September 2024

Community Energy England representation to the Treasury for the Autumn Budget 2024

NB recommendations in the text are in **bold blue text**

Summary of Representation (max 250 words)

1. Community and local energy, as Labour's Clean Energy Mission recognised, "is essential to delivering clean cheap energy by 2030…reducing pressures on the transmission grid and strengthening local support - two of the biggest obstacles to the renewables rollout." It engages people as active participants in the energy transformation and is key to inventing and delivering at scale the local solutions.

2. We welcome the Local Power Plan but to make it a reality, at this Budget we recommend that the government:

    2.1. **Allocate a proportion of the £8.3 billion capitalisation for Great British Energy** and if necessary **allocate separate ring-fenced funds help get money out of the door early** to communities and local authorities that have projects ready to happen.

    2.2. **Extend the Community Energy Fund beyond March 2025** (expanded to enable communities across the UK to benefit) to avoid a loss of momentum whilst the Local Power Plan mechanisms are put in place.

    2.3. **Allocate a proportion of the £6.6 billion funding promised for the Warm Homes Plan.**

    2.4. **Reinstate EIS and SEIS tax relief eligibility to community energy generation projects** to help projects kickstarted by the Community Energy Fund and the Local Power Plan schemes to actually raise capital.

    2.5. **Implement business rate reliefs and incentives for local energy action**.

    2.6. **Make the 0% rate of VAT on Energy Saving Measures permanent beyond March 2027.**

    2.7. **Implement a 'net zero test' on all HMT and government department decisions and spends**.

    2.8. **Coordinated funding for low-carbon heat - a Rural Gigawatt voucher scheme.**

2.9. Funding for Local Area Energy Plans

(250 words)

Introduction to Community Energy England

1. This is a response by Community Energy England (CEE), which represents more than 300 community energy and associated organisations across England 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 vision is of a thriving community energy sector integrated into and truly powering a fair, zero-carbon 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. The overwhelming motivation of people and groups involved in community energy is to make a contribution to averting climate catastrophe, followed by a desire to bring community and social benefit.

5. We believe that these motivations should be shared by all working on policy and resourcing for the urgent 'system change' necessary for a thriving future. We are grateful that this government understands the vital importance and power of putting people at the heart of the energy transformation.

Representation

NB recommendations in the text are in **bold blue text**

1. The government's Great British Energy and Local Power Plan are hugely popular and powerful, as is the concept and actuality of community energy. In recognition that *'scaling up municipal and community energy'* is ⅓ of the remit of Great British Energy, both should be mentioned when the Chancellor is speaking about climate action, energy and GBE.

Local Power Plan funding

2. **Allocate a proportion of the £8.3 billion capitalisation for Great British Energy** and if necessary **allocate separate ring-fenced funds help get money out of the door early** to communities and local authorities that have projects ready to happen.

    2.1. **This allocation should be at least ⅕ of the £8.3bn**. The allocation should make clear how much will pass through to project delivery and provide targets for how much it will crowd in of additional private investment.

    2.2. The government has said that it is keen to get money out of the door and working, ahead of the full establishment of GBE so a grant of money to do that will be required even if the mechanisms and delivery channels have not yet been confirmed.

3. **Extend the Community Energy Fund beyond March 2025** (expanded to enable communities across the UK to benefit) to ensure a smooth transition and to avoid a loss of momentum in community energy growth whilst the Local Power Plan mechanisms are put in place.

4. The Greater South East Net Zero Hub was so oversubscribed by demand for the Community Energy Fund from communities that it had granted its £2 million allocation of funds by July before the Fund had reached the half-way point. This will require a plan, a funding structure and funds. We recommend that:

    4.1. **This budget provides a grant of money to extend and underwrite the Community Energy Fund,** until such time as Local Power Plan funding structures can be put in place. This must be sufficient to allow for the exponential *'scaling up municipal and community energy'* that is ⅓ of the remit of GBE

Warm Homes Plan funding

5. **Allocate a proportion of the £6.6 billion funding promised for the Warm Homes Plan.**

6. The government promised to "Jumpstart the national Warm Homes Plan" in the first year. If it is to retain its rightful place at the forefront of the government's policies for energy transformation and benefitting people, the Jumpstart needs a significant pledge of money. The Warm Homes Plan must target the vulnerable and unable to pay over the able to pay which the previous governments (mostly failed) schemes targeted.

