



Introductory guide

**COMMUNITY
ENERGY
FOR LOCAL
AUTHORITIES**

SCALING UP! SERIES



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COMMUNITY ENERGY FOR LOCAL AUTHORITIES

PART OF THE SCALING UP! SERIES

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About Pure Leapfrog

Pure Leapfrog is the leading provider of social investment and professional support to community energy projects in the UK. Our mission is to ensure that community energy becomes a significant part of the sustainable energy mix in the UK.

www.pureleapfrog.org

Special thanks

Whilst a number of parties have helped us to develop this information Pure Leapfrog would in particular like to thank the following for their contributions:

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The not so small print

These notes are intended to help inform parties involved but in no way constitute legal, financial, accounting or technical advice. Not least, rules and regulations are subject to change. We strongly recommend each party obtains professional advice.

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BACKGROUND

To help the community energy sector to reach its potential, Pure Leapfrog has been convening a series of roundtables to explore various approaches that local authorities can take to establish, co-develop and facilitate community energy projects.

This, our first document in the Scaling Up! Series summarises the findings of these roundtables, and is aimed at local authority representatives.

We have endeavoured to de-mystify the various areas required in setting up and delivering a community energy project, with the aim of catalysing the development of further projects. This is by no means exhaustive and is intended to provide introductory information for those embarking on their journey.



WHAT IS COMMUNITY ENERGY?

Community energy covers a broad range of activities, including local renewable energy generation, schemes to help neighbours to reduce energy use together and group buying of energy, usually financed by community investment and operated for the benefit of the local community.

Community energy projects often focus on social outcomes, such as community cohesion, reducing fuel poverty and re-investment of profits, as well as an interest in sustainability. All groups depend on volunteers and rely heavily on gaining broad support within a local community for their activities. Many groups are set up as co-operatives, community interest companies and charities or trusts.

According to DECC, at least 5,000 community energy groups have been set up in the UK since 2008, with a concentration of groups in rural areas, South West England and Scotland, paralleling the activities of the broader renewable energy sector. Community energy is largely focused on renewable electricity generation, especially solar PV and onshore wind.

Research by DECC found 150-300 community energy groups across the country developing a renewable energy project, with 66MW of generating capacity already operating and a further 200MW in development. Over £20 million has been raised from over 10,000 investors into over 40 projects. While the sector has seen an annual growth rate of 30% since 2008, it is still less than 1% of total renewable energy capacity.

This contrasts with Germany, where around 46% of renewable energy is owned via cooperatives or individuals and half the local energy distribution grid is also owned by municipalities and cooperatives.

However, the Government's community energy strategy sets an ambition for the sector to grow 40-fold by 2020. The stated goal is for over 500 community energy companies to raise over £1.5 billion from over half a million investors and £2 billion in loans to fund the installation of around 3GW of wind, solar and hydro. This would be enough energy to supply the power for over 1 million homes, representing 14% of total capacity for these technologies. It is projected that these community energy enterprises would create £1.3 billion of financial surpluses that would be available to be re-invested back into communities by 2040.

The goals set forth for the community energy sector are bold and it is unlikely that the government's ambitious targets will be met without the support of local authorities. There are broad options for local authority involvement. This means that every local authority can support, on some level, the introduction of community energy into the local community. Below are some examples:

Bath & West Community Energy was established in June 2010 to strengthen the local economy and build community resilience by creating a community-owned enterprise to deliver renewable energy and energy efficiency projects. Since that time, BWCE has raised over £3 million of investment, including over £2 million from community members to install solar PV panels across schools, community buildings and in a local business park. BWCE has also helped set up three other community energy groups and get their projects off the ground, including a 1MW solar farm for Wiltshire Wildlife Community Energy that is an exemplar for promoting bio-diversity and that will generate over £700,000 of profits for local charities. BWCE benefits from a close relationship with Bath & North-East Somerset Council.

Carbon Co-op is a group working in collaboration with DECC & Greater Manchester Authority to achieve 80% carbon reductions through whole house retrofits. The organisation is owned and run by the householders who make up its members. Carbon Co-op members receive discounts on household energy surveys and access to finance to fund retrofits, as well as joining a like-minded group of people who share knowledge on how to reduce their carbon footprints and make their homes warmer and healthier to live in.



Carbon Co-op: Householders in Hulme looking at current energy usage and possibilities for future reduction.

