January 2023

Community Energy England Spring Budget 2023 representation to the Treasury

Summary of Representation (max 250 words)

1. The Net Zero Review recommends the government "unlock local action" on net zero by "turbocharging community energy and action". The government must "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."

2. Community energy is essential to achieving net zero and those economic outcomes. It engages people as active participants in the energy transformation and is key to inventing, and delivering at scale the local solutions. We urge more money for people-led and people-focussed initiatives.

3. CEE urges HMT to **extend Social Investment Tax Relief (SITR) beyond April 2023, to extend eligibility to the community energy projects and increase the life-time limit to £5m.**

4. We urge that **HMT fund a National Community Energy Development Fund to build on the successful £10m Rural Community Energy Fund**.

5. We propose **business rate reliefs and incentives for local energy action**.

6. The Energy Savings Trust estimates that the government is still between £1.4 to £2bn short of committing the £9.2bn promised in the 2019 Manifesto to building energy retrofit. We urge that **at least this shortfall of retrofit spend be committed in this financial statement to be spent in this parliament**.

7. We support **the absorption of Green Levy (Levy Control Framework) spending into general taxation. This should be made permanent**

8. We support **the reduction of VAT on Energy Saving Measures to 0%. This should remain to incentivise the speedy transition to net zero.**(246)

Introduction to Community Energy England

1. This is a response by Community Energy England (CEE), which represents 320+ 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 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. 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.

Representation

9. The Net Zero Review recommends the government "unlock local action" on net zero by "turbocharging community energy and action". The government must "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." "Despite increasing concerns around energy security and energy prices, the community energy sector has been relatively neglected by the government. The rate of growth in the sector has slowed since 2017, with government support tapering off despite success".

10. **HMT must fund the work recommended in the Net Zero Review** as well as **the Environmental Audit Committee's recommendations from 2021 to remove barriers to community energy and put in place "practical measures to harness the potential of community energy"**, none of which have been actioned.

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

12. The sector doubled in size every year between 2014 and 2017 but growth has stalled, due to policy setbacks since 2015. Community energy remains entrepreneurial and determined. It has been exploring new models and innovative combinations of technologies which are pushing boundaries.

13. In 2021, community energy's most challenging year ever, the sector still raised £21.5m investment across the UK, distributed £1.35m in community benefit funding, saved over 57,000 people a total of £3.35m on energy bills, engaged 217,000 people on energy and climate and created 183 FTE jobs[1]. Community wind in Scotland provided on average 34 times more community benefit than commercial wind projects[2]. Energy efficiency and fuel poverty work yielded at least a 9:1 social return on investment[3], including real savings on bills which contribute to the real local economy.

14. The Net Zero Review also recommends that the government should: *"At the next Spending Review, review options for providing longer-term certainty to a small number of major priorities for net zero – where we know that long-term policy commitment will be essential for success and provide long- term opportunities to save money."*

15. **Supporting community energy to grow and spread should be one of those priorities** as it is essential to achieving net zero and delivers multiple co-benefits and high returns on investment.

16. The Climate Change Committee has warned that *"It will not be possible to get close to meeting a net-zero target without engaging with people or by pursuing an approach that focuses only on supply-side changes… people need to be brought into the decision-making process and derive a sense of ownership of the Net Zero project."*

17. Currently too much government funding is going towards big-cheque, big tech, business focussed supply side projects, such as nuclear, CCUS and hydrogen which are unlikely to deliver in time or at all. Much more resource needs to be dedicated to people-centred challenges such as building retrofit and people-led local decarbonisation projects which yield huge savings and benefits in carbon, money, social terms, as well as engaging people in 'the Net Zero project'. This must go to trusted local actors such as community energy organisations.

