Community Energy England's Response to Invest 2035: The UK's Modern Industrial Strategy Consultation

Read the government's consultation paper here

November 2024

Introduction to Community Energy England

1. Community Energy England (CEE) represents over 310 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 in the energy sector and on energy system transformation.

CEE proposals

- **Investment in community energy delivers carbon savings and other benefits in places that other approaches to decarbonisation cannot reach.** The policy environment should be geared towards growing community energy as a key tenet of the UK's industrial strategy.
- **The Local Power Plan (LPP) funding could be transformative for community energy.** It should be rolled out swiftly.
- **The design of the LPP fund should encourage and incentivise high levels of collaboration between local authorities and community energy,** in order to deliver joined up local energy systems that local communities have a real stake in.
- **The Community Energy Fund (CEF) should be extended beyond April 2025 and expanded until a transition to the LPP is ready to be implemented.** This will be crucial in maintaining momentum for the community energy sector.
- **Eligibility for EIS and SEIS should be extended to community energy generation.** This would recognise that many community energy business models are focussed on realising uncommercial opportunities that are of no interest to purely profit motivated companies,

but that deliver many social and environmental benefits that would not otherwise be realised.

- **The government should move quickly to enable shared ownership of renewable energy assets in line with its pledge in the founding statement of Great British Energy.** It should confer some genuine democratic control rather than just being an offer of a few shares.
- **Industrial policy should be subject to a net zero test,** based on the 81% decarbonisation target by 2035, audited by a credible organisation and appropriately resourced.
- **Emerging sectors and technologies in the energy sector should have a very high chance of delivering carbon savings.** Faster, proven carbon savings should be prioritised over slower, unproven future carbon reductions (e.g. CCUS), particularly when technologies are associated with large amounts of embodied carbon (e.g. nuclear).
- **Community led energy projects should get priority when connecting to the grid over projects that deliver little social value.** This would recognise the additional value created by local, community led energy projects.
- **Local Area Energy Planning should be implemented across the board, with input from community energy organisations in areas where they exist.** This would enable local authorities to work with community energy to identify how they can best collaborate on strategic local projects.
- **The government must work with international partners particularly in the European Union on developing supply chains that are traceable, low carbon and slavery free in order to eradicate forced labour that is currently endemic in UK solar supply chains.**

Question responses

1. How should the UK government identify the most important subsectors for delivering our objectives?

Industrial policy should be subject to a net zero test. Energy policy and industrial strategy are closely interconnected so the aims of the UK's industrial strategy must not compromise its energy strategy by locking us into long-term emissions pathways. Therefore a net zero test, attuned to the target of 81% industrial decarbonisation by 2035, should be instituted. These plans should be audited by a credible organisation, appropriately resourced perhaps by levies or redress fines, such as the Carbon Disclosure Project (CDP).

2. How should the UK government account for emerging sectors and technologies for which conventional data sources are less appropriate?

Emerging sectors and technologies in the energy sector should have a very high chance of delivering carbon savings. See answer to question 4 for examples of sectors that are unlikely to meet this criteria.

4. What are the most important subsectors and technologies that the UK government should focus on and why?

There should be a much greater emphasis on smaller scale, local projects than has been the norm in government net-zero policy over the past 14 years. Investment in unproven and speculative technologies such as carbon capture, utilisation and storage (CCUS) will deliver benefits very slowly if at all. The same applies to nuclear power. It also has huge embodied carbon, creates a long-term dependency on imported feedstocks, and an invariable source of expensive baseload power that cannot be flexed to match with increasing penetration of variable renewables. We should not be investing in such future-inappropriate types of energy generation which in addition creates an expensive and carbon intensive responsibility to look after hazardous wastes for durations much longer than human civilisation has existed and as we move into a period of geopolitical and climatic instability.

Such investments are very unlikely to be cost effective compared to a local community driven approach, which can produce co-benefits of behaviour change, demand reduction and management (flexibility) at a local level to reduce the need to over-build the grid.

5. What are the UK's strengths and capabilities in these sub sectors?

Smaller scale, locally driven projects are proven and community energy organisations are ready to upscale rapidly to deliver them given the right investment and policy and regulatory environment. According to government commissioned research, community energy delivers 12-13 times more social and community benefit than commercial projects. Community Wind in Scotland delivers 34 times the community benefit of commercial projects. Fuel poverty work by community energy groups, which brings carbon, wellbeing, health and cost saving benefits, yields at least a 9:1 social return on investment.

Between 2017 and 2023, community energy in the UK generated 3,415 GWh of clean electricity. The sector generated more than 2.5 times the amount of renewable energy in 2023 than it did in 2017. This growth happened during a period when most government support for new community energy was reduced and withdrawn. It can be attributed to the sheer determination and entrepreneurialism of the sector. Between 2014 and 2017 the sector doubled in size every year and is set to do so again enabled by this government's Local Power Plan. The potential for growth is huge.

Because most community energy projects are done locally, on sites of little or no interest to commercial companies, they simply would not happen without community energy businesses taking the initiative.