Camelford Leisure Centre is run by a local cooperative that was set up in 2012 to rescue the local swimming pool and sports facility from closure due to local authority cuts. In order to secure support from the county council, the cooperative needed to develop a business plan that showed how the leisure centre could become financially viable. A key part of the business plan was the installation of a biomass boiler to replace aging oil boilers. Without renewable heat, the leisure centre would close, with the loss of employee jobs and leaving 7 schools without a local swimming pool.

HOW LOCAL AUTHORITIES CAN BENEFIT FROM COMMUNITY ENERGY

Community energy should be a key part of any local authority's strategy to drive down the carbon footprint and energy costs of their community. Local authorities can draw on the expertise, enthusiasm, and capital that their communities can provide.

Community finance – Communities can be a good source of finance for local authorities wishing to do green retrofits on properties such as schools, community centres or even corporate properties. Communities are capable of raising millions of pounds for projects and community finance tends to be "patient capital," i.e. investors demand lower returns over longer time periods than purely commercial investors. For example, Wey Valley Solar Schools raised over half a million pounds to put 240kW of solar panels on the roofs of six state secondary schools in Surrey. The cooperative has subsequently gone on to undertake the first community-financed LED lighting retrofit of a school and has expanded its operations to install solar panels elsewhere in the country.

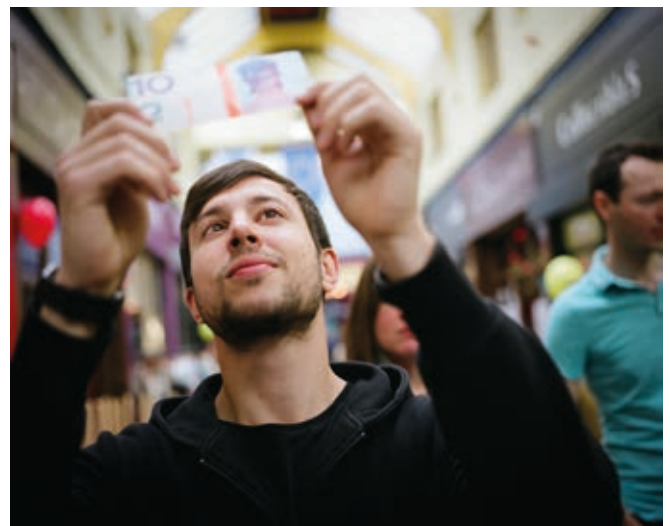
Local engagement and support for the green agenda – Community energy is a powerful way to harness popular support for what otherwise would be top down local authority green investment plans. For example, Ashton Hayes Going Carbon Neutral has created a campaign that has engaged its whole community in reducing their village's carbon footprint, while local community energy groups in Bristol have organised the Solar City campaign to develop 1GW of solar PV, supporting the local council's efforts to install solar panels across its portfolio.

Retrofit of the local housing stock and reducing fuel poverty – Community energy groups are pioneering new models to achieve domestic retrofits as a complement to or replacement for official government policies. For example, Carbon Coop in Manchester has signed local people up for whole house retrofits by introducing a community version of the Green Deal using a network of local contractors, while Meadows Ozone Energy Services (MOZES) paid for solar panels on 55 local houses, three schools and two community buildings in an area that has struggled with poverty and crime.

New revenue streams to fund social programmes –

Community energy schemes normally seek to use their profits to fund programmes to address local social needs. 100% of the profits from Wiltshire Wildlife Community Energy's solar farm are being used to fund good causes including programmes to take inner city kids into the countryside, with a minimum percentage earmarked for fuel poverty. Calleva Community Energy is donating 50% of the profits from its solar PV installations to fund fuel poverty projects in its local area.

Building the local green economy – Community energy supports local jobs and training in the green economy. For example, Brixton Energy's Energy Efficiency Fund is designed to provide apprenticeship opportunities for young people seeking to gain experience in renewable energy. Local authorities can stimulate the local economy by stipulating local jobs and training are embedded in the development of any project. By doing this, further local wealth is created and local economic growth strategies are reinforced.



The Brixton Pound, a local currency utilised in the Brixton Energy Solar projects. Community energy projects can help build a more resilient local economy

Social enterprise in areas of deprivation – Community energy creates the opportunity to grow new social enterprises that are owned and operated by local people in deprived communities, offering an example of how community action can create and retain wealth in the local economy. Currently, Swansea City and County Council are seeking to establish a community energy company to generate clean energy in two particularly deprived wards.