7. The reduction in Winter Fuel Payments has been unpopular. A strong pledge of a proportion of the money saved to address the root causes of the problem in a long-term way by funding the **Warm Homes Plan** sends the message that government planning is strategic, systemic and long-term - saving money on yearly 'sticking plasters' grants to treat the symptoms, in order better to target the cause of the problem. Since 1997 the Winter (Fossil) Fuel Payments have cost between £50 and 70 billion which could have upgraded many of the most inefficient homes

permanently. “Cheaper energy bills **permanently**, with warm, future-proofed homes” (Clean Energy Mission) is a better offer than remaining dependent on government hand-outs to afford to live in what will often still be a cold home.

8. Up to 6 million households are now in fuel poverty (more than 10 million by some calculations i.e. more than 10% of disposable income spent on fuel). **A social tariff should be introduced to reduce energy bills for those in the greatest need**, including people on means tested benefits, disability benefits and Carer’s Allowance, as advocated by organisations such as Age UK, Scope and National Energy Action.[1] With the right policy environment and support, community energy organisations can do a great deal to help alleviate fuel poverty over the coming years, but immediate action is also needed.

9. Making 0% VAT on Energy Saving Measures permanent is key to successfully ramping up retrofit. See below.

Likely effectiveness and value for money

10. Real progress on retrofit will have many knock-on benefits, including reducing dependency on gas imports and increasing employment. Many credible reports[2] (including this report from the New Economics Foundation created while Miatta Fahnbulleh MP, current minister in charge of energy efficiency and retrofit, was Director) calculate that retrofit brings huge gross value added benefit, **including GDP growth and tax returns to the Treasury**. Reducing fuel poverty will also increase health and well-being, thereby reducing health and social costs, improving outcomes, and releasing energy bill savings to be spent into the real economy. Retrofitting also preserves property values by future-proofing them and reducing running costs.

11. Retrofit, as the Climate Change Committee has pointed out, is essential to achieving net zero. It is also win, win, win and for those living in the millions of leaky, hard to heat homes, can represent the equivalent of a 2% income tax cut as well as huge cost saving on health and many wellbeing co-benefits. It can also yield £47bn of net present value to the UK economy, levering large amounts of private money to future-proof the UK's most valuable physical assets. Energy efficiency and retrofit is an essentially local activity which community energy is already delivering, often funded out of income from existing projects. One of our members, the Cold Homes Energy Efficiency Survey Experts (C.H.E.E.S.E Project), calculate that £100 of ‘draught-busting’ materials, installed scientifically by volunteers, following a £250 thermal imaging survey can save up to 30% of energy bills in an old draughty home. This can be many hundreds of pounds saving in the first year alone. A mass retrofit

[1] Social-tariff-letter-to-chancellor-january-23.pdf (ageuk.org.uk)
[2] Including from IPPR, the Energy Efficiency Infrastructure Group, PWC, Architects Journal

programme would significantly reduce energy bills and carbon emissions for the long term.

Tax Relief

12. **Reinstate EIS and SEIS tax relief eligibility to community energy generation projects** to help projects kickstarted by the Community Energy Fund and the Local Power Plan schemes to actually raise capital.

13. In order that the government's pledge of money in the Local Power Plan to scale up community energy can produce the results we all desire (up to 8GW of new power, in up to 20,000 local projects, owned by up to 1 million new energy owners and generating local wealth and good jobs), community energy organisations will have to raise many hundreds of millions of investment in a very short time. In a time of inflation, high interest rates, rising household and renewable energy supply chain costs, this is becoming increasingly challenging.

14. The early exponential growth of community energy was hugely facilitated by tax relief (the Enterprise Investment Scheme and the Seed Enterprise Investment Scheme) which derisked investment especially for the slightly larger investors. Eligibility for EIS and SEIS was withdrawn for 'energy generation' in 2015 and from SITR, which was meant to replace them, in 2017. This was on the grounds that, in the era of the Feed in Tariff, *"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."* Since the ending of virtually all supports for community energy it has become a high-risk, low-margin investment prospect. In addition, community shares are illiquid, offer only one vote per investment rather than per share, and are not susceptible to capital gain. It does not enjoy the certainty provided to larger commercial projects by the Contract for Difference scheme. 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.

