



## Tax-advantaged venture capital schemes: ensuring continued support for small and growing businesses.

### Response by Community Energy England

#### **COMMUNITY ENERGY ENGLAND**

Community Energy England (CEE) was established in May 2014 to provide a voice for the community energy sector primarily in England. Membership already totals over 130 organisations. The majority of the member organisations are from the community energy sector but the membership extends across a wide range of organisations which work with and support the community energy sector. Further details can be found on the CEE website at [www.communityenergyengland.org](http://www.communityenergyengland.org)

#### **INTRODUCTION**

The importance of social enterprise was recently recognised by the Right Honourable David Cameron MP in his recent letter to the Financial Times highlighting 13 September as Social Saturday and described social enterprises as “businesses that put people and planet first”.

Specifically in relation to renewable energy, support for social enterprise has become an increasingly important feature of Government policy with the publication of the Community Energy Strategy in January 2014 and the creation of a dedicated team within DECC to support the community energy sector.

#### **SUMMARY**

In the Foreword and Introduction to this consultation the Government states that it recognises the importance of tax-advantaged venture capital schemes in providing private investment into small and growing businesses, particularly where there is otherwise a market failure to provide risk finance.

This response to the consultation on behalf of Community Energy England demonstrates that:-

- renewable energy based social enterprises (RESEs) are almost entirely dependent on private investment and that the availability of tax advantaged venture capital schemes make a crucial contribution to raising finance for these enterprises
- the current availability of tax advantages for these schemes continue to meet the requirements of the five overarching principles<sup>1</sup>
- Removal of EIS and SEIS would have an immediate and dramatic impact on RESEs, effectively crippling further expansion of the sector and leading to the abandonment of a large number of projects currently in the development pipeline.

A survey by CEE of some of its community member organisations has shown that for creators of renewable energy social enterprises:-

- the availability of EIS and SEIS has been a crucial element in the growth of this sector to its current size and
- the level of community benefit which most schemes return to their communities exceeds the amount of tax relief granted and therefore represents excellent value for money for the taxpayer and
- a stable and predictable regime for tax and other regulation is needed for the RESE sector as constant shifts in policy are causing organisational and investor uncertainty and undermining the vitality and vibrancy of the sector and
- if EIS is withdrawn it could bring to a halt development of a majority of community owned projects which are in the pipeline and the expectation of the organisers of all the rooftop solar schemes we contacted as part of gathering evidence for this consultation said they expected removal of EIS to cease activity
- There is then the very real prospect that creation of new RESEs will virtually cease across all renewable energy technologies<sup>2</sup>.

### **Community Energy as an investment for the individual investor**

Community energy by definition requires investment by individuals forming part of that community; without that investment there is no such social enterprise. Commercial capital cannot be substituted for individuals' capital.

The act of investment is also one of engagement - a very different relationship from the purely financial one of investing in a VCT fund. It is more democratic - anecdotal evidence is that it attracts a wider range and different range of investors from the commercially promoted EIS and VCT markets. These individuals have not generally invested in other unlisted companies or VCTs. They are attracted to invest in social enterprise because of its tangibility and mission but the level of the financial return is nevertheless a material factor

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<sup>1</sup> As set out in Box 2 on Page 11

<sup>2</sup> with the possible exception of any projects which are 100% grant funded and any projects which are so large they have the possibility of raising commercial funding but we are only aware of one project on this scale which is in Argyll

in the decision to invest. Typical amounts of investment are modest and from a large number of participants - a big contrast with the VCT sector.

The RESE sector is also distinct from the commercial renewables sector in its involvement with communities and the level of community benefit it returns to the community. An analysis of 10 community groups revealed that for every £1 of tax relief potentially claimed these groups returned an average of £1.37p in benefit to their local community in the form of reduced energy costs or other benefits. This is one of the tangible aspects of social enterprises which appeals to the individual investor but which makes little impression on a commercial investor which is, as a general rule, mainly interested in maximising returns. EIS is a major factor in enabling this level of community benefit to be maintained.

## **RESPONSES TO SELECTED CONSULTATION QUESTIONS AND SUPPORTING EVIDENCE**

### **Response to Question 1**

***Question 1: Are the tax-advantaged venture capital schemes currently meeting the overarching principles, as detailed in Box 2A?***

With reference to the RESE sector we can say with confidence that the sector meets all five of the overarching principles.

