Budget.Representations@hmtreasury.gov.uk

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Dear Chancellor

I am pleased to submit Community Energy England's Spring Budget 2020 representation. We welcome the Prime Minister's commitment to the "colossal investments" necessary "to make this country the cleanest, greenest on earth, with the most far-reaching environmental programme" and "to be carbon-neutral by 2050." We welcome the Chancellor's statement that his budget will "prioritise the environment" and "usher in a decade of renewal". We urge that investing to re-activate the community energy sector after 5 years of setbacks will yield huge returns, both fiscal and social.

2018 was the worst year ever for the sector seeing a slump in new projects, annual investment and new community electricity capacity as well as an increase in stalled projects. Still, in that year £2.3m development investment stimulated £40m capital investment.

Social and community benefits via community benefit funds amounted to £978,000 in England and Wales and more than £2m in Scotland in 2018. There are also many benefits accruing beyond these payouts from the material impact of projects. South East London Community Energy, working on domestic energy efficiency refit in fuel poor households, calculated a 6:1 financial return (money saved by residents on energy bills etc) on investment over 2 years. Add in wellbeing and social cost savings and this could easily double. Other projects are pioneering cheap electricity for local residents from local community renewable generation.

Community energy is key to getting the consent and participation of the public in the urgent and radical energy transition to net zero. It needs policy and fiscal support to fulfill this crucial role.

Community Energy England

Community Energy England (CEE) was established in 2014 to provide a voice for the community energy sector, primarily in England. Membership totals over 225 organisations. The majority of the member organisations are from the community energy sector but the membership extends across a wide range of organisations that work with and support the community energy sector. Further details can be found on the CEE website at www.communityenergyengland.org

The Community Energy Sector

"Community energy is a key cornerstone of the government's ambition to transition to a smart low-carbon energy system[1]." The Rt Hon. Claire Perry

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. By placing democratic control, shared benefits and active participation at the centre of project delivery, community energy can create a foundation for the significant infrastructural and cultural change needed to negotiate the urgent energy transition, increase our energy security and to reduce the impact of climate change.

Community energy harnesses the passion, expertise and capital of the community to make energy projects and fuel poverty work happen that otherwise would not.

Where successful, community energy has the potential to draw people in, not just as consumers but also as active participants, or partners, in a process of change. Partners because people share in the benefits, have some say in how things happen, are actively involved and feel a connection with the outcomes.

To date community energy has had a strong impact through the development of community renewable energy, such as putting solar PV on community buildings. Over £110m of community investment has been raised to deliver such projects and community benefit funds established to reinvigorate the local economy and environment. Community energy enterprises have also been delivering a vital role in enabling conversations with communities, households and businesses around energy issues and recently local Climate Emergencies.

Now community energy enterprises are looking to support wider government priorities such as demand side management and to build upon their strengths to influence energy behaviour and engagement.

But currently, due to policy setbacks over the past five years[2], the sector is stalled and frustrated[3]. To reactivate this sleeping giant to enable the urgent energy transition requires some practical and financial support from government to enable local people to initiate projects. We outline five policy changes that could be supported in the budget which cost little and generate huge returns both to the exchequer and in terms of social and community benefits

Our proposals

1. Social Investment Tax Relief for community energy.

We ask that community energy schemes be included within Social Investment Tax Relief. We ask that the investment cap be increased from £1.5m per company to £5m per company to enable the best community energy groups to scale.

SITR has been failing enabling only £10m of investment in total. Community energy is the

[1] https://www.energylivenews.com/2019/01/08/claire-perry-from-power-stations-to-solar-panels-the-future-is-local/

[2] This includes the removal of ROCs, the Feed-in Tariff, Export Tariff, the Urban Community Energy Fund and Tax Relief, punitive business rates on root-top solar, planning constraints on on-shore wind and increasing VAT on solar panels, batteries and ‘energy saving measures’ from 5% to 20%.

[3] https://communityenergyengland.org/pages/state-of-the-sector-report-2019

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.

Social value is built into the Treasury Green Book and community energy delivers it in spades.

The market failure SITR was designed to address applies strongly to community energy which now struggles to make an investment case at all.