Investment in community energy delivers carbon savings and other benefits in places that other approaches to decarbonisation cannot reach. With the right policy environment, this local approach could bring other significant benefits such as greater flexibility at the grid edge, which could reduce the capacity required in the transmission network to reach net zero.

Rapid rollout, high levels of social benefit and social return on investment and grid edge flexibility will not be delivered by big tech, centralised, supply-side measures such as CCUS. Community energy is entrepreneurial and focused on finding energy solutions that work in local settings. The new industrial strategy should pivot to a much greater focus on local, community-led climate action.

6. What are the key enablers and barriers to growth in these sub sectors and how could the UK government address them?

The community energy sector doubled in size every year between 2014 and 2017. Since then, growth has slowed dramatically largely due to inconsistent and piecemeal funding and a policy and regulatory environment that did not encourage development of smaller scale, local renewable energy projects.

Funding

In the past, government funding for community energy has been limited in size and patchy in delivery. The Rural Community Energy Fund was closed without a successor being put in place. Feed-in tariffs and export tariffs were wound down and stopped; alternative schemes such as the Smart Export Guarantee proved to be inadequate or badly targeted, severely impacting growth in the community energy sector. This kind of inconsistency has made it very difficult for community energy organisations to build momentum or plan for growth over the medium and long term.

The government's Local Power Plan could go a long way to addressing this issue. Not only does the policy propose funding on a new scale for community energy (up to £400m a year in low interest loans), but if delivered effectively over a number of years, the community energy sector would be able to build up its capacity and grow rapidly again.

It is important that another gap between funds is avoided. The Community Energy Fund (CEF), which offers grants to community energy organisations for a range of energy projects, is set to end in April 2025. It is currently not clear when the Local Power Plan will be rolled out. **Ensuring that the CEF is extended and expanded until a transition to the LPP is ready to be implemented will be crucial in maintaining momentum for the community energy sector.** The expanded CEF should cover the whole UK, not just England, and the government should underwrite funding for areas where demand is high so that viable projects do not stall between allocation rounds of funding.

The Local Power Plan also earmarks £600m a year in grants for local authorities to support energy projects. **The design of the fund should encourage and incentivise high levels of collaboration between local authorities and community energy in order to deliver joined up local energy systems that local communities have a real stake in.**

The policy and regulatory environment

Many of our members have had projects delayed or stymied by lack of access to grid connections. Grid connections consistently feature at the top of barriers in surveys that we have conducted with members recently. Organisations are often quoted waiting lists of many years for grid connection, told they can only connect a fraction of the project's generation capacity to the grid or simply given changing and conflicting information, meaning that their project remains in limbo.

An effective industrial strategy can help in two key ways. Firstly, it ought to recognise that limited capacity in the national grid is holding back the UK's broader efforts to reach net zero and redouble efforts to increase capacity. Secondly, it can **recognise the additional value created by local,**

community led energy projects and prioritise connecting these to the grid over projects that deliver little social value.

Reforms to planning to enable more local energy projects to be delivered more swiftly would help to enable and speed up more community energy projects. The removal of the onshore wind ban represents a good start but planning processes remain onerous, costly, uncertain and slow. The government has made a good start pledging to recruit 300 more local planning officers but more resource and guidance is needed in Local Planning Authorities.

'Shared ownership' by communities in commercial renewable energy projects is built into the Clean Power Mission. This could be extended to other national infrastructure, especially grid reinforcement infrastructure, such as substations and pylons.

7. What are the most significant barriers to investment? Do they vary across the growth-driving sectors? What evidence can you share to illustrate this?

One of the most significant barriers to investment in community energy projects is the lack of tax relief to de-risk social investment in difficult times, particularly periods of high interest rates. The early growth of community energy was assisted by the eligibility of projects for the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS) which de-risked investment. When eligibility was withdrawn it was promised that Social Investment Tax Relief would replace them. This eligibility was withdrawn before any community energy organisations could benefit from it. SITR ended without replacement in 2023, though EIS was extended in the Budget to 2035. **In the next budget eligibility for EIS and SEIS should be extended to community energy generation.**

In a time of high inflation and high interest rates, the minimum interest rates on investment that community energy is permitted to offer struggle to compete with other options including bank savings accounts. Tax relief can offer the carrot that helps people decide to put their money to work locally. The Treasury still labours under the false belief that community energy is low risk, doesn't "struggle to access finance" and has a "predictable or guaranteed income" which ended with the Feed-in Tariff in 2019. Many community energy business models are focussed on realising uncommercial opportunities - of no interest to purely profit motivated companies.

This is crucial for the UK's industrial strategy because community energy delivers projects that provide infrastructure upgrades and carbon savings that simply would not happen if left to commercial players, since some of these are too small scale, unremunerative or difficult to be of interest to them. Most councils do not have the capacity or the expertise to deliver these projects without a community partner organisation. And alongside the greater generation, flexibility capacity, efficiency upgrades and local innovations, community energy also delivers greater social and community benefit than its competitors (at least 12-13 times more than commercial projects). **There is a clear case for government to invest in tax relief to unlock the multifaceted benefits of community energy.**

15. How can investment into infrastructure support the Industrial Strategy? What can the UK government do to better support this and facilitate co-investment? How does this differ across infrastructure classes?

