



Decarbonisation of the UK Economy and Green Finance inquiry

Joint response by Community Energy England, Community Energy
Wales, Community Energy Scotland and Community Energy London.
July 2019

INTRODUCTION

1. This is a joint response by Community Energy England, Community Energy Scotland, Community Energy Wales and Community Energy London 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. We are concerned that the Treasury will not understand the life or death importance of achieving no more than 1.5 degrees of warming and the extreme importance of the zero-carbon target to that aim. We are concerned that the Treasury is wedded to existing economic models and financial practice and will seek to limit expenditure on this in advance as if its importance was on a par with the defence budget or similar. We wish to warn that this is not appropriate.
5. We would also like the treasury to realise that tackling climate change requires whole system thinking. The IPCC 'pathways' cannot be achieved without the participation of the people. Community energy is essential to this. Supporting small community initiatives will bring huge additional social benefits and cost savings as well as carbon reductions. We fear that the Treasury is not equipped to value these benefits and cost savings in its financial planning.

The economic opportunity

1. What economic costs and benefits does decarbonisation present for the UK?

- 1.1. The transition required is not to just 'decarbonise' the present system. The IPCC 1.5 report of October 2018 said: *"Pathways limiting global warming to 1.5°C with no or limited overshoot would require 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, but not necessarily in terms of speed, and imply deep emissions reductions in all sectors, a wide portfolio of mitigation options and a significant upscaling of investments in those options."*
- 1.2. The Treasury must understand that the 1.5 degree temperature rise is an absolute limit beyond which we cannot go and hope to have a chance of a future. Anything above that and nature's feedbacks take over and we are into unstoppable runaway climate change which will result in global catastrophe and the end of economics and civilisation as we know it.
- 1.3. 'The economy is a wholly owned subsidiary of the environment'. Herman E. Daly. 'There are no jobs on a dead planet' Clive Lewis, MP.
- 1.4. Business as usual is dead. The system has to change. "Anyone who believes that exponential growth can go on forever in a finite world is either a madman or an economist." Kenneth Boulting repeated by David Attenborough.
- 1.5. Continuing with a globalised, debt-based, growth economy is a physical impossibility even if it delivered the outcomes we need in terms of environmental stewardship and carbon reduction, well-being, justice, health improvement etc. It necessitates a growth in the energy and resource base even if there are moves towards greater efficiency and energy intensity and towards a more circular economy. All those moves are happening yet emissions rise inexorably.
- 1.6. We need to invest in rethinking the way we do everything especially, urgently, anything that involves energy which includes our buildings, transport, industry, construction, agriculture, services and government. It must take account of the emissions that are off-shored, through out-sourcing or imports. It must also take into account embodied carbon.
- 1.7. The transition to net zero must become a primary, probably *the* primary duty, of government and as such funded through general taxation, not, as renewable energy currently is, through regressive levies on energy bills.
- 1.8. Even if Philip Hammond's £1tn cost calculation for net zero is an underestimate we must find and invest whatever it takes. What his calculation missed is that much of it is 'investment' and will produce financial

as well as social and environmental returns especially if the UK is early in the field in making the investment. We commend the commentary below on the Chancellor's letter to the committee's attention along with the Committee on Climate Change's Report of the Advisory Group on Costs and Benefits of Net Zero linked therein.

<http://www.lse.ac.uk/GranthamInstitute/news/why-the-chancellors-statement-on-the-cost-of-a-net-zero-transition-in-the-uk-could-imperil-the-countrys-climate-ambitions/>

