE aims to raise £5.1 million over the next 2-3 years of which at least £2.5 million could be SITR investment with the balance from debt. We would look to use £5 million SITR investment over 5-6 years in the form of shares and bonds - shares raised locally with bonds via Ethex. This would be to finance the construction of 3MW ground mount solar, 1MW of roof top solar and 500kW wind turbine over the next 2-3 years.

8.13. Recommendation: *'Buyouts' of businesses and assets was excluded from EIS from November 2015 and subsequently the expanded SITR. This should be enabled under SITR.*

8.14. Recommendation: *The lifetime investment cap under SITR should be increased from £1.5m to £5m.*

8.15. Recommendation: *Ensure that social enterprises with subsidiaries that have been incorporated as companies limited by guarantee can still qualify for SITR.*

9. Q9 If you are an investor, have you made an investment that was eligible for SITR? If not, why not?

9.1. Recent polling, conducted by ICM for CEE and Co-op Energy, found that among a representative survey of adults in Great Britain:

9.1.1. Eight in ten (82%) think the Government should do more to help local communities generate their own energy

9.1.2. Two in three (69%) think the Government should change its mind and once again offer tax relief to those individuals who take the risk of investing in community energy

10. Q10 Would you invest in social enterprise without tax relief?

10.1. The experience of community energy projects, especially post 2014 in times of policy uncertainty and change, is that investors are reluctant to invest without tax relief to de-risk and provide some up-front return.

10.2. This is supported by data[2] from the Community Shares Unit, coordinated by Cooperatives UK and Locality. This shows that due to the exclusion of 'energy generation' and 'buyout' and asset acquisition from EIS and the expanded SITR total annual investment in Community Shares has declined from a £38.5 million peak in 2015, to just £8.1 million in 2017.

10.3. Data collected by the Community Shares Unit shows that the total number of community share offers in the energy and environment category dropped from a peak of 70 in 2015 to 8 in 2017. Taken alongside evidence they gathered in their Community Energy Investor Survey in 2014 on the role of EIS in community energy investment (see below) we believe there has been a link between the loss of EIS and the dramatic fall in community energy share offers, compounded of course by the dramatic reduction and now removal of FiTs.

10.4. The survey showed that all other things being equal, the lack of tax reliefs on investment returns would have significantly reduced levels of social investment in this sector irrespective of the presence of the FiT

10.5. 1,056 individual investor-members of at least 57 independent community energy societies completed an online questionnaire. Of these 883 had benefited from EIS relief. Asked what they would have done if EIS had not been available 37 percent of respondents (who did benefit from EIS) said they would have invested less. When asked what lower amount they might have invested, the responses averaged out at a 45 percent reduction. A further 38 percent of investors said that without EIS they would not have invested at all. The data suggested that in real monetary terms the absence of EIS would have resulted in a 59 percent loss in community investment.

11. Q11 What are your expectations when you invest in social enterprise? For how long do you expect to invest? Would you expect/prefer to invest in equity or debt?

11.1. Cooperatives UK found that the majority of funding for their social enterprises comes from the members of the organisations. The same is to some extent true with community energy through the large up-front capital requirements necessitate casting the net wider. But still most organisation are appealing to local people who may have local community benefit motivations and impact investors many of whom are now very focussed on environmental and climate impacts. As such the graph below from the State of the Sector report outlining motivations for developing community energy projects is relevant. Tackling climate change was a key motivator in 95% of community organisations closely followed by income generation for community development:

11.2.

[2] See Cooperatives UK SITR call for evidence submission para 10.2 ff. https://www.uk.coop/resources/social-investment-tax-relief-consultation-2019-our-response

11.3. ***Recommendation:*** *Allow investors to qualify for SITR when investing in charities of which they are a trustee.*

11.4. ***Recommendation:*** *Allow employees (and members of cooperatives) to benefit from SITR on investments in their own companies.*

11.5. Repowering London found that c.20% of investors gifted their dividend payments to the project. It is possible that a percentage of those are very motivated by social rather than financial motives and would gift more to the social enterprise if it was possible within the scheme. This would apply particularly to small investors, on PAYE, who are unlikely to claim the tax relief but would be happy to gift it to the project they are supporting.