The reasons given by the Treasury for the exclusion of energy generation no longer apply: *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.*

In fact community energy is now a high-risk, low-margin activity since the withdrawal of most government support (apart from the Rural Community Energy Fund). It has to compete in a commercial world whilst operating within social enterprise constraints - local focus, one vote per shareholder, low interest, long-term investments with no capital gain - and also delivering community and social benefit. As such community energy is really struggling to make a business case to get even socially motivated investment. SITR would really help de-risk investment and re-mobilise the 'community energy community'.

- **likely effectiveness and value for money:** This would increase investment in the sector, mobilising thousands of volunteers, increasing renewable generation and energy efficiency/fuel poverty work and generating 12-13 times the community benefit of equivalent commercial projects[4]. It will leverage large amounts of private social impact investment. In 2018, the sector's worst year ever £2.3m development investment activated £40m capital investment. 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 scaling and democratising social impact investing. Importantly it will re-activate a huge potential powerhouse to take the energy transition to the people.
- **revenue implications for the Exchequer:** The Impact Investment Taskforce's "best estimate of project volume [from community energy] that would use SITR is £15 million per annum, which is a multiple of the current SITR utiilisation in the entire UK, and would therefore represent a significant boost to the viability and visibility of the SITR programme. It would still be short of the £35 million that was modelled for 2018/2019 at the launch of SITR." Alongside the significant social and community benefits generated there will be returns from VAT and income tax.
- **wider macroeconomic implications (for economic stability and growth):** Community energy is a 'cornerstone' of the energy transition partly because it presents probably the best opportunity for taking the population with us in the urgent energy transition to net-zero. Failure to transition will compound the 'market failure' of climate change identified by Sir Nicholas Stern and as 'the economy is wholly owned subsidiary of the environment' (Herman E Daly) would be catastrophic for the economy.
- **sectoral impacts:** SITR for community energy would enable a stalled sector that currently struggles to make an investment case. It would generate local jobs and

[4] DECC commissioned report https://www.gov.uk/government/publications/community-renewable-electricity-generation-potential-sector-growth-to-2020

keep money circulating locally, with resulting multiplier effects, including benefits to the exchequer.

- **distributional impacts:** It will increase returns for the larger investor but in a sector that generates large social and community benefits for the vulnerable energy consumer. It will make viable projects that will generate decent returns for the smaller investor.
- **administrative and compliance costs and issues:** SITR would be administered through tax returns by HMRC.
- **legislative and operational requirements:** The treasury is already in the process of reviewing and improving SITR so measures are in the pipeline. SITR has massively underperformed so investment to date is significantly less than planned for in 2018/19 when the scheme was launched.
- **environmental impact:** Positive environmental impact will be significant by increasing local renewable energy project. This will reduce carbon and other pollution from fossil fuel generation, reduce the impact of reinforcing the electricity system and the demand for new large, inefficient centralised energy installations and transmission systems. It will also speed up the transition to a local, flexible, smart energy system by mobilising more local solutions. This is a key way to reduce demand, enable greater uptake of variable renewable technologies and reduce dependency on standby fossil fuel generation.

Further background

Our consultation response to the Treasury is at https://communityenergyengland.org/files/document/334/1563465137_SocialInvestmentTaxRelief_CEECESresponse.pdf and contains a number of other related policy recommendations.

In the Spring of 2015, the UK's Chancellor did indicate that community energy schemes utilising subsidy would be excluded from EIS/SEIS, but become applicable for an enlarged SITR scheme (subject to EU State Aid approval). However, in the Autumn of 2015 the Government announced that access to SITR would no longer be facilitated. It was indicated that this exclusion was based on a belief, which still persists among treasury officials and in ministerial responses, that that community energy was a 'low risk' investment and required no further encouragement. This situation no longer applies.

2. An Urban Community Energy Fund to complement the Rural Community Energy Fund.

In 2015 the Secretary of State for Energy and Climate Change pledged £25m to support Community Energy. £15m was committed to the Rural Community Energy Fund which is already enabling large amounts of private investment to flow into community energy projects. The Urban Community Energy Fund was the victim of funding cuts to BEIS.

Some urban areas are covered by Community Energy Funds organised by the City Council (London, Bristol, Manchester). In these areas community energy activity is forging ahead as much as is possible when a long-term investment case for installing renewable energy generation is difficult to make.