18. The Environmental Audit Committee recommended that *" Due to the urgency of the climate crisis and the vital roles communities will have to play in reaching net zero, it is essential that a timely solution to support the long-term growth of community energy across the UK is found."*[4]

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[1] https://communityenergyengland.org/pages/state-of-the-sector

[2] https://www.aquatera.co.uk/news/community-owned-wind-farms-have-paid-their-communities-34-times-more-than-commercial-counterparts

[3] https://www.bristol.ac.uk/media-library/sites/law/research/Nolden%20et%20al.%20BLRP%20No.%202%202021.pdf

[4] The Climate Change Committee 'Sixth Carbon Budget'

19. To reactivate this huge potential powerhouse to enable the urgent energy transition requires practical and financial support from government to enable local people to initiate projects.

Our Proposals

TAX RELIEF

20. The Net Zero Strategy recommends the government *"Review how HMT incentivises investment in decarbonisation, including via the tax system and capital allowances".* It also urges more support for SMEs.

21. CEE urges HMT to **extend Social Investment Tax Relief (SITR) beyond April 2023 and to extend eligibility to the community energy projects. We ask that the investment cap be increased from £1.5m per company to at least £5m per company to enable the best community energy businesses to scale.**

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

23. 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."*[5]

24. In fact community energy is now a high-risk, low-margin activity since the withdrawal of most government support. 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

likely effectiveness and value for money

25. SITR would derisk and enable significant investment in the sector, enabling the many projects which are currently financially marginal to go ahead.

26. Community energy is the single most prominent investment category on social impact crowdfunding websites and so presents a unique opportunity to grow the social investment sector and encourage activity towards achieving net zero.

27. SITR originally aimed to mobilise £300m of investment in the social enterprise sector. It has only mobilised £10-20m. This would greatly increase social investment with all its co-benefits. See 13 above.

[5] Correspondence with HMT

revenue implications for the Exchequer

28. 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 utilisation 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." This is likely to cost the Treasury a maximum of around £3-4m a year. Alongside the significant social and community benefits generated there will be returns from VAT, corporation and income tax.

how it supports growth

29. It will mobilise a significant boost to social investment, a significant proportion of which would not otherwise have gone to towards achieving net zero. Social business is extremely effective at generating benefit, local employment and economic activity. See 32 below. It pays its taxes. In 2021 community energy installed renewable energy capacity grew by only 2.4% whilst employment in the sector increased by more than 40%.

wider macroeconomic implications

30. 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. 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.

31. Investing in social and community businesses is a major lever for levelling up and system change. Enabling community energy with SITR will make a major contribution to achieving net zero.

32. **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. 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. Institutional investors and pension funds are coming under increasing pressures to divest from fossil fuels and invest for positive outcomes[6].

sectoral impacts:

33. SITR for community energy would enable a stalled sector that currently struggles to make an investment case. 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. In our last State of the Sector report we identified 160 community organisations that already have projects in development. 114 projects are likely to be implemented in the next couple of years and 92 organisations are planning electricity generation projects. There has been a 38% increase in energy efficiency/saving projects and 90 organisations are now active on community low carbon transport. This activity would all increase if SITR were enabled.

distributional impacts:

34. 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. Community energy benefits are mostly targetted at vulnerable members of the community.

administrative and compliance costs and issues:

35. SITR would be administered through tax returns by HMRC.

legislative and operational requirements:

36. The treasury has already extended SITR in 2021 but without any measures (such as those proposed here) to transform its performance. To remove it without replacement would be to abandon a key area of the economy that yields huge benefits and is particularly engaged in the net zero transformation. It would require significant policy design and legislation to put something new in place. Much work was done by many people at the time of the SITR consultation in 2019. See our response here which contains more detailed proposals for SITR and some subsidiary

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

recommendations. It is better to extend, expand and improve this existing scheme where the administration is already in place. SITR has massively underperformed so investment to date is significantly less than planned for when the scheme was launched. This would be a chance to realise its potential.

environmental impact:

37. 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.

SUPPORT PEOPLE AND PLACES, AND COMMUNITY ENERGY.

