Unblocking the UK Community Energy Revolution

a briefing paper on the implications of proposed changes to the rules and regulations that govern the co-operative structures that are most suited to deliver community energy in the UK

11.02.2015

Unblocking the UK Community Energy Revolution

The UK needs to move from an economy based on fossil fuels, towards one based on renewable energy; from a market dominated by a handful of suppliers, to one where thousands of communities meet their energy needs locally.

We need an approach to ownership and innovation that is more co-operative, citizen-centred and decentralised. One that enables people to work together to generate, distribute and supply their own sustainable energy. One that taps the emergence of new crowdfunding mechanisms that have the ability to leverage large sums of money into clean energy investment, and at the same time bolster energy-democracy and the social economy.

The models for doing this already exist. Across Europe there are thousands of co-operatives and social enterprises that are today not only delivering clean, low-carbon energy but local employment opportunities, community development funds and fuel poverty alleviation.

However, in recent months (and despite the welcome UK Community Energy Strategy) progress has ground to a halt in the UK. The Government is proposing changes to the rules and regulations that govern the co-operative structures that are most suited to deliver community energy in the UK.

- **The Finance Bill removes EIS (Enterprise Investment Scheme tax relief) from co-operatives and replaces it with SITR (Social Investment Tax Relief), but only community benefit societies will qualify for the new relief, not bona fide co-ops**
- **The Financial Conduct Authority (FCA) is now refusing to register any new community energy ventures that are established as bona fide co-operatives and challenging the continued registration of established ones, and**
- **The FCA is challenging the very foundations of co-operative endeavor, whereby capital raising and profit distribution go hand-in-hand with the realisation of social mission.**

These changes threaten the viability of the very community co-operative model the Government has set out to promote in so many other areas of policy.

This briefing highlights the main actions that are required to get the UK's community energy revolution back on track and enable us to create jobs, build sustainable communities, increase energy security and mitigate climate change.

PROPOSALS AND ACTIONS

A Reforming the Financial Conduct Authority's regulatory approach

A1 Consistent treatment for previously registered societies

No enterprise which is already registered as a Co-operative Society should face the threat of de-registration or be required to change its incorporated structure; provided that it continues to conduct its business properly in accordance with co-operative principles as it has since formally registered.

It is inappropriate for the FCA (as the registration authority) to apply such measures retrospectively or to deviate from the internationally recognised definition of a co-operative society.

A2 Criteria for the registration of community energy co-operatives

Clear criteria[1] need to be laid out identifying the circumstances in which community energy enterprises can be registered as Co-operative Societies which should follow the internationally recognized definition of a co-operative society.

A3 Registration guidelines to incorporate realistic financing criteria

The guidelines for registering either Community Benefit or Co-operative Societies should not inhibit their ability to raise the finance required to establish and maintain their business[2].

B Reforming tax reliefs

B1 Clarified transition arrangements from EIS to SITR

Transitional arrangements are currently unclear. The draft Finance Bill authorises the Treasury to introduce transitional arrangements. It is important that these are published early, and that they cover in particular provisions for enterprises which may have multiple or rolling fundraising over the transition period.

B2 A longer and more measured transition process

The Treasury proposes that EIS and SEIS will be withdrawn instantly on 5 April 2015 or on receipt of state aid approval for the SITR changes (whichever is the later). Such a sudden change makes business planning impossible (particularly in a sector which has long lead in times and which relies on work by unpaid volunteers). **EIS should be retained for community energy co-ops registered before August 2014 for a period of two years (in parallel with SITR[3]) to allow these co-ops to complete their current projects.**

B3 SITR available to certain qualifying Co-operative Societies

Most Co-operative Societies operate for a social purpose, and are high impact social enterprises. The principles and values of Co-operative Societies are similar to those of Community Benefit Societies and Community Interest Companies; they all adhere to co-operative principles and their purpose is not to maximise returns for members. The regulations should be amended so that **Co-operative Societies that meet prescribed criteria (such as asset lock provisions) should be eligible for SITR**. Government should work with the co-operative sector to introduce an optional asset lock for Co-operative Societies

Survey evidence supplied to the government by Co-operatives UK, as part of its response to the government consultation on EIS, showed that that -

- *Of the 1,056 individual investor members surveyed, 883 had benefited from EIS relief (83%).*
- *Of these, 37% of those benefiting from EIS said they would have invested less if EIS had not been available (with an average reduction of 45% of their investment).*

---

1 Co-operatives UK has agreed to lead preliminary drafting and consultation on what such criteria might be.

2 In particular it should not be presupposed that members of any of these societies are involved solely for philanthropic reasons nor that they are investing “with very little hope of return”.

3 It is understood that during this period enterprises could benefit from one measure, but not of course both.

- *A further 38% told Co-operatives UK they would not have invested at all.*

It is also clear from the Co-operatives UK survey that the average investment is likely to be below £2,000.

Without these investors many organisations would not have been able to raise the amount of capital required to build their projects.

C Reforming the Energy Market

C1 A community right to the self-supply of electricity

Without reform of the UK energy market, the government will not be able to deliver its Coalition Agreement pledge that

> ***"We will encourage community-owned renewable energy schemes, where local people benefit from the power produced"***.

Elsewhere in Europe, community energy co-operatives have the right to directly supply electricity to their local members/markets, at beneficial rates. To fulfil their full potential, **UK energy market rules must be amended to allow community benefit societies and community energy co-operatives to supply local markets (and members) - at preferential rates - with the electricity they generate**. If the UK is to create a more open, participative energy market - where communities can help drive down prices as well as add to security - the position of community-owned energy needs to be strengthened, not undermined.

C2 Community renewable 'heat'

The deeply problematic nature of current Treasury/FCA proposals is best seen in relation to community 'heat' co-ops. There are no national networks for heat. Community heat initiatives supply local communities/members, or no one at all.

While it is not legal to sell electricity in the UK without a license, the sale of heat does not require one. This makes the co-operative model ideal for the supply of community heat.

The government needs to enhance and defend the principle of a 'community right to self-supply'. This should apply to all renewable energy co-ops - heat, power and electricity.

The FCA's refusal to accept the registration of new community energy co-operatives will seriously inhibit the emerging heat co-ops because asset locked community benefit societies are not allowed to trade with their own members at preferential rates.

This has important implications for the development of community owned district heating systems which have the potential to make a useful contribution to reduction in fossil fuel consumption and the alleviation of fuel poverty, particularly in off gas-grid areas.

Contacts

Kathy Smyth, Director for Policy, CEE: kathy.smyth@communityenergyengland.org 01483 424012
James Wright, Policy Officer, Co-ops UK: james.wright@uk.coop 0161 214 1775
Benjamin Brown, Senior Policy and Research Officer, Social Enterprise UK: benjamin.brown@socialenterprise.org.uk 0203 589 4954
Alan Simpson, Schools Energy Co-operative: alan@alansimpson.org 07718 534885
Paul Monaghan, Sustainability Adviser, Co-operative Energy: paulmonaghan313@gmail.com 07741 988492