#### **“Effective and targeted”**

EIS and SEIS are key to providing finance for new RESEs which remain higher risk ventures which have no alternative source of finance other than the private investor. They also play a crucial role in project development. See our response to questions 26 and 27 for further details.

#### **“Affordable”**

Costs to the Exchequer by way of tax foregone are more than repaid by the financial benefit returned to the community and represent excellent value for money for the taxpayer.

#### **“Simple and straightforward to administer”**

From the point of view of an applicant for these tax reliefs the process appears to be quite straightforward.

#### **“Sustainable and not subject to abuse:”**

There is no doubt whatsoever that the schemes incentivise investment. The companies in this sector have no recourse to commercial finance. Returns, which are pitched at a level which is regarded as enough to attract investment but this is not high a level in what is still regarded as a high risk investment.

### “Compliant with State Aid rules”

They are fully compliant with State Aid rules.

**Question 26: Considering the existing exceptions to the excluded activities list for community energy projects, AD, and hydro, do you believe there is still a strong justification for these exclusions? To what extent are these projects reliant on venture capital tax reliefs?**

Community energy projects remain heavily reliant on VCTR to raise the necessary finance across all technologies including wind and solar. There remains strong justification for these exclusions as without EIS and SEIS the evidence we have gathered from our membership confirms that development of new projects will virtually cease.

#### **i. Importance of EIS towards the creation of a renewable energy social enterprise**

There are a number of ways a community energy project comes into existence but quite often they start as the vision of a relatively small group in a community which wants to create a community renewables project. This group will often start by identifying an opportunity for a project involving a third party landowner.

The difficulty in finding suitable projects and willing landowners is frequently underestimated by those not directly involved in the sector. Generally as a business start up a community group is unproven, has no assets and no security to offer any lender. The landowner has to be persuaded, often over a considerable period of time, to explore and ultimately to favour the community route often over other commercial or local authority financed schemes. It often takes groups a long time and many failed attempts to find suitable and financially viable projects.

Having identified a project, a community group needs to have confidence from the outset that it will be able to raise the funds for the project through private investment and then it also has to instil that confidence in the third party landowner. The availability of SEIS/EIS makes an important contribution to this process as it helps to reassure the landowner that there are reasonable prospects of raising the necessary finance and that the extra time and effort in dealing with an untried community group will not be time wasted. We have been made aware that the availability of EIS or SEIS has been important to the agreement by some individual landowner who might not otherwise have engaged in with a group which they might not otherwise have done so they can benefit from the tax relief by making an investment themselves.

Those RESE groups that have completed a project successfully are generally better placed to undertake a second project. The new project will not necessarily be in the same geographical location so a new social enterprise will generally be formed with some new members and directors. This in turn will be unproven, will have no assets and have no security to offer a lender, so the financial cycle is repeated.

These difficulties in finding projects persist across all technologies including rooftop solar, field array solar and wind i.e. so called “established” renewable technologies.

## **ii. Role of EIS in raising investment from individuals**

The results of the survey by Co-operatives UK set out in paragraphs 4.3 to 4.7 of its consultation response provides clear and detailed evidence of the importance of EIS in raising individual investment to date.

Of 1056 individual investor members who responded, 883 had benefited from EIS relief.

Of these 37 per cent of those who did benefit from EIS said they would have invested less if EIS had not been available with an average reduction of 45% of their investment.

A further 38 per cent told Co-operatives UK they would not have invested at all.

Overall, the data suggests that in monetary terms, when taking into account those who would not have invested at all and those who would have invested less at an average of 45%, **without EIS there would have been a 59 per cent reduction in the amount of community investment.**

When it came to their behaviour in the future if reliefs were removed:

- only 22% said it would make no difference
- 40% said they would invest less
- 38% said they would be unlikely to invest at all

The comment from one individual investor to one of our Co-operatives is we suspect fairly typical of this last group which would be unlikely to invest at all. This individual gets satisfaction from investing in a social enterprise because of the community benefit but he is working taxpayer who is building a pension fund for his retirement so he conscious of both the risk and the level of return when investing £1,000 on a rooftop solar project. His comment when asked about the importance of EIS to his decision to invest in new rooftop solar co-ops was that EIS made the investment “worth doing”.