15. If reinstating EIS eligibility cannot be achieved for this budget (for practical, fiscal or cosmetic reasons which we would understand) we urge that the Treasury start now **to look into financial mechanisms, including tax relief, to make sure Local Power Plan projects can raise the necessary funds** from the community to realise the government's ambitious goals of speeding up and localising the energy transformation to clean power, creating 1 million new energy owners and engaging more people in having a stake in and control over the net zero transformation. This is not just nice to have: the Climate Change Committee has warned the previous

government many times that *"if the people of the UK are not engaged in this challenge - the UK will not deliver Net Zero by 2050… people need to be brought into the decision-making process and derive a sense of ownership of the Net Zero project."*

Likely effectiveness and value for money

16. If the absence of a few million of tax relief (probably ramping up in 26/27) seriously reduces the amount of private investment in local energy schemes, this might compromise the success of the Local Power Plan, the goals of 'clean power by 2030', 20,000 local projects, 1 million new energy owners, as well as impacting on citizen participation and support for net zero, local wealth building, the amount of community benefit delivered from increased community energy activity - and ultimately tax take from other sources as a result of the sector growing to its maximum potential.

17. It will enable financially marginal community energy projects to compete with high interest saving accounts and put that money to work delivering the net zero transition and local benefit.

18. Community energy is the single most prominent investment category on social impact crowdfunding websites and so presents a unique opportunity to help fulfil the government's goal of "doubling the size of the coop economy" and encouraging activity towards achieving net zero.

19. Interest in impact investing has grown hugely. It was estimated that a segment of UK citizens accumulated more than £100bn in savings during the pandemic. If they choose to invest, many are looking for impact. Almost the only way to do *local* impact investment to benefit your own community is through community energy.

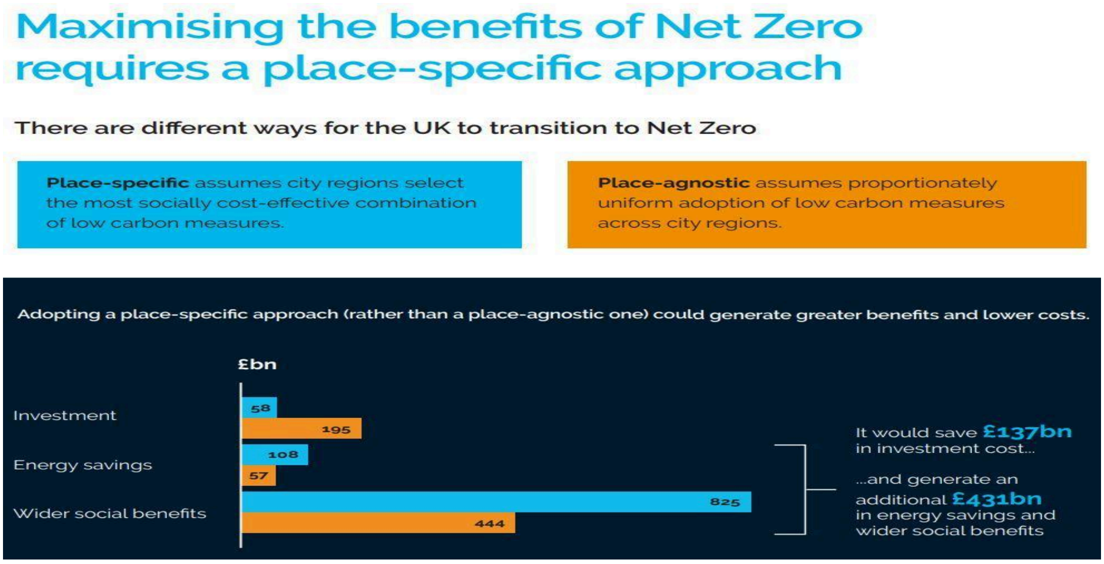
Revenue implications for the Exchequer

20. The Impact Investment Taskforce's "best estimate of project volume [from community energy] that would use SITR is £15 million per annum," SITR was allowed to end without replacement in 2023. This number is likely to apply equally to EIS and SEIS in the first year. This is likely to cost the Treasury a maximum of around £3-4m a year. This would likely ramp up as the Local Power Plan development funding kickstarts projects in 2025-26 and beyond. Alongside the significant social and community benefits generated there will be returns from VAT, corporation and income tax.