38. CEE urges that **HMT fund a National Community Energy Development Fund to build on the successful £10m Rural Community Energy Fund (RCEF)**.

39. This would be a combination of a grant and contingent loan fund for feasibility and community energy project development. The Fund should be for £30m over 3 years. It would ramp up as sector capacity increases and transitions to a revolving loan fund which would continue to fund projects into the future.

40. The RCEF pipeline in the NW of England showed that £1 of development grant funding could mobilise up to £69 of community investment in projects. By contrast capital funds such as the Levelling Up Fund create just £1 worth of project for each £1 of capital grant. As such, a National Community Energy Development Fund would represent good value for money, mobilising many more millions in community investment and community and social benefit resulting from projects.

likely effectiveness and value for money, growth impacts etc

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

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

revenue implications for the Exchequer

43. These would likely be neutral in the long term despite the initial investment. It would leverage large amounts of private investment, create jobs, generate low-cost

efficient, local electricity, relieve the need for expensive grid reinforcements and additional generation capacity, which will yield tax revenue and save government money. By increasing the capacity and activity of community energy organisations 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, etc.

legislative and operational requirements:

44. The scheme would require no legislation. It would be overseen by BEIS and rolled out via the Local Net Zero Hubs, city councils, city regions, borough or town councils as appropriate or potentially an arms length body. Structures and staff for the Rural Community Energy Fund, which ended in March 2022 are largely still in place and could be reactivated.

BUSINESS RATE RELIEF

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

46. 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.

47. 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

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

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

    49.1. as direct funding from profits via community benefit funds (£1.35m was distributed in 2021 - our worst year ever) including £470,000 to over 4500 recipients during 2021

    49.2. as material benefits from community energy projects. In 2021 £3.35m 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.

49.3. Indirect benefits to local economies. £15m was spent into local economies by community energy organisations in 2021.

49.4. 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 34p capped price per unit.

50. Community energy is now a high-risk, low-margin activity since the withdrawal of most government support. 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.

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

RETROFIT FUNDING

52. The Energy Savings Trust estimates that the government is still between £1.4 to £2bn short of committing the £9.2bn promised in the 2019 Manifesto to building energy retrofit[7]. We urge that **this shortfall be committed in this financial statement to be spent in this parliament**.

53. Retrofit, as the CCC 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. **Any energy efficiency funding must be accessible by community energy groups.**

OTHER

54. The Net Zero Review recommends that planning be reformed to *"properly support net zero"* with a 'net zero test' introduced. **A net zero test should be applied to HMT tax and spending decisions** to ensure they contribute to achieving net zero **as soon**

[7] Personal communication in December 2022.

as possible. Current 2050 targets are already insufficient. No investment in or enabling of high-carbon industry or projects (such as aviation or road building) should be allowed.

55. "The [Net Zero] Review recommends **wholescale simplification of local net zero funding, including consolidation of different pots and a reduction in competitive bidding**".

56. We support this recommendation. Additionally funding should be available to other local delivery actors, such as community energy, without having to work through local authorities. Some are great but many lack the expertise or capacity to use the funds well and some are difficult to work with for community organisations.

57. The competitive element is hugely wasteful of local resources. Centralised decision-making on this funding is a mistake when so much wisdom about what is locally appropriate resides in the community.

58. Channelling so much funding (which is mostly capital, rather than development funding which can mobilise much more local capital as previously discussed) through local authorities is also problematic.

59. We support **the absorption of Green Levy (Levy Control Framework) spending into general taxation. This should remain the source of this critical funding for net zero**. The Green Levy is a potential political football and puts a cap on spending which has produced perverse policy changes in the past, such as drastic FiT reductions which crashed half the emerging solar sector.

60. We support and applaud **the reduction of VAT on Energy Saving Measures to 0%. This should remain to incentivise the speedy transition to net zero.** These measures should continue to include solar panels and batteries as well as all other technologies that genuinely contribute to achieving net zero. ie not biomass.

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

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Further Information:

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