It is also clear from the Co-operatives UK survey that removing eligibility for EIS will have a disproportionate impact on the ability of the community to raise capital from the wealthier community members. This group of larger investors of £10,000 or more accounts for only 13% of the total respondents but 59 per cent of the total investment. They are therefore crucial to the growth of the sector as set out in the DECC Community Energy Strategy and their contributions make a major contribution to the community benefit element.

### iii. Importance of EIS to community energy organisations

The results of this survey are consistent with the pattern from CEE's own smaller survey of its organisational members. Many of the latter doubted that their projects would exist today if EIS had not been available during their share offer period.

One fairly typical example is Wey Valley Solar Schools Energy Co-operative which had installed panels on six secondary schools. The Chair of this Co-operative thinks that if EIS had not been available it would probably have only raised funds to install on 2 schools. However this would have meant the overhead would have had to be borne by a much smaller co-op which would have significantly reduced both returns to investors and seriously impacted on the level of community benefit. Altogether it would have made the project very marginal and the Chair is not certain that it would have proceeded at all as a social enterprise.

West Solent Solar Co-operative Limited doubts that its 2013 project to build a solar farm which raised a total of £255,000 which was eligible for EIS/SEIS would have gone ahead.

Bristol Power Co-operative which raises funds to install solar systems on household roofs in low income (fuel poverty) areas of Bristol also thought that its current scheme (the share offer is still open) would have struggled to raise the capital.

In relation to other completed offers, Brighton Energy Co-op, Community Energy Warwickshire, PEC Renewables Limited (working with Plymouth City Council on school installations), South Brent Community Energy Society, Four Winds (a 2014 project), Grand Union Community Energy Ltd and Bath & West Community Energy all consider that without EIS they would have struggled to raise their target share capital.

The Chair of Drumlin Wind Energy Co-operative, Northern Ireland (the first NI wind community wind co-op installing 500kW turbines on farms) is emphatic that this Co-operative would not have gone ahead in 2013 without the availability of EIS.

Whalley Community Hydro believes it will almost certainly not be in a position to pay a dividend to investors before years 3, 4 or even 5 as in the early years because priority must be given to bank interest and scheduled capital repayments plus the building of several key strategic reserves.

*"An unexpected turn of events such as lower than expected output levels for any reason including droughts could throw us off course until we get a steady run of good output figures. The existence of EIS acts as a sort of backstop, quasi-dividend that can make the crucial difference in persuading people to back a risky venture."*  
Graham Sowter, Whalley Community Hydro

Even with EIS there are examples of many RESE's which have had to extend their share offer period to enable them to raise the necessary finance for projects to proceed<sup>3</sup>

**iv. Lack of Liquidity**

We think it is understood and accepted by Treasury that renewable energy social enterprises using the co-operative society of community benefit model lack liquidity. Shares cannot be traded and are non-transferable. There is no capital growth and the investment is long term – typically 20 years. EIS or SEIS are very important incentives to individuals encourage investment as they compensate to some extent for this lack of liquidity.

**v. Risk**

Paragraph 4.10 of the consultation document refers to a significant proportion of tax advantaged capital schemes being applied to renewables and also to renewables being lower risk due to the fact they receive other forms of government support in the form of renewable energy tariffs.

Dealing first with the reference to risk. It is the structure of the enterprise developing the project which creates the risk, not the type of project being funded.

We support the comments made by Co-operatives UK in its response to the consultation on levels of risk and financial reward. RESE projects are innovative but also complex and difficult to establish with very limited access to external finance.

The situation has not changed since 2012 and difficulty and risk remains across all technologies including those groups engaged in rooftop solar projects. Rooftop installations can be much more complex than is generally recognised in part due to the huge varieties of roofs and internal layouts of some larger buildings where the margins are very tight indeed. The reaction to the driving down of the FITs rate and the squeeze on the margins on these projects has been in many cases to scale up the number and size of roofs in the social enterprise thus adding to project time, the level of work but also the level of risk.

As another member put it to us, individual investors are 'kinder' than commercial banks and will tolerate a period of uncertain or variable investment while interest on a Bank loan starts to run immediately it is drawn down. There is always the prospect when dealing with a school (for instance) that it will decide it needs to do major work on a roof over the summer holidays and whip its panels off without giving the co-operative any notice<sup>4</sup> thus reducing income during the peak summer period for panel output. No social enterprise is going to attempt to recover the loss of income from the school as members are much more tolerant of this slightly unexpected action - they see it as supporting the school which is seen as part

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<sup>3</sup> We have also had the benefit of reading the draft submission for Energy4All (E4A) by its CEO Marna McMillin who gives examples of E4A share offers which have also had to be extended.

