



2011 Budget Threat to the Future of Community Renewable Energy

Summary

The exclusion of “feed in tariff (FIT) businesses” from the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCT) - announced in the 2011 Budget – threatens to undermine the coalition commitment to encourage “community-owned renewable energy schemes” and to “support the creation and expansion of mutual, co-operatives, charities and social enterprises.” The planned review of capital allowances for FIT businesses threatens to further undermine the viability of community energy.

The Budget announcements will mean a large number of community energy initiatives already in development will have to be shelved, and halt the emerging “big society” community renewable energy movement in its tracks.

This negative impact on community energy appears to be an unintended consequence of measures designed to prevent the subsidy of excessive profits to commercial investors.

The government will shortly be consulting on implementing the Budget announcements that “feed in tariff businesses” would be excluded from the EIS and VCT investment. The government must demonstrate its commitment to community renewable energy by exempting defined social enterprises (such as a Community Interest Company or cooperative).

1. What is ‘community renewable energy’?

A community renewable energy project can be defined as one which:

- Is developed by or in partnership with the local community, with broad community support;
- Delivers meaningful local benefit through generating income for a local community fund and/or income for local community investors;

- Generates energy at a scale relevant to the scale of the local population (as opposed to household scale).

Community renewable energy enables communities to harness their own renewable energy resources for their own benefit. It has the potential to make a substantial contribution to tackling the social and economic challenges faced by communities (especially rural communities) in the UK.

Tiree – a flagship community energy island

A good example of a community energy project is the Tiree community wind turbine. The turbine (commissioned in March 2010) provides a sustainable source of community owned and managed income for the island of around £120,000 per year. The income will be used to support key community infrastructure and services that would otherwise struggle for funding, such as: an island swimming pool, improved harbour facilities for local fishermen and visiting yachts, better facilities for local businesses, affordable housing and support for youth groups. It will make a meaningful positive difference to the future of life on the island. For more information see: www.tireerenewableenergy.co.uk

2. The role of social enterprise in enabling community renewable energy to become widespread

A number of flagship community energy projects have demonstrated the exciting potential of community energy initiatives to bring communities together and make a transformational contribution to the local economy. However, community energy projects represent just 0.5% of the renewable energy generation capacity built in the UK to date. These projects have mostly been reliant on EIS based community investment (through cooperatives) and grant funding that is drying up. However, this 0.5% has inspired a groundswell of community energy groups with ambitious plans. Community energy projects can require pre-planning risk investment of several hundred thousand pounds, and construction investment of several million pounds. Such investment, and the professional expertise required to deliver such projects, is beyond the resources of most communities; creating a market need for scalable, replicable and commercially fundable social enterprise business models for delivering community energy. These business models are beginning to emerge in the UK in the form of both cooperatives and community interest companies (CICs). A number are listed in section 5 below.

3. The role of EIS/VCT investment and capital allowances in enabling community renewable energy to become widespread

Key requirements for the economic viability of any renewable energy project include:

1. Good underlying project economics (i.e. resource, capital and operational costs);

2. Sufficient power price, supported by the feed-in tariff (FIT) or Renewables Obligation (RO);
3. Access to development and construction stage equity and debt finance at a viable cost;
4. Enhanced capital allowances to support payback of the high capital outlay.

Without all four of these elements, a project will struggle. Community energy projects are too small and offer returns that are too low to attract the sorts of equity investor that finance large-scale renewable energy projects, such as power utilities and infrastructure funds. However, EIS/VCT eligibility:

- Creates a market of tax-based investors with requirements matching the investment needs of community renewable energy projects;
- Supports local community investment through community share offers;
- Bridges the gap between the return that can be offered by a community renewable energy project and the return needed by investors:
- Enables community income to be generated.

There is no alternative source of capital with the capacity to significantly scale-up investment in community renewable energy. Without the ability to attract EIS/VCT investment community renewable energy initiatives will either have to compete with each other for limited sources of social investment and grants or focus on larger scale projects, which are limited by the availability of good sites and are disconnected from the needs and aspirations of smaller communities. This means very few projects will be delivered and most of the projects already underway will have to be shelved.

4. How social enterprise company structures protect community and Government interests

CICs bring together the interests of communities and investors through an asset lock placed on the company that enables investors to earn a return commensurate with their risk, but ensuring any surplus profit is channelled to the community rather than investors (see box below).

Cooperatives prevent profit accumulating to large investors through '1 shareholder 1 vote' control and capping the total investment from any individual (typically to £20,000). Some cooperatives (e.g. 'bencoms') also employ asset locks and dividend caps.

An exemption for community renewable energy projects with social enterprise company structures would safeguard and encourage investment in the UK's budding community energy industry, whilst preventing the subsidy of 'surplus' profits for investors. The details of the exemption (such as investor return caps) could be controlled and adjusted

if necessary through guidance notes to be incorporated into the memorandum and articles of association of qualifying companies.

What is a Community Interest Company (CIC)?

A CIC operates and pays tax in the same way as a normal limited company. However, there are of restrictions that reflect and govern its community interest purpose:

- Profits and any residual value if and when the company is wound up are 'asset locked' and must go to a community-interest-cause that is stated in the company's articles of association. For a community energy company this could be a local community fund.
- The management are employees not shareholders, and salaries are regulated to not exceed those for similar positions in a commercial company.
- Investor dividends are limited to 20%/yr of the fully paid up value of an investor's shares (or less if a CIC elects to cap returns at a lower rate).
- There are limits on the percentage of a CIC's distributable profits that can be paid to investors.

The CIC structure therefore enables investors to be paid a capped return commensurate with the risk of their investment, but the asset lock ensures any 'surplus' profit is channelled to the community interest.

For more information see the Community Interest Company Regulator (www.cicregulator.gov.uk).

5. Examples and market potential

If the current market share of community renewable energy was to increase to just 5% by 2020 this would represent 1,930MW of installed capacity. Delivered under a market leading social enterprise business model this could generate community funds worth £1.3bn by 2020.

Examples of existing community renewable energy projects that would have struggled to raise investment without EIS/VCT eligibility include:

Energy4All www.energy4all.co.uk
(7 operational community
wind projects)

Examples of community energy businesses that will struggle to raise investment for FIT-scale projects without EIS/VCT eligibility include:

Communities Renewables Green Trust	for	www.communities4renewables.co.uk
Shareenergy		www.shareenergy.coop
Energy4All		www.energy4all.co.uk
CORE		www.corecoop.net
Energy Prospects		http://www.energy4all.co.uk/community.asp?ID=SCPRF&catID=2
Community Power Cornwall		http://www.communitypowercornwall.coop/

Examples of individual community energy initiatives that will struggle to raise investment for FIT-scale projects without EIS/VCT eligibility include:

Wadebridge Renewable Energy Network		www.wren.uk.com
Low Carbon Ladock		http://en.wikipedia.org/wiki/Ladock
Ham Hydro		http://e-voice.org.uk/hamunitedgroup/ham-hydro
Ashton Hayes Going Carbon Neutral		www.goingcarbonneutral.co.uk
Community Energy Warwickshire		www.cew.coop
Bath Community Energy		www.bathcommunityenergy.co.uk
Goring & Streatley Sustainability Group		www.gssg.org.uk
Low Carbon Oxford North		www.lcon.org.uk

Community energy networks that indicate the size of the market include:

Carbon Leapfrog (over 30 community energy initiatives)		www.carbonleapfrog.org
Low Carbon Communities Network (175 initiatives)		www.lowcarboncommunities.net
Energysshare (over 900 initiatives)		www.energysshare.com