Other urban areas, many of them with dynamic community energy groups are finding it impossible, without feasibility and development funding to progress any energy projects at all. Yet the need to engage the population actively in the energy transition, to deal with fuel poverty, to solve energy system constraints and to generate low carbon energy is no less in an urban area than in the country.

This fund would have the same effect of catalysing the community energy sector as allowing SITR. However this grant fund for feasibility and development is necessary to get projects to the investible stage where SITR can play its part in making them happen.

Please see the section above on SITR for likely effectiveness and value for money etc.

- **revenue implications for the Exchequer** would likely be neutral in the long term despite the fact that this would be a grant fund of perhaps £10m. It would leverage large amounts of private investment, create jobs, generate low-cost electricity, relieve the need for expensive grid re-inforcements and additional generation capacity which would either yield tax revenue or save government money. By increasing the capacity and activity of community energy groups it will increase the reach and cost-effectiveness of other government energy policies such as the fuel poverty strategy, the Home Upgrade Grants, smart meter roll-out, switching schemes etc.
- **legislative and operational requirements**: The scheme would require no legislation. It would be overseen by BEIS and rolled out via the LEPs, the Local Energy Hubs, city councils, city regions, borough or town councils as appropriate. The government is already working with the Energy Systems Catapult on Local Area Energy Planning and have specifically identified that there is no one size fits all solution.

3. **Business rate relief or full exemption for community energy** in recognition of its strong social and community benefits.

Charities and community amateur sports clubs can apply for charitable rate relief of up to 80% if a property is used for charitable purposes. Councils have discretion to offer 100% rate relief.

Community energy delivers huge and various community and social benefit and should be specifically enabled to apply for charitable rate relief and 100% discretionary rate relief. Most community energy organisations are Community Benefit Societies with a strong asset lock and no ability to distribute profits or capital gain. Others are Cooperatives or Community Interest Companies which have to report their Community Benefit annually.

Community and social benefit comes in a variety of ways:

- as direct funding from profits via community benefit funds (£978,000 in England and Wales and more than £2m in Scotland in 2018 - our worst year ever) and also
- as material benefits from community energy projects. For example
    - South East London Community Energy, working on domestic energy efficiency refit in fuel poor households, calculated a 6:1 financial return (money saved by residents on energy bills etc) on investment over 2 years. Add in wellbeing and social cost savings and this could easily double.
    - Pioneering reduced price electricity from local community renewables in Energy Local Roupell Park and CommUNITY in Brixton.

Community energy is now a high-risk, low-margin activity since the withdrawal of most government support (apart from the Rural Community Energy Fund). Reduced business rates, with the specific option of a full exemption, would help it increase viability, professionalise, scale and deliver more community benefit and low carbon energy.

4. Reduce business rates for rooftop solar where electricity is consumed on site.

Since 2017 community energy sites, including schools, that have installed rooftop solar panels for self-consumption rather than export to the grid have suffered an unexpected business rate hike of 6-8 times the original valuation. In some cases this has ruined the business case for installing the low carbon energy in the first place and is penalising people who have made this investment in good faith. It also creates more uncertainty and disincentivises others, including schools which remain one of the only sites where a slim business case still exists for installing roof-top solar.

5. Reverse the VAT hike from 5% to 20% on 'Energy Saving Measures' and set an ambition and timetable to reduce it to zero.

We are aware that this is unlikely to be practicable during the 'transition period'. We learn that had HMRC applied for the exception to standard VAT rates for Energy Saving Measures (including solar panels and batteries) for environmental rather than social reasons it would have been granted as it has been in Germany. We ask the treasury to explore every avenue to get this VAT hike reversed as soon as possible - even to the point of re-applying for the concession. Presently burning coal (charged at 5% VAT) is incentivised over saving energy (20%). This runs counter to all EU and UK decarbonisation policies and particularly prevents fuel-poor householders from engaging with energy saving when they cannot afford the extra 20% and will not be registered to reclaim the VAT.

Next steps

The 'State of the Sector' report covering 2019 will be published around May collecting evidence on current activity, community benefits and future plans. We are working to collect better evidence on the wide benefits of community energy and are launching a Social Impact Tool. We would be pleased to share the results with you and to work with you on more detailed proposals for future Budgets.

Yours faithfully

Emma Bridge.

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