How it supports growth

21. It will mobilise a significant boost to social investment in community energy projects, a significant proportion of which investment would not otherwise have gone towards achieving net zero. Social business is extremely effective at generating benefit, local

employment and economic activity. It pays its taxes. Chris Skidmore's Net Zero Review urged the government to "empower people and places to deliver. Place-based action on net zero will not only lead to more local support but will **deliver better economic outcomes as well**." InnovateUK and PwC have also shown the benefits of prioritising place-based solutions.[3] See graphic below.

22. 

Wider macroeconomic implications

23. Community energy is a cornerstone of the energy transition partly because it presents probably the best opportunity for creating genuine ownership of and participation in "the Net Zero project", without which it will fail, as the Climate Change Committee warns[4]. 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.

24. Investing in social and community businesses is a major lever for generating community wealth, benefitting left behind people and communities and system change. Enabling community energy with tax relief will make a major contribution to achieving net zero and supporting local economies.

---

3 https://iuk.ktn-uk.org/perspectives/accelerating-net-zero-delivery-unlocking-the-benefits-of-climate-action-in-uk-city-regions/

4 " If policy is not scaled up across every sector; if business is not encouraged to invest; if the people of the UK are not engaged in this challenge - the UK will not deliver Net Zero by 2050. …people need to be brought into the decision-making process and derive a sense of ownership of the Net Zero project." https://www.theccc.org.uk/publication/sixth-carbon-budget/

25. **More reasons for enabling social business in general**: Social businesses bring even more benefit than SMEs in general, often being not for profit, and with a dedicated social purpose. There are over 100,000 social enterprises in the UK. The sector has shown that business can combine profit with purpose, social responsibility with financial efficiency, decarbonisation with innovation. It contributes £60bn to the economy and employs 2m people. It grew nine times faster than the economy in general, doubling employment in the last decade and doubling the number of social businesses that are now exporting. Social enterprises were set up in record numbers during the pandemic, many responding directly to the crisis. 40% employ someone with a disability, one in five are working in the most deprived communities, nearly half of all social enterprises are run by women. One in three have invested in energy saving measures in the past year, three times the level of other SMEs. Many social enterprises have pioneered putting planet and purpose at the heart of their business model and have shown that it is a recipe for success. Trillions of ESG funds globally are seeking a home but there are not enough socially and environmentally responsible businesses to invest in. Institutional investors and pension funds are coming under increasing pressures to divest from fossil fuels and invest for positive outcomes[5].

Sectoral impacts:

26. Tax Relief for community energy would enable a hugely entrepreneurial sector that is urgently needed to build consent and participation of people and communities in the energy transformation as well as inventing and delivering the local solutions and economic regeneration. It would generate local jobs, huge community and social benefit and keep money circulating locally, all with resulting multiplier effects, including benefits to the exchequer. The Community Energy Fund has enabled the sector to become extremely active again. This will increase enabled by the Local Power Plan especially if Tax Relief for community energy generation were enabled.

Distributional impacts:

27. It will increase returns for the larger investor but these will still be smaller than they could have got elsewhere if they were not choosing to invest for impact. The resulting extra growth in a sector will generate increased social and community benefits which are largely targeted towards vulnerable energy consumers. It will make projects viable that will generate decent returns for the smaller investor.

Administrative and compliance costs and issues:

28. Tax reliefs would be administered through tax returns by HMRC.

Legislative and operational requirements:

[5] Evidence from https://www.socialenterprise.org.uk/

29. It would be a small rule change to existing schemes. A clear definition of community-owned and led generation already exists for other government schemes such as the Community Energy Fund.

30. Much work was done by many people at the time of the Social Investment Tax Relief consultation in 2019. See our response here which contains more detailed proposals for SITR and some subsidiary recommendations. SITR massively underperformed, despite being extended to 2023. Investment to date is significantly less than planned for when the scheme was launched. It was intended to replace EIS and SEIS when introduced but eligibility for energy generation was withdrawn in 2017 before it could do that. This would be a chance to realise the potential of Tax Relief to enable social businesses in the energy sphere.

Environmental impact:

31. Positive environmental impact will be significant by increasing local renewable energy projects. 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.

0% VAT on Energy Saving Measures

32. **Make the 0% rate of VAT on Energy Saving Measures permanent beyond March 2027.**

33. This is necessary to give certainty to the retrofit market which is still nowhere near attaining the government's targets or what is necessary to achieve carbon reduction targets. People are still uncertain about what route to take and if costs jump again in 2027 just as public opinion is turning a corner, retrofit will suffer a slump. Without certainty of smooth growth suppliers and installers will not invest in building capacity and skills.

