CO-OPERATIVES UK

Policy briefing

December 2014

Community energy announcements in the Autumn Statement 2014

1 Announcements

1.1 The Autumn Statement unveils a decision on investment in community energy, following a campaign and sector consultation submission that we have led on over recent months. The long and the short of it is that EIS will be retained for community energy until Social Investment Tax Relief (SITR) is opened up and expanded to EIS proportions.[1]

1.2 The exact timing of the SITR expansion is not known, so there is no set timetable for the removal of EIS for community energy, except in the case of bona fide co-operative societies (BFCs), who will lose EIS from 6 April 2015.

2 Recognising a partial win

2.1 In the summer HM Treasury seemed very keen on removing EIS relief for community energy co-operatives, and it didn't exactly roll out the red carpet for us when it came to SITR either.

2.2 HM Treasury asked us what a lack of any tax reliefs would do to community energy. In our sector leading response we used evidence drawn from over 1000 members of more than 50 co-operatives to demonstrate the devastating impact of a complete removal of reliefs. More than 40 organisations signed up in support of our submission. We argued for retention of EIS, at least until SITR was made ready. [2] Meanwhile the Community Shares Unit, in partnership with ourselves and Locality, made a great case for expanding SITR to EIS proportions and opening it up to community energy co-operatives.[3]

2.3 When it comes to EIS we have the crucial period of grace we asked for. Considering the position and tone of HM Treasury back in the summer this is no mean feat, and once again shows the value of working together. Everyone who helped in gathering evidence from the sector deserves thanks here.

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[1] https://www.gov.uk/government/publications/autumn-statement-documents

[2] http://www.uk.coop/sites/storage/public/downloads/community_energy_investmet_incentives_consultation_response_-_co-operatives_uk_response_0.pdf

[3] http://communityshares.org.uk/sites/default/files/resources/social_investment_tax_relief_consultation_-_final_response_from_co-operatives_uk_and_locality.pdf

2.4 Subject to State Aid approval SITR will be expanded to EIS proportions and crucially will be opened up for use by the community energy sector. Whilst HM Treasury seemed keen on the former, the latter was no forgone conclusion and again the evidenced collective voice of the sector was crucial.

2.5 No one should be in any doubt that for community energy the Autumn Statement could have been much worse.

3 Devils in the detail

3.1 There are of course real devils in the detail. Notably, SITR does not cover the BFC legal form. This adds to ongoing difficulties arising from FCA policy in this area and will cause legitimate concern. That said we want to make it very clear that as co-operatives can and do use all legal forms the model of the community energy co-operative is not under threat, and will be well served by the improved SITR.

3.2 Those concerned about rates of return offered by community benefit societies (Bencoms) should note that there is no legal mechanism for limiting these. The test of a Bencom is the outcome it delivers not the way in which it raises capital. Furthermore the agreed principle for Bencoms is the same as it is for BFCs: **societies should offer rates of return necessary to attract and retain capital**. We adamantly oppose the FCA's recent assertions that Bencoms must be 'charitable' or 'philanthropic' and will fight to ensure they are treated as a form of mutual social enterprise, offering meaningful rates of return and using capital to meet common needs.[4]

3.3 Meanwhile we are still convinced that BFCs with a clear social purpose should be eligible for SITR and will continue to push this agenda. For us the introduction of an optional asset lock for BFCs is a priority for many reasons, and could be a game changer on this front for sure. We would be grateful to here from those interested in supporting this cause. See pages 5 and 6 of our recent 'Co-operative Call to Action 2015' for more on this. [5]

3.4 We should perhaps also be concerned about the potential impact of losing SEIS, the 50 percent tax relief currently incentivising investment during early high risk phases of a project. SITR currently has no equivalent.

4 Future proofing

4.1 We remain adamant that longer term a vibrant high impact community energy sector will need a BFC legal form that is eligible for some form of support through the tax system.

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[4] http://www.uk.coop/sites/storage/public/downloads/guidance_on_the_fcas_registration_function_-_co-operatives_uk_consultation_response.pdf

[5] http://www.uk.coop/documents/co-operative-call-action-2015

4.2 Arguably white label solutions to the supplier license issue mean that direct supply is already an option, and we are hopeful that at some point local licencing and supply will break up our centralised oligopoly of an energy system. This creates the opportunity for direct supply energy co-operatives in which members' energy needs are in part met by the energy they produce. Whilst we believe Bencoms could be ethical energy suppliers, for many the BFC legal form will be far better suited to this model as the former requires clear community benefit as opposed to member benefit. As it stands there is consensus that BFCs can pay a co-operative dividend which some see as central to the success of a community consumer model, whereas the treatment of capital and profits in Bencoms is currently a very contentious issue.

4.3 Direct supply energy co-operatives have the potential to deliver superb social value. Closing the loop locally will end the distinction between producer and consumer, clear the way for community energy co-operatives to challenge the dominance of the big energy companies, and give a further boost to the local economy and community. Co-operatives could choose to supply their members at below market rates, or at social rates, making renewable energy more affordable whilst alleviating fuel poverty and cutting the cost of living. This would be the best kind of bottom-up economic and social innovation, reshaping our economy and meeting genuine needs. A massive opportunity will be lost if there is no support for people to pool their resources in these ventures.

5 Support for common wealth creation

5.1 The bigger picture here is that the UK needs to start supporting mutuality and common wealth creation in a bigger way. There is a danger that the social investment paradigm centres too much on trickle down quasi-philanthropy. We need to fight hard for a greater focus on ordinary people pooling resources to meet their own needs, in the proudest tradition of mutuality. This means recognising the social value in collective investment in BFCs. A number of our 'Co-operative Call to Action 2015' policy recommendations are pertinent here:

- Introducing and optional asset lock for BFCs
- Introducing a tax relief on profits paid into indivisible reserves of small asset locked BFCs
- Introducing a co-operative equity incentive scheme for members of BFCs (for example extending SITR to asset locked BFCs)

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