<sup>4</sup> there was an example of this recently

of the community benefit and ethos they sign up to when investing in these social enterprise.

An RESE which cannot offer EIS can find the return it can offer to investors driven down to levels below (say) 4% which is not high enough to attract individual investors.

Finally, EIS has been crucial in the creation of many groundbreaking projects - which ultimately create the models which all others follow. Without some risk protection new models will not happen. There are good examples of this in the biomass sector and others like the LED lighting installation at one primary school in Harmondsworth which has been financed by a lighting services contract between the Co-operative concerned and the school to overcome obstacles presented by the inability of the school to borrow.

#### vi. **Social Benefits**

10 community share issues completed a detailed survey organised by CEE to analyse community benefit contributions in more detail.

Of these projects, there were two projects that involved wind turbines, including one single turbine project and one with multiple turbines. The remaining 8 projects were solar PV projects (and one of the wind projects also installed a small PV system on a community hall) including a project to install solar PV on 18 schools and 3 community buildings, a project to install PV systems at local NHS hospitals and the installation of solar PV on household roofs in low income areas.

The projects raised £9.42m in share equity between them, of which £552,000 was eligible for SEIS tax relief and a further £8,848,000 was eligible for EIS tax relief. This means that the maximum of tax relief that could be claimed in relation to these share issues was £2,930,400, although it is important to note that it is unlikely that every investor in these shares issues actually claimed tax relief.

The projects also raised an additional £1.29m in debt, although it is important to add that not a single project was able to raise any money through commercial finance providers. The loans were provided by a local authority, a community investment trust, Pure Leapfrog (2) and a community bond.

The survey broke down the value of community benefit to be achieved by the projects over their lifetime into three categories:

Energy savings for public and community buildings	£402,000
Energy savings for people in fuel poverty	£1,270,000



Profits to be re-invested in the community <sup>5</sup>	£2,351,315
Total community benefit achieved	£4,023,315

This means that for every £1 in potential EIS/SEIS tax relief granted, these 10 community energy projects surveyed will create £1.37 of direct community benefit. We think that is actually a typical and fair representation of community benefit contributions.

This is on top of the many other social and economic benefits achieved by the projects, such as jobs created and saved, the indirect benefits of projects and activities funded through the energy savings for community buildings, dividends repaid to local social investors who can re-invest those funds into more social enterprise projects and the creation of social enterprises, enriching the local economy.

#### **vii. SEIS**

As better understanding of SEIS has developed it is becoming used more particular for so-called 'Pioneer' offers which are used to harness available funds within communities for early project stages and breaking grant-dependency. One example of this was Ludlow hydro where SEIS was used to help fund planning. It is also proving very useful when funds need to be raised quickly particularly for community wind projects. The current preliminary accreditation period for FITs for wind is only 1 year but lead periods for ordering turbines (when a significant deposit is required) can be six months and installation may take 2 months. Allowing for bad weather and some recovery time that means very little time to raise funds. An SEIS 'Pioneer' offer allows for ordering of turbines and plant so that necessary paralleling can go on.

We therefore welcome the introduction of SEIS as a valuable addition to tax advantage schemes and hope to see it retained for community energy.

#### **viii. Lack of alternative commercial finance**

Alternative sources of finance are generally unavailable to RESEs as community investment has no appeal to commercial banks.<sup>6</sup>

Commercial Banks do not see the renewable energy community sector as a market worth investing in. To date there is circa 60Mws of installed capacity but that is not large enough market for a commercial bank to create policy, train their underwriters or employ business development managers

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<sup>5</sup> Many community energy groups cap share interest payments to their investors with surplus profits re-invested or re-distributed back in to the community.

<sup>6</sup> Information to viii provided by Chris Matthews, formerly head of the business development group and responsible for renewables at the Co-operative Bank

Commercial banks have directors who seek to develop strategy & policy. They lack understanding of sector and the benefits of renewables and energy efficiency technology then they don't feel comfortable enough to engage with the sector.