The government should move quickly to enable shared ownership of renewable energy assets in line with its pledge in the founding statement of Great British Energy. This would give real community buy-in to local projects, potentially unlocking projects that may otherwise have faced significant local resistance. Current 'nationally significant infrastructure' projects permitted by the Secretary of State with no warning or consultation makes communities feel 'done to' and is undermining support for ground-mounted solar.

Shared ownership, if done meaningfully, would deliver greater community benefit than purely commercial installations. It should confer some genuine democratic control rather than just being an offer of a few shares. Shared ownership by the community in the development of renewable energy assets can be rapidly enabled by the government as it is provided for in the Community Electricity Right (Infrastructure Act 2015). The fact that this has not been done since the Act was passed represents a missed opportunity to develop renewable energy with real community buy-in.

Wales has a recommendation that 10% of renewable energy developments on public land should be locally owned. We would recommend 'community owned' as 'locally owned' can open the door to already wealthy local landowners to take a disproportionate stake.

The government should convene discussions across the institutional investor landscape to see how each can invest in different infrastructures. Net Zero Terrace Streets is a community energy project which seeks to decarbonise heating for 6 million smaller terraced homes at no up front cost to the residents. In order to roll the model out fast and at scale, whilst still being community-owned and controlled NZTS is looking to partner with long-term patient investors such as pension funds to take a significant but non-controlling stake in durable, proven infrastructure such as heat networks. The government should be seeking to broker these kinds of conversations.

24. How can international partnerships (government-to-government or government-to business) support the Industrial Strategy?

In 2021, researchers at Sheffield Hallam University published a report detailing the widespread use of forced labour in Xinjiang, China throughout the entire solar panel and equipment supply chain. 98%+ of panels available in the UK use Chinese raw silicon. This makes it virtually impossible to source ethical solar equipment. Furthermore, panels made using Chinese coal may have up to 500% more embodied carbon than those (few) made elsewhere using renewable energy.

This is an issue that the UK government should take a lead on as it has on climate action. In order to develop a successful, ethical industrial strategy, **the government must work with international partners particularly in the European Union on developing supply chains that are traceable, low carbon and slavery free.** We should work with the EU to build a fully integrated solar supply chain that is not dependent upon China, including the low-carbon manufacture of polysilicon. Our current reliance on panels and equipment from China is not only an ethical issue and a source of significant

amounts of embedded carbon emissions. It is also a threat to our energy security. The industrial strategy must address it.

For more information see our answer to question 36.

28. How should the Industrial Strategy accelerate growth in city regions and clusters of growth sectors across the UK through Local Growth Plans and other policy mechanisms?

Growth could be accelerated for the community energy sector if **Local Area Energy Planning was implemented across the board, with input from community energy organisations in areas where they exist.** This would enable local authorities to work with community energy to identify how they can best collaborate on strategic local projects. The government should mandate and fund Local Area Energy Planning across the country to inform the Regional Energy Strategy Planning process. It should also help kickstart the strategic projects that come out of the process so that the Plan generates action. Community energy organisations can play a significant role in both the LAEPlanning and the delivery.

36. Is there any additional information you would like to provide?

In September 2024, the Business Secretary Jonathan Reynolds said in the House of Commons:

> "I give the right hon. Gentleman an absolute assurance that I would expect and demand there to be **no modern slavery in any part of a supply chain** that affects products or goods sold in the UK…It is an area where we have existing legislation, and indeed we would go further if that was required."

This is a crucial starting point for any ethical industrial strategy. Achieving the ambition to eradicate modern slavery in supply chains will require significant action from the government as part of their industrial strategy, particularly in solar supply chains.

As stated in our answer to question 24, researchers at Sheffield Hallam University have found that forced labour in Xinjiang, China is endemic in the solar panel and equipment supply chain, making it virtually impossible to source ethical solar equipment. Furthermore, panels made using Chinese coal may have up to 500% more embodied carbon than those (few) made elsewhere using renewable energy.

Some community energy organisations have made considerable efforts to source solar panels from companies that can demonstrate that their products were not manufactured using forced labour. However, in many cases this has proved impossible. There are no government standards of accountability for supply chains that require manufacturers to demonstrate that their panels were not made using forced labour and in the UK attempts to introduce voluntary standards have not yet been effective in persuading much of the solar sector to take any action in this area. **Solar panels with more transparent supply chains can be procured in the UK but the additional cost of these panels would make many community energy projects unviable.**

The UK can lead on this issue but will also need to work closely with countries in the EU to develop an overarching international strategy. See our answer to question 24 for more information.

Signed by

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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 310 organisations. The majority of the members are community energy organisations, but membership extends across a wide range of organisations that work with and support the community energy sector.
www.communityenergyengland.org