- 1.9. So let's start with the benefits of investing enough, soon enough:**
- 1.10. A stable climate will allow the economy (albeit on an entirely different footing), agriculture, biodiversity and basically civilisation to continue. Without it life on earth is facing catastrophe.
- 1.11. If we limit warming there will be fewer extreme weather events to clear up. Munich Re estimated early in this century that if extreme weather events continued increasing then the clear-up bill would exceed global GDP by 2065.
- 1.12. Early investment in the solutions which the whole planet will have urgently adopt will yield huge economic benefits. We have watched other nations steal our lead before such that our off-shore wind industry is largely powered by imported hard-ware. We shouldn't make that mistake again.
- 1.13. Doing the R&D and product development of advanced solutions will strengthen our academic institutions and create many jobs in small tech and start-up companies which are good at attracting venture capital from around the world.
- 1.14. The energy hierarchy demands that our interventions begin with 'reducing energy demand'. By doing this we will increase the ability of the country so supply its own renewable energy from free sources such as wind, sun and water, reducing dependency on expensive imported feedstocks and thereby increasing resilience and energy security.
- 1.15. So investment in energy saving, efficiency, demand reduction and better management are key. Successive ministers have said that 'the cheapest energy is the energy you don't have to use' but little has been done to address this. There has been a near 85% fall in the installation of energy saving measures since 2014¹. There are few corporate lobbyists for this undervalued sector and no profit margin to be skimmed from 'negawatts' or energy not used. So the government must lead and fund appropriately to reducing energy demands first place in the energy hierarchy.
- 1.16. In this light the recent VAT rise from 5% to 20% on Energy Saving Measures is a retrograde step and should be reversed. We understand that it is a

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<https://www.theguardian.com/environment/2019/jul/18/uk-energy-saving-efforts-collapse-after-government-slashes-subsidies>

response to a European Court of Justice ruling and a move that had been put off for several years. But it cannot be right to be charging 5% VAT on coal and 20% VAT on insulation, solar panels and battery storage. We must not be favouring energy consumption over conservation. It flies in the face of both UK and EU energy policy. HMT with the support of the whole government, BEIS, the CCC and anyone who will join them should remonstrate with the European Commission to get this injustice righted and the ECJ decision rescinded.

2. What benefits can a growth of the Green Finance sector deliver for the UK, and does the UK hold a competitive advantage in this space?

- 2.1. The UK is a global finance centre and has led the way with Green Finance. The Green Investment Bank led the way and should not have been sold off especially to Macquarie Bank - the oil and gas bank. GIB made mistakes but as a government entity was challengeable. Their first act was to lend £100m to kick-start large scale conversion to biomass for electricity generation despite there being plenty of evidence that this was at least as high carbon as coal. It continued to fund gasification despite much evidence that it wouldn't work, was inefficient, high-carbon and dangerous. It continues to fund energy from waste despite reports that show over-capacity and that it leads to reduced recycling and reuse rates. It is dangerously polluting and will be higher carbon than grid average very soon.
- 2.2. So independent science-based regulation is key to avoid investment in false solutions.
- 2.3. It would be very useful if there was some mandate or incentive for the 'smart money' that is already going into renewable energy to enable community energy - for example via shared ownership, PPA agreements and Social Investment Tax Relief.

3. How might HMT deliver a regionally balanced and 'just' transition across the UK?

- 3.1. The future is local, not just in energy (see below), but in everything. "Localisation stands, at best, at the limits of practical possibility, but it has the decisive argument in its favour that there will be no alternative." David Fleming, 'Lean Economics'. Decarbonisation of freight transport is difficult due to the unique energy density of oil as a fuel. Reducing the need to move

stuff and people around the globe is a key imperative. The UK Industrial Strategy's focus on securing strong domestic supply chains needs to be extended and integrated to support the full spectrum of decarbonisation activities.