Energy production and savings – Local Authorities can directly benefit from energy production on council owned property. Potential benefits include energy cost savings, energy production income and secured revenue for community groups and interests. Long term carbon reduction goals can also be met without reliance on internal funding.



HOW LOCAL AUTHORITIES CAN SUPPORT COMMUNITY ENERGY

Local authorities are the ideal partners to help the community energy sector get to scale, ensuring that the benefits of renewable energy are maximised for the local economy. There are three key ways in which local authorities can support community energy.

Staff, expertise and back office support – Community energy groups rely heavily on volunteers and part-time staff. Local authorities can provide these groups with the infrastructure to help them get off the ground until they become financially self-sufficient. It can be as simple as making sure that there is always someone available to pick up the phone and take messages or it can be secondment of staff into the community energy group. For example, Lambeth Council provided the services of its Community Energy Project Officer to support the growth of Brixton Energy.

Property for renewable and other low carbon projects –

Local authorities have significant property portfolios, including schools, community centres, libraries and housing, and even brown-field sites, which are suitable for the installation of renewable energy or energy efficiency measures. Communities can provide finance to fund a green energy retrofit of buildings to reduce running costs and carbon emissions.

If these portfolios are made available to community energy companies, it gives the opportunity for these companies to build up a sufficient asset base, so that they can begin to professionalise, which will further accelerate scaling up.

For example, the local community in Fenham, in the west end of Newcastle upon Tyne took over the running of their swimming pool which was closed by Newcastle City Council. The community raised money to install solar thermal panels which are helping to keep the pool open by using solar energy to provide 60% of the energy required to heat the pool. Bristol Council is providing a portfolio of corporate property on which the community will finance solar PV panels, generating half-price power for the council.

Funding to meet operating and capital costs – Local authorities have access to funding to help community energy groups get off the ground. For example, Plymouth Council provided the funding to set up Plymouth Community Energy, as well as providing a low cost loan to meet half the costs of installing solar panels across 18 schools and other local council buildings. Oxford City Council provided a £2.3 million loan facility to enable the Low Carbon Hub to install solar PV panels across Oxford's schools. The loan will be repaid once the community share issue is completed.

GETTING STARTED

Once a local authority understands the benefit of integrating community energy into a comprehensive community vision there are some important points to consider.

Here are some key questions to get clear on as you embark on establishing a community energy strategy:

1

What are the outcomes you are trying to achieve?

e.g. Are they environmental, social, financial or a mixture of all three?

2

What are your motivations?

e.g. Political, addressing targets, financial inclusion.

3

What is your scale of ambition?

How many people to lift out of fuel poverty? How many megawatts of installed capacity?

4

What resources do you have at your disposal and what are you willing to commit?

e.g. Financial, personnel, properties?

5

What type of community energy project are you looking to initiate?

e.g. Energy efficiency, energy generation, collective switching?

6

What are the needs of your citizens?

e.g. Where are the vulnerable communities and what are their challenges?

7

Which officers, departments and elected representative need to align to make a community strategy succeed?

e.g. Councillors, legal, finance, procurement?

8

How would your community energy strategy link with other policies and requirements?

e.g. Can it complement planning or neighbourhood action plans?



IMPORTANT ISSUES

When thinking through how they can support community energy, local authorities need to consider common legal and regulatory issues to ensure that the support offered does not compromise the success of local community energy strategies.

Local authorities can choose various ways to approach the delivery of community energy projects. Each of these models will throw off its own challenges. The following are some of the most common issues.

FINANCE

Local authorities can become involved financially at various stages of a community energy project or they may choose to have limited or no financial involvement. If the local authority does wish to provide financial support, it may do so through grants or by investing equity or debt; these are not mutually exclusive. Financial involvement and explicit backing from a local authority can give investors confidence and so increase the likelihood of success of a community share offer. Equally, a local authority can develop a project itself, taking the risk out of the project and transfer or sell it on to a community group once the project is completed. This enables the community to benefit from the local authority's buying power. However, there may be caps on local authority borrowing or spending and each local authority may choose to invest using different sources of funding.

Which funding pot? – As well as capital or revenue budgets, local authority pension funding might become an option once projects have reached a sufficient scale and maturity. Lancashire County Council was one of the early movers, and invested £12 million from their pension fund into the Westmill Solar Co-operative in Oxfordshire in 2013.