With commercial and private sector developers the turn round time is quicker. The commercial developers will know exactly the banks requirements, legal, technical etc. Time is money and Banks (like water) find the easiest route.

The size of the transaction is such that their Project Finance/Structured finance teams would not entertain doing such small deals. The Co-operative Bank built a team who was totally committed to the sector and the ideals of social benefit and made it profitable, but this was unique.

There is a lack of trained, skilled motivated lenders in this area – even fewer now with the withdrawal of the Co-operative Bank.

The due diligence costs for projects can be considerable. Banks expect to have their legal and professional costs fully indemnified and most community groups do not have the funds to indemnify the banks against such costs. Legal fees especially can be considerable and banks are not prepared to carry such risk and make an exception for community groups – why should they when commercial developers can put the money up front?

Infrastructure projects such as wind farms need long term money. Banks do not like to commit to such long terms as they need to apportion more balance sheet capital to them.

The Cooperative Bank did until recently finance such social enterprise schemes but it was an exception. The Co-operative Bank was unique in being a membership driven organisation and was committed to what its members wanted and they told us to invest in the sector through polling. As time went on the Bank increased the size of projects but the time taken to close on community projects was considerably greater than that in the rest of the sector.

The Cooperative Bank also financed the vast majority of community wind schemes in Scotland but these were all done through the Development Trust SPV route with low levels of equity i.e. a very different model. One of the contributory factors was the wind conditions which were some of the best in the country. This meant the Bank could apply the same rules as it did to commercial developer's ratios and the communities only put in small amounts of equity.

With the withdrawal of the Co-operative Bank from this market in 2013 there is hardly any commercially available finance for social enterprises and little prospect of any in the future.

Work by Pure Leapfrog and their response to this consultation has also highlighted this issue. 9 cooperative funded by Pure to July 2014 had to raise 85% of the project values as

equity and none of the projects got any commercial finance which confirms how dependent the sector is on EIS.

ix. **SITR**

We are gravely concerned at suggestions in the consultation for removal of EIS and substitution of SITR. Whatever the theoretical considerations in favour of bringing community energy into SITR, in our view it is currently so unsuitable for that purpose that any such change should be postponed until the EIS provisions can be replicated, thus avoiding any disruption to community energy.

Furthermore SITR has no SEIS equivalent, which is becoming such a crucial tool in project development.

**Question 27: What impact, if any, would the removal of tax relief under EIS and VCT for investment in companies receiving energy subsidies, together with the absence of SITR, have on community energy schemes?**

There is a certain degree of overlap with our response to Question 26 particularly in relation to the Co-operatives UK survey so please refer back to that answer as well.

Given the importance of this issue to the sector three surveys have been undertaken of

- i) individual investors in community energy projects (conducted by Co-operatives UK)
- ii) a survey of some of CEE's member organisations to establish the social benefit achieved by community energy co-operatives
- iii) A telephone and email survey of CEE member organisations to ascertain the impact of EIS withdrawal on their pipeline of project.

From the surveys of CEE members it is clear that if EIS is withdrawn in (for instance) from spring 2015 only those community energy current projects with planning and in a fairly advanced stage are certain to be built out and completed.

If EIS is withdrawn many projects now in the development pipeline and which are expected to be launched next summer, including a number of roof top solar projects, are likely to be abandoned.

Therefore it is the conclusion of Community Energy England that if EIS is withdrawn the effect will be to end the creation of new renewable energy social enterprises from the date any withdrawal takes effect.

To demonstrate this we suggest the membership speaks for itself by reference to the impact on projects already in the pipeline;

**Telephone and email responses received to question to CEE members to potential impact of CEE withdrawal to their project pipeline by technology.**

Lead in times for social enterprises from inception to share offer launch are typically much longer in the commercial sector and eighteen months to two years is not uncommon. It is worth noting that not a single co-op responded to say withdrawal of EIS would make no difference at all.