11.6. ***Recommendation:*** *Develop a scheme whereby social investors can 'gift' a proportion or the whole of the value (and tax relief) of their investment to the business they are investing in.*

11.7. Energy and buildings are intimately related and it makes great sense to develop them together. The government has made zero-carbon buildings mandatory by 2025 (having deleted the policy objective for this to happen by 2016). Current obligations to provide onsite renewable energy in new buildings is one of the few drivers for solar installation at present. Together with the urgent need for affordable housing it is a logical area for community energy groups to expand into. If 'property development' by social enterprises (with suitable asset-locks) was available for SITR this would enable these synergetic developments.

11.8. ***Recommendation:*** *Remove property development from the list of excluded activities eligible for SITR, especially where an organisations 'asset lock' prevents profiteering by property speculation.*

12. Q12 Have you used, or considered using, the Enterprise Investment Scheme or Seed Enterprise Investment scheme for impact investing?

12.1. Many community energy organisations used EIS and SEIS in the period up to 2015 with great success. Indeed it was a key factor in the early growth of the community energy sector.

12.2. CASE STUDIES

12.3. See the graph from Mongoose Energy under at 2.6

12.4. Brixton Energy Solar 2 and 3 used SEIS to raise more than £128,000 from local investors in 2013 and 2014. Brixton Energy Solar 1 raised £58,000 in less than a month in 2012. The availability of tax relief definitely helped the second two share offers reach target. Since 2015 it has been difficult to make a business case or create a Community Share Offer for Brixton Energy Solar 4.

12.5. HM Treasury expressed concerns about 'gaming' of EIS and SITR when the eligibility of energy generation was removed in 2015. SITR was never gamed because community energy was never eligible. Community Benefit Societies (with strict asset locks) and Community Shares (see Introduction para 7) account for all of the equity raised under SITR. Some shared ownership schemes offering EIS were exploited by commercial investors in the later days of EIS supported energy schemes.

12.6. Judicious exclusions and conditions (including perhaps a code of best practice) would solve this. Organisations which have an asset lock will be more reliable and trusted.

13. Q13 If you are a social enterprise, would you use SITR? If not, why not?

13.1. A number of our members have said they would use SITR if it were available for community energy. Energy4All has LED relighting projects that would only be viable with SITR. Bath and West Community Energy and Low Carbon Gordano have projects that would become viable if SITR was available. See Case Studies at 8.12 and 6.9.

13.2. CASE STUDY

13.3. En10ergy is a Registered Society on the FCA Mutual Society list and has installed solar panels on 4 roofs London N10 since 2010. Currently, in response to the looming Climate Emergency, our strategy is to scale up and make the best contribution we can to the transition to clean renewable electricity. Although we do not yet know how much we will want to raise the tax regime will be a major factor in achieving ambitious carbon savings.

13.4. Since the Feed In Tariffs ceased it has become impossible to construct a viable business case for small/medium renewable electricity schemes without grants.

13.5. For instance en10ergy has received pre-project funding from the London Community Energy Fund (LCEF) for two schemes and is currently considering how to fund more ambitious schemes.

14. Q14 As an investor, enterprise or interested party, do you have a view as to why the take up of SITR has been less than expected?

14.1. SITR has excluded the largest segment of the impact investment market due to fears about gaming and misconceptions about the low risk and secure financial footing of asset-based renewable energy projects.

14.2. Tax relief helped to kickstart the community energy sector such that the government's Community Energy Strategy of 2014 envisaged 1 million homes powered by community energy which seemed quite achievable then. Due to withdrawal of government support for the sector, including tax reliefs, community energy currently supplies the equivalent of 64,000 UK homes. Similarly initial expectations for SITR were £300m cumulative capital raised in the first four years (source: SIRC, The role of tax incentives in encouraging social investment, 2013.) Actual investment raised is about £10m.

14.3. The two disappointments may be related since community energy is one of the most widely recognised social investments, with unique potential to provide scale and strong community-based investment collaboration. Importantly, community energy is the single most prominent investment category on social impact crowdfunding websites and, as such, is one of the most important opportunities for the democratisation of social impact investing.