- 3.2. To make the transition to net zero we need the active participation of an engaged citizenry. Community Energy is a key way to achieve this.
- 3.3. It is important that the Treasury understands that, as the energy and climate change minister has said, "The future of energy is local" and "We are living through a revolution, and we are going to need to take the population with us". We also need urgently to tackle fuel poverty and carbon emissions from inefficient buildings.
- 3.4. These are all things that community energy is uniquely qualified to deliver and advocate, as trusted intermediaries. This is recognised by Claire Perry who has said that "community energy is a key cornerstone of government's ambition for transition to a low-carbon, smart energy system". But it is a sad fact that every policy intervention that affects community energy (Feed-in Tariff (FiT) reduction and removal, Export tariff removal, tax relief removal, VAT increases, business rates hikes, planning constraints) has served to undermine this cornerstone of policy.
- 3.5. At the time of the coalition government's Community Energy Strategy in 2014 the vision of 'one million homes powered by community energy by 2020' was considered achievable. Due to policy set-backs this dynamic sector has stalled such that only the equivalent of 62,000 homes are powered by community energy in 2018. A passionate bunch of volunteers and experts in the community are tired and feeling undervalued. If they do not get some support soon they are likely to put their energies elsewhere (Extinction Rebellion?) and then the cornerstone is removed.
- 3.6. The tireless volunteers in 74 community energy projects have turned to energy efficiency work as a key nexus between energy and community benefit and still fundable through grants. One project evidenced a financial return on investment (to fuel poor households) of 6:1 over 2 years. Add in social cost savings and that is likely to double.
- 3.7. 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 and more.

- 3.8. The treasury seems to have no way to value these kinds of returns and savings in judging where to put its investment.
- 3.9. In the recent HMT consultation we (and many others including Coops UK, Big Society Capital and the government's Social Impact Implementation Taskforce) argued for the reinstatement of Social Investment Tax Relief (SITR) for community energy. 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.
- 3.10. Strangely, HMT seem to recognise this in all sectors except for community energy. In almost all other categories of industry, there are commercial entities delivering the service side by side with social enterprises delivering the service, which receive SITR, in recognition of the special challenges and special contributions of non-profits. An example there is Bristol Braille, which gets SITR because it is a social enterprise delivering that service, even though there are plenty of for-profit tech companies that might do the same thing.
- 3.11. HMT justified excluding energy generation from SITR thus: "*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.*"
- 3.12. As far as community energy is concerned this is a misconception. Especially since the removal of the Feed-in Tariff (FiT) there is no government support for this essential policy cornerstone. It is high-risk and virtually impossible to make an investment case for.
- 3.13. Social Investment Tax Relief should be available for community energy.
- 3.14. Other measures should include**
- 3.15. Support local renewable energy and energy efficiency initiatives, including community energy, to enable the build-out of local, smart, flexible, efficient, democratically controlled, participatory energy system of the future. These

will create local jobs to enable the just transition as the large centralised energy corporations are superseded.

- 3.16. Local authorities must be enabled and adequately funded to upgrade appropriately the local infrastructure for which they are responsible and carry out new responsibilities such as insulating local homes.
- 3.17. The Rural Community Energy Fund has recently been established offering development and capital grants to community energy schemes. We need an Urban Community Energy Fund alongside tax relief for the whole sector.
- 3.18. HMT must actively support areas dependent upon high-carbon industries to diversify and re-purpose, involving the unions and workers. The [Lucas Plan](#) in the 1970s should be a model.

HMT's strategy

1. What is HMT's current strategy, and approach to, UK decarbonisation, and is it fit for purpose?
2. How does HMT work with the Clean Growth Strategy and government departments to support decarbonisation? Is this working well?
3. **How should HMT's approach evolve to ensure the Government meets the legally binding carbon budgets (and the net-zero targets, if applicable)?**
 - 3.1. HMT should understand through all its organisation that meeting this target is qualitatively different from any previous target except perhaps winning the second world war. Climate Change is an existential threat and to fail to meet the target is to guarantee failure in every other target we could ever set.
 - 3.2. HMT must enable budgets to be flexed to meet evolving need rather than this life-critical target be compromised due to budget constraints that are fixed in stone.
4. **What role should the 2019 Comprehensive Spending Review play in UK decarbonisation? What projects or measures should receive additional funds through this process?**
 - 4.1. The Spending Review should set out the special case (outlined above) for the importance of funding the transition to net zero. It should set out measures to enable flexible budgets as outlined above.
 - 4.2. Local measures should be funded rather than easy, big cheques to big corporations.

- 4.3. Social impact must be valued.
- 4.4. Energy efficiency and resilience measures must be proactively funded.
- 4.5. Small players and community energy must be enabled to compete with the big commercial players in innovation funding and developing capacity and flexibility markets.
- 4.6. Government should encourage public and corporate power purchase agreements with community energy.