**Community Rooftop Solar**

"We have been working on this project for over a year and we have just completed our first installation of a 150kW at a school in Bexhill. We are currently in discussion with a further 6 schools and over time we hope to build this up to a 24 roof solar school co-operative. However the margins are already very tight so if EIS is withdrawn I think we would struggle to raise the necessary investment and this co-operative could be stopped in its tracks"  
*Mike Smyth, Schools Energy Co-operative*

"Without EIS roof-top community solar initiatives such as PEC Renewables in Plymouth, which delivers both income to support local community initiatives and bill savings for the host buildings, will simply not be viable"  
*Jake Burnyeat, Communities for Renewables CIC*

"Community energy is such a new concept that any adverse change in policy could stop it in its tracks. Community energy needs to appeal beyond its enlightened supporters in order to realise its potential to make a significant contribution to the reduction in carbon emissions from our energy consumption. A change to the EIS policy would reduce that appeal."  
*Tom Broughton, Director, Solesco Energy Coop*

"In discussing our project with potential investors we find that in the majority of cases the availability of EIS is a key factor in determining their decision to invest. The benefit of being able to offer EIS is particularly helpful in two respects - one is that it adds an element of verification that the government endorses community energy projects and the other is that by providing a significant benefit to the investor at an early stage this makes it much easier to describe the investment in more appealing terms despite the modest rate of interest that can be supported at current FIT levels. Therefore we can foresee that withdrawal of EIS would have a very significant negative impact on our ability to raise funds for the future community energy projects that we are planning "  
*John Willis, Company Secretary and Director, HKD Energy Limited, installing 80kW of solar panels at Downlands Community School, Hassocks, to be followed by further similar projects in the local area.*

Community Roof top solar is made viable in part thanks to its EIS eligibility. Without it projects such as WREN's 'Solar Town' will not happen which will be a loss to the community.  
*Dominic Comonte, WREN (based in Wadebridge, Cornwall)*

We expect that it will reduce the amount of investment we are able to attract for projects. At present, most renewable energy and energy efficiency projects have a lower return over a longer period of time. Most investors today are looking to optimise their short term gains. EIS is a way for us to close this gap. If it is gone, we don't have a chance to compete with unsustainable investments based on fossil fuels.

*Kayla Ente, Founding Director, Brighton & Hove Energy Services Co-operative Ltd, working on mixed portfolio of Solar PV, energy efficiency and biomass projects*

#### Community Field Scale Solar

"Cuckmere Community Solar Limited has been established to undertake a community-led renewable energy project. We have planned this so that, in addition to other social and environmental benefits, it can contribute at least £300,000 to sustainable energy and other social projects in the locality. Our financial projections suggest that the risk/reward offered to investors would be unattractive, unless they are able to access EIS relief. If this were withdrawn, the project is most unlikely to proceed, in which case useful carbon free generation, and wider benefits to the community and the country would be lost."  
*Alister Scott, Cuckmere Community Solar*

Sustainable Charlbury is working towards a 5KW field array solar installation and we want this to be a wholly owned community scheme. At well attended public meetings the question was raised about return to investor and the EIS addition to IRR certainly made investment a significantly more attractive proposition to local residents who were at the meeting. The removal of EIS could substantially risk the ability of Sustainable Charlbury to raise significant funds from our local community.

*Tim Crisp, Sustainable Charlbury*

#### Community Heat (wood biomass)

"Once we have completed the 400kW installation at Springbok in early 2015 it had been our intention to use our experience to develop a further 2MW wood biomass project in an off gas grid location nearby. However with this uncertainty on the availability of EIS we are now unlikely to pursue this new project without some guarantees from the government that EIS will remain available for at least 3 years. I don't want to spend two years working unpaid on a project only to find the government changes the rules yet again and takes away

our ability to raise the project finance just before the share offer launch.”  
*Kathy Smyth, Springbok Sustainable Wood Heat Co-operative*

“The uncertainty surrounding the future availability of EIS is a huge barrier to the development of heat lead community energy projects and much needed future innovation in the sector. The absence of advance EIS assurance for our 800kW biomass community heat project at John Cleveland College in Leicestershire was one of the biggest barriers to securing the community energy investment we needed and getting a project up and running. Removal of this tax relief will stifle project development and innovation in community heat when it is needed the most”

*Richard Halsey - Director Green Fox Community Energy Co-operative*

We are involved as technical consultants for a growing number of Community Heating Projects. As such we have close visibility on the practical, technical and financial viability of such schemes. Financing Community Heating projects, including Community ESCO approaches, are not easy and there are a host of legal, contractual and planning barriers to their adoption. Investing in 50-year heat networks requires a long-term outlook and significant capital which may take time to fully replay.