34. **Energy efficiency retrofit work should also benefit from 0% VAT** e.g. the installation of heat-pumps, insulation, solar panels, etc.

Business Rate Relief

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

36. 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.

37. 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.

Revenue implications for the Exchequer

38. In most cases the community benefit delivered will outweigh any financial cost to the Treasury or the local authority.

39. Community and social benefit comes in a variety of forms:

    39.1. As direct funding from profits via community benefit funds (£1.35m was distributed in 2021 - our worst year ever)

    39.2. As material benefits from community energy projects. In 2023 £4.4m was saved on energy bills by community energy efficiency interventions. Fuel poverty work generated at least 9 :1 social return on investment including South East London Community Energy calculating a 6:1 financial return (money saved by residents on energy bills etc) on investment over 2 years. Reduced energy bills to schools, community organisations and businesses from cheaper electricity supplied.

    39.3. Indirect benefits to local economies. £12.9m was spent into local economies by community energy organisations in 2023.

    39.4. Pioneering reduced price electricity from local community renewables in Energy Local Roupell Park currently supplying solar electricity to social housing residents in Brixton at 6.3p p kWh compared with 24.5p capped price per unit from October 2024..

40. Community energy is now a high-risk, low-margin activity since the withdrawal of most government support and increased inflation making securing investment challenging. 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.

41. We also urge **business rate incentives to other businesses to work with community energy on decarbonisation and energy efficiency projects**.

42. Implement a 'net zero test' on all HMT and government department decisions and spends.

43. This was recommended by The Climate Coalition. The government has pledged to "add net zero mandates to all relevant regulators that need it, including in the planning system". This should apply to government spending and policy too, to ensure they contribute to achieving net zero **as soon as possible**. Current 2050 targets are already insufficient. No investment in or enabling of high-carbon industry or projects (such as aviation, oil and gas extraction or road building) should be allowed.

Coordinated funding for the low-carbon heat transition that enables community energy and targets the left behind and unable to pay communities.

44. **Fund a Rural Gigawatt voucher scheme that emulates the success of the Rural Gigabit scheme, to encourage community heat/retrofit/flexibility Smart Local Energy System projects** in areas that are of no interest to the large corporates.

45. There are multiple siloed funds for doing bits of the future low carbon heat landscape. This does not encourage projects which are trying to treat the energy system holistically and combine many complementary elements in one solution. Many of them are not available to communities or are highly competitive or bureaucratic, often with funding criteria which exclude key stakeholders who should be recipients of support. Chris Skidmore's Net Zero Review recommends "wholescale simplification of local net zero funding, including consolidation of different pots and a reduction in competitive bidding".

46. **The renewable heat incentive should also be reopened** to give more households access to upgrades that will help them to protect against the kind of future fossil fuel price shocks that have driven up energy bills over the past two years.

Funding for Local Area Energy Plans

47. **Initial funding must be provided to kickstart a national programme of Local Area Energy Planning (LAEP)**

48. The Clean Energy Missions states that the Future System Operator *"would work with regional Distribution Network Operators and devolved and local government to develop regional system plans and* ***local area energy plans*** *which link local, regional, and national infrastructure,* ***take account of characteristics of a given area and ensure that local communities have a say in the energy decisions that affect them."*** There is currently no funding for LAEPs.

49. Regional Energy Strategic Planning must be underpinned and 'ground-truthed' by more Local Area Energy Planning. Resulting collaborative projects now have a route to market via the Local Power Plan but the strategic planning from which they should arise is not funded. It is mandatory in Wales where each local authority is required to appoint an officer to coordinate. This could be channelled via the 'Future Systems Operator' but must fund the work required from local authorities and community energy participants.

Likely effectiveness and value for money

50. The Energy Systems Catapult has done much work on LAEPs including showing how it is key to minimising decarbonisation costs[6].

Contact:

Duncan Law, Head of Policy & Advocacy

Community Energy England

Email: d.law@communityenergyengland.org

Phone: 07958 635181

Further Information:

Community Energy England (CEE) was established in 2014 to provide a voice for the community energy sector, primarily in England. Membership totals more than 300 organisations. Many 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

[6] https://es.catapult.org.uk/news/local-area-energy-planning-key-to-minimising-decarbonisation-costs/