October 2023

Community Energy England Autumn Statement 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.

3. The Community Energy Fund, funded from DESNZ internal budgets, is a good first step. However the Treasury must invest more in local, people-led and people-focussed initiatives.

4. CEE urges HMT to **extend Enterprise Investment Scheme and Seed Enterprise Investment Scheme tax relief eligibility to community energy generation projects** to help projects kickstarted by the government's new Community Energy Fund to actually raise capital.

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

6. We urge the government to ensure that the **full £9.2bn promised in the 2019 Manifesto to building energy retrofit is committed in this Autumn Statement to be spent in this parliament**.

7. **The 3rd rounds of the Levelling Up Fund and the Shared Prosperity Fund must be announced.**

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

9. 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 280+ 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

10. The Net Zero Review recommended 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".

11. **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"**.

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

13. 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.

14. 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, a 40% increase in employment in the sector[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.

15. 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."*

16. **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.

17. 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."*

18. 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.

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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

19. 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]

20. 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

21. 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.

22. CEE urges HMT to **extend Enterprise Investment Scheme and Seed Enterprise Investment Scheme tax relief eligibility to community energy generation projects** to help projects kickstarted by the government's new Community Energy Fund to actually raise capital**.**

23. The market failure these tax reliefs were designed to address applies strongly to community energy which struggles to make investment cases on sites that do not enjoy a rare combination of favourable characteristics.

24. The reasons given by the Treasury for the exclusion of energy generation from these tax reliefs 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]

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

Likely effectiveness and value for money

26. Tax relief enabled the early growth of the sector which doubled in size every year between 2014 and 2017 by derisking investment by potential committed local

[4] The Climate Change Committee 'Sixth Carbon Budget'
[5] Correspondence with HMT

investors. The Community Energy Fund, by providing early stage funding to explore and develop local projects to investment readiness, will go some way to help but alone it will not be sufficient. Tax relief is key to those projects successfully securing finance and to realising the potential the Community Energy Fund has opened up.

27. It will enable the many projects which are currently financially marginal to go ahead.

28. 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.

Revenue implications for the Exchequer

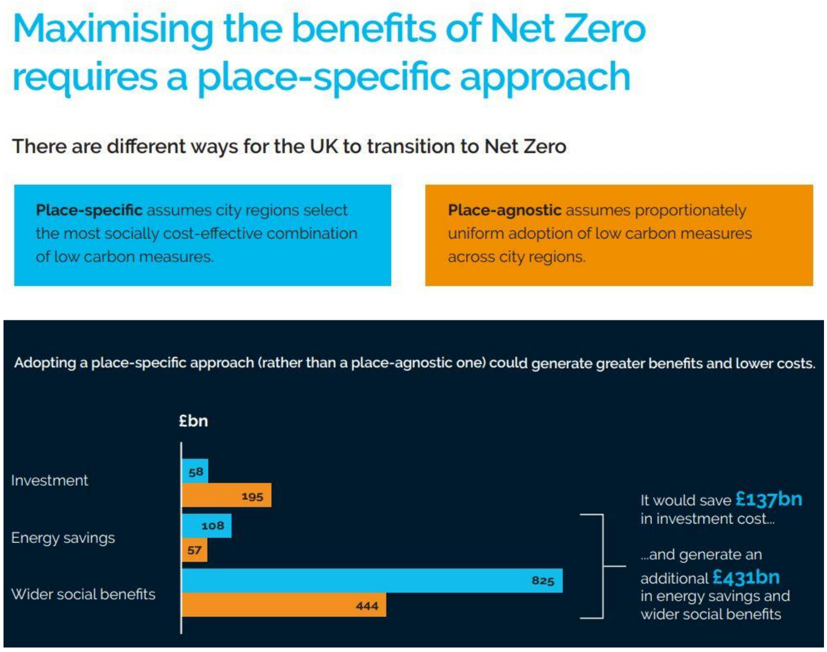
29. The Impact Investment Taskforce's "best estimate of project volume [from community energy] that would use SITR is £15 million per annum," This is likely to cost the Treasury a maximum of around £3-4m a year. Alongside the significant social and community benefits generated there will be returns from VAT, corporation and income tax.

How it supports growth

30. It will mobilise a significant boost to social investment, a significant proportion of which would not otherwise have gone towards achieving net zero. Social business is extremely effective at generating benefit, local employment and economic activity. See 33 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%.[6] The 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.[7]

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

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

31. 

Wider macroeconomic implications

32. 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.

33. 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.

34. **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. Almost the only way to do *local* impact investment to benefit your own community energy is through community energy. Institutional investors and pension funds are coming under increasing pressures to divest from fossil fuels and invest for positive outcomes[8].

Sectoral impacts:

35. 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. 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, a 30% increase over the previous year. This activity would all increase if Tax Relief for community energy generation were enabled.

Distributional impacts:

36. It will increase returns for the larger investor but as a result growth 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 targeted at vulnerable members of the community.

Administrative and compliance costs and issues:

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

Legislative and operational requirements:

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

39. Much work was done by many people at the time of the Social Investment Tax Relief

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

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:

40. 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.

BUSINESS RATE RELIEF

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

42. 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.

43. 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

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

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

    45.1. 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

45.2. 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.

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

45.4. 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.

46. 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.

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

RETROFIT FUNDING AND FUEL POVERTY

48. The Energy Savings Trust estimates that the government has still not committed all of the £9.2bn promised in the 2019 Manifesto to building energy retrofit[9]. We urge that **this shortfall be committed in the Autumn Statement, to be spent in this parliament**.

49. The government's efforts to tackle fuel poverty and meet net zero are being held back by very low rates of home energy efficiency improvements.[10] The Prime Minister's decision to scrap home energy efficiency regulations for the rental sector and disband the energy efficiency task force will not help to address this issue. Increases to the grants available through the boiler upgrade scheme are insufficient. The Public Accounts Committee says that the government's "fragmented, stop-go activity has hindered long term stable progress towards Government's energy

[9] Personal communication in October 2023.
[10] Analysis: Cutting the 'green crap' has added £2.5bn to UK energy bills - Carbon Brief

efficiency ambitions."[11] A long-term scheme aimed at radically increasing energy efficiency improvements in homes is needed.

50. 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.**

51. A mass retrofit programme would significantly reduce energy bills in the long term but action is also needed to support people this winter. The Autumn Statement should commit more funding to supporting people in fuel poverty. **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.[12] 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.

OTHER

52. 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 (indeed to all policy in all departments)** 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.

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

54. 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.

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[11] Green homes grant voucher programme (parliament.uk)
[12] Social-tariff-letter-to-chancellor-january-23.pdf (ageuk.org.uk)

55. 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.

56. 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.

57. That said, **the 3rd rounds of the Levelling Up Fund and the Shared Prosperity Fund must be announced in the Autumn Statement with long enough notice and application windows to allow Local Authorities and Community Energy organisations to build good collaborative projects.**

58. 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.

59. We support and applaud **the reduction of VAT on Energy Saving Measures to 0%. This should be made permanent 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.

60. **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