While the RHI helps a great deal, it is not always sufficient to draw in adequate capital funding and with tariff degression underway; there are growing uncertainties over such income streams. No funding beyond mid-2016 is assured and the tariff levels at that time may be significantly lower than today due to modest budget levels set for the scheme by the Government. EIS hence offers a significant boost for potential funders of schemes, particularly within a local community, and effectively lowers the expected rate of return for investors, sufficient to allow projects to go forward.”

*Stewart Boyle, Senior Associate (Consulting) South East Wood Fuels, Technical Consultant to a number of Community Energy Projects*

“The Barcombe Community Heat Project seeks to deliver a district heating network at the value of 520,000 GBP to our off the gas grid community, our concerns with the potential withdrawal of the EIS for community projects will further complicate this delicate project that has to date received great support from within our community who we have”

*Oliver Pendered, Chair of the Barcombe Energy Group*

## Community Hydro

“Without EIS, the business models of many <100kW hydro projects fall apart. EIS ensures that investors will accept a smaller return on their investment which ensures that project profits can then go to a small, but crucial community benefit fund. Community groups develop hydro projects to ensure their communities will receive a benefit fund. If this is squeezed, then their driver to achieve these complex projects that absorb thousands of volunteer hours, is greatly reduced and projects will simply not happen.”

*Kate Gilmartin, Community Hydro Forum*

## Community Ground Source Heat Pumps

We cannot actually provide any examples of schemes which will be impacted because we don't believe there are any. The current problem is that the financial modelling shows that the RHI is too low to support a community owned and financed scheme even with EIS, so any withdrawal of EIS will just make these projects even less likely to happen than they already are. This is of particular regret to CEE as we believe they are one technology which offers real prospects of alleviating fuel poverty in off-gas grid areas and the sector would welcome the opportunity to develop some community owned ground source heat pump projects but these are difficult and innovative projects and require considerable encouragement and support.

We know of one group which has tried and failed to make financial models for ground source heat pumps work. On behalf of another group the position is eloquently explained by *Mike Slavin of RX Energy, Rye*.

"We strongly support our colleagues in the community energy community in stressing the vital role of EIS/SEIS not only for our local generation projects in and around Rye, but also for the adventurous new technology projects for local demand side management and energy storage in this area over the next 3 years. The need for EIS/SEIS support has already been set out by our colleagues in CES and other groups all round the country and we add our support to their most powerful case because it is so applicable locally with our high solar flux.

We would take this opportunity, however, to extend the approach to more experimental, yet also strategically essential in the development of a new energy paradigm for our communities, namely demand response and distributed energy storage.

A large part of our locality is off the natural gas grid and is thus excessively reliant on electricity and oil for space heating and cooling - fridges, freezers, hot water heating and heat pumps. We have a very high inventory of storage heaters as a result of the historically limited choice of fuel sources for heating. At the same time we have a very high solar flux for the UK, as well as a 60 MW wind turbine installation within 4km of Rye.

We have several large storage heater installations - blocks of 20-50 flats in private and housing association ownership - which are ideal test beds for much improved demand management to reduce overall energy usage. A community-based organisation is in an ideal position to undertake such installations because of the community coordination requirements for a successful implementation. We have no hope of financing these without EIS/SEIS support because of the experimental nature of the projects with significant uncertainties as to their technical outcome.

This is also true for installing distributed energy storage based on lithium ion technology for peak shifting from afternoon generation to the evening peak demand in some of the surrounding villages with overloaded feeders- most of our local distribution network has little spare capacity and distributed energy storage for peak shifting will become a key technology for such areas, not only locally but all over Sussex and many other areas all over the country.

As community-based entities we have little hope of raising capital for such experimental phase technologies without significant financial incentives for adventurous private investors - a further justification for retention of the EIS/SEIS schemes.”

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## **Acknowledgments**

As the majority of our community energy members use either the co-operative model or the bencom model we have worked closely with Co-operatives UK and we support their analysis of the importance of the community energy sector as set out in the Co-operatives UK response to this consultation.

We are also grateful to Pure Leapfrog for access to the survey findings of the groups they have supported.

Finally, we want to thank the over 1,000 individuals who took the time to reply to the Co-operative Group survey of the importance of EIS to their investment and also the 40 or more organisations who made contributions to this response.

If you require further detail on this response please contact Kathy Smyth at [policy@communityenergyengland.org](mailto:policy@communityenergyengland.org)