Maintaining FIT/RHI eligibility – Where a local authority wishes to provide financial support to a community energy project, particular care needs to be taken to ensure that the funding provided does not invalidate the project's ability to claim the Feed-In-Tariff and Renewable Heat Incentive. Current government policy prevents community energy projects that have received grants from public authorities for renewable energy generation equipment from being eligible for FIT or RHI payments. However, there are a number of ways that local authority funding can be used without harming eligibility, e.g. low interest loans or earmarking grant for purposes that do not affect eligibility.

TAX

Supporting local investment – Many community energy projects benefit from Enterprise Investment Scheme ("EIS") or Seed/Enterprise Investment Scheme ("SEIS") tax relief which gives investors a reduction in income tax equal to 30% or 50% of the value of their investment respectively. Ensuring that a project has addressed tax relief issues will be important for the community energy group to attract equity investors. This helps groups overcome the unique risks which larger developers do not face, including uncertainty in the planning process and limited community investment capacity. Some of the peculiarities of the SEIS & EIS schemes, are that shares must be held for at least three years, or for three years after the trade commences for EIS shares, the investment must be in the vehicle that owns the assets (limiting joint ventures) and SEIS/EIS shares should not be given preferential rights. Local authorities need to take care that their involvement does not jeopardise SEIS/EIS relief, which would harm the ability to raise money from local investors.



LEGAL STRUCTURES & ISSUES

Many community energy groups structure themselves as a "registered society", particularly a "community benefit society" ("bencom"). Popular alternatives include a co-operative society ("coop") or community interest companies ("CIC"). Choosing any particular legal entity will have a number of consequences that should be taken into account. These include which regulatory body they report to and legal obligations when raising public funds as well as limitations on how the local authority can become financially involved.

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Maintaining control over governance - If the local authority is looking to help form the community group then it ought to ensure that the objects reflect the objectives of the local authority which may subsequently have limited voting rights depending on the financial involvement with the community group.

Limitations on equity - If the local authority wishes to invest in a bencom or a coop, there is a maximum investment of £100,000 under the current regime for withdrawable shares. Additionally, part owning the assets such as in a joint venture may be possible, but some types of company structure have restrictions on the ability to do joint ventures. A joint venture for example can jeopardise the tax relief for local investors (as mentioned above), and restrictions such as asset locks mean that the capital invested cannot be withdrawn even if the assets owned by the community energy group are sold off.

Fitting in with existing agreements – In circumstances where a local authority procures its energy either directly or has agreements in place through a consortium agreement, there may be a restriction on the purchase of electricity directly from the community group. It is advised that local authorities check any existing agreements they have in place with each contractor to assess how these can be navigated.

It's not always a procurement issue – Naturally, procurement does not apply when any services, goods or works are not commissioned or procured. For example, when a transaction has no value, e.g. the sale or lease of roof spaces for the installation of solar panels, it should not be treated as a procurement issue.



PROCUREMENT

With the Social Value Act in force as of 2013, public bodies, including local government, are required to consider how the services they commission and procure might improve the 'economic, social and environmental wellbeing of the area'. This act is overlaid by OJEU (Official Journal of the European Union) rules for procurement. The upshot of these rules is that for a local authority to enter into any agreements with a community energy group, such as an agreement to buy electricity or heat from the group's equipment, it will need to ensure it obtains 'best value'.

Tender specifications – From a social value perspective, a local authority which has the aim of engaging with a local community energy group will be able to demonstrate a number of benefits including employment, training and development of social enterprises in the area. Defining best value in these terms should be a useful starting point and guide any decision making. If the services to be procured from a community energy group need to be publicly tendered, there are a number of criteria that can be in the tender specifications, such as local decision making and participation and local governance measures.

HOW WE CAN HELP

**Pure Leapfrog (Reg
Charity No. 1112249) is
the leading provider of social
investment and professional
support to community energy
projects. Our mission is to ensure
that community energy becomes
a significant part of the UK's
sustainable energy mix.**

We operate by issuing low interest loans to enable community groups to invest in renewable energy technology through a credit facility provided by Big Society Capital. We also offer these groups expertise through a network of lawyers and other professional service providers. The projects we support generate financial surpluses for the communities in which they are located. These surpluses are used, in turn, to create new jobs, subsidise schools and community centres and relieve fuel poverty.

Pure Leapfrog has supported over 100 community energy projects to date, and provided consulting and advisory services to a variety of corporate and public organisations to assist them in delivering community energy strategies and projects.

For more information and to find out how we can support you to deliver your project please get in touch:

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