14.4. The Community Energy Investor survey quoted at 10.3 above concluded that tax relief makes it more likely that people will make social investments, and more likely that they will invest in greater amounts.

14.5. Some social enterprises can access EIS but it is much more limited now than in the past. EIS excludes energy/tackling climate change, which, at present and over the past few years, is by far the most dynamic part of the social enterprise sector and where most of the new ideas and new formations have come from. **These activities should be permitted under EIS and SITR.**

14.6. Other limitations on the use of SITR including 'non-trade activities' and 'leasing and hiring activities' exclude particularly small community organisations some of whose bread and butter income may need to come from leasing/hiring an asset to free them from being dependent upon grants.

14.7. Within the complex business of running a community energy generation project there may be some leasing arrangements.

14.8. This restriction did not form part of the original SITR and was added in 2017 when the rules were amended to mirror the same restriction in the EIS. But this prevented a very common and effective way that a social enterprise could deliver its mission and maximise its social outputs, making the relief less relevant and preventing the expansion of businesses that the relief was intended to promote. There are very good reasons why the SITR relief should differ from EIS.

14.9. The EIS restriction (before the recent major changes) on which SITR was modelled made the following activities a prohibited trade for an EIS company: ICTA 2007 s192 (1):

c) banking, insurance, money-lending, debt-factoring, hire purchase financing or other financial activities;

d) leasing (including letting ...assets on hire)

14.10. SITR s257MQ was originally more flexible. It didn't have the leasing provision (as in (d) above) and its equivalent to c) was subject to the caveat that the activity of lending money to a social enterprise is not an excluded activity. In 2017 the Finance Act No 2 changed SITR to be more restrictive - added the leasing restriction and removed the caveat of permitting lending money

14.11. Lots of energy services or efficiency services and other forms of carbon reduction by, for example, operating leases paid for out of savings could well be defined as leasing or money lending and thus ineligible for SITR (e.g. a lighting services agreement whereby a building is relit with LEDs in return for a payment which, together with the now reduced electricity bills, is less than the electricity bills before the relighting - see Energy4All's unrealised LED relighting project cited at 1.4 above.) The meaning of leasing is extended and regularly gets even more extended. Many other activities could also be restricted (e.g. hire of thermal imaging equipment which is done by a number of community energy projects).

14.12. ***Recommendation:*** *Remove leasing and hiring and 'non-trade' financial activities from the list of excluded activities eligible for SITR.*

14.13. The State of the Sector report shows that '*The greatest challenges faced in 2018 centred around the reduction of support mechanisms, including the Feed-in Tariff . Changing support and the related uncertainty was seen by many respondents as symptomatic of a lack of clear national and local governance and support. These recent changes will continue to be a barrier to new community energy generation projects through 2019 without suitable alternative supporting mechanisms. '*

14.14. Reinstating SITR for community energy would provide that much needed alternative support.

14.15. Especially now, impact investors want to target climate change. Renewable energy is excluded from all forms of tax relief but especially SITR which should favour the high social returns of community energy projects.

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FURTHER INFORMATION

Community Energy England (CEE) was established in 2014 to provide a voice for the community energy sector, primarily in England. Membership totals over 200 organisations. The majority of the member organisations are community energy groups, but membership extends across a wide range of organisations that work with and support the community energy sector.
www.communityenergyengland.org

Community Energy Scotland (CES) is a Registered Scottish Charity and Company Limited by Guarantee established in 2007. Its mission is to strengthen and empower local communities by helping them to own, control and benefit from their local renewable energy resources, control and reduce their energy costs, regenerate their communities and play their part in the low carbon transition. CES has around 400 members and has worked with well over 500 community groups across Scotland. It has a 33% share in a joint venture 7.5MW windfarm 'The Fishermen Three' in Berwickshire, developed with its partner Berwickshire Housing Association to create long-term revenue for both CES' and BHA's charitable purposes.
www.communityenergyscotland.org.uk

Community Energy Wales (CEW) brings together a network of practitioners and a membership of over 70 organisations who work with and within the communities of Wales to develop renewable energy generation and energy efficiency schemes.
www.communityenergywales.org.uk