Triodos Bank

Call for Evidence on Barriers to Community Energy Projects

Response from Triodos Bank UK
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Triodos Bank a global pioneer in sustainable banking, using the power of finance to support projects that benefit people and the planet. We believe that banking can be a powerful force for good: serving individuals and communities as well as building a more sustainable society. Triodos Bank has operated in the UK since 1995 and has been financing renewable energy projects since 1996.

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Triodos Bank UK offers the following products and services:

- Loans to mission-aligned organisations
- Corporate finance advice to organisations to raise capital, including via our crowdfunding platform (www.triodoscrowdfunding.co.uk)
- Direct investment opportunities in positive impact organisations
- Savings and current accounts
- Investments in impact investment stocks & equity funds

At Triodos Bank, we aim to foster transitions that make societies shift towards the highest standards of individual and collective wellbeing that are compatible with the health of our living planet. Our activities are focused on accelerating transitions within five themes: food, energy, resources, wellbeing and societal.

The transformation we envision is only possible through a fundamental shift in our mindset and our behaviour. We must chart a different way forward to achieve a deep, systemic transformation. This requires a fundamental change in our mindset towards the way we live, produce and consume, based on new principles.

Summary of our position

Triodos Bank has been supporting community energy projects in the UK for almost 30 years being one of the country's leading lenders to community-owned wind and solar energy projects as well as raising crowdfunding bonds directly from investors.

We know that a flourishing community energy sector brings a range of benefits including high quality jobs, addressing fuel poverty and regional revitalisation. Its overall contribution to wider society and addressing the climate crisis makes it essential that we support the growth of community energy and the communities it serves, ensuring more of the benefits of new energy infrastructure are enjoyed locally.

We have lent to over 30 UK community energy projects totalling c.£85m. However, we have also seen the significant financial challenges it faces; not least, the end of government subsidies, since which, we have only been able to lend to one non-subsidy community energy project.

In our response we highlight three issues in particular which, if addressed, will enable community energy to provide positive economic, social and environmental impacts for the UK. They relate to support for developing projects, building confidence in revenue streams and private sector investment incentives.

We have focused our consultation response on issues directly relating to the financial viability, and the financing, of community energy projects. For a wider range of challenges faced we refer to the responses from partners and customers such as **Community Energy England**, **Power to the People** and **Bristol Energy Cooperative** who expand on the issues such as grid access and skills shortages.

Additionally, we would like to reference the responses from Community Energy Wales, Community Energy Scotland, Local Energy Scotland who highlight the need for a nationwide approach to this issue.

1. Which type of stakeholder is responding?

    a. Community Energy Group
    b. Non-Governmental Organisation
    c. Private Company
    d. Local Authority
    e. Individual
    f. Other - Bank

2. Where are you, or your organisation, responding from within the UK?

Triodos Bank UK is headquartered in Bristol; we operate across England, Scotland and Wales and our answers reflect that geographic area.

3. What are the barriers, financial and non-financial, preventing the establishment, development, and scaling of community energy projects? Please include any relevant quantitative and qualitative evidence.

Financial barriers

Certainty of income. With limited certainty of income due to the lack of government subsidies, community groups have less confidence to take projects forward. The reduced confidence of financial viability leads to much greater risk to invest time and resources in developing projects. In addition, due to the comparatively small size of many community energy projects, they do not benefit from economies of scale available to larger developments.

Funding for development costs. There is very limited financial support for development costs which makes it challenging for most community groups to fund the development of a project, unless they have existing projects and can use profits from these. This barrier is therefore even more pronounced for single project community groups. In previous years there has been grant funding available for this (for example in Scotland through Local Energy Scotland), but this sort of funding is no longer available.

Lack of government subsidies. Without the certainty of income, which was previously provided through government subsidies, it is much more difficult to raise the finance needed to develop projects. This is due, both to affordability of debt, and investor appetite. Many projects cannot afford the finance required to develop projects or consider repowering a project (i.e. replace an older lower capacity turbine with a next generation higher capacity one). For example, we recently reviewed an opportunity to replace an existing operational community owned wind turbine in Scotland with a new larger turbine (to generate more energy and thereby create greater community benefit). Despite the project having 10 years of feed-in-tariff (FIT) remaining, it is still challenging for the project to service the level of new debt that would be required to finance the replacement of the turbine and associated costs. It is clear that in many instances, capital grants are also required for community projects in order to reduce the overall debt level and make them viable.

In addition, there is less investor appetite for such projects without the certainty of income previously provided by government subsidies.

Triodos Crowdfunding has raised finance for many community energy projects through share and bond offers. When such projects had FIT income there was significant investor demand for such investment opportunities. We have seen that this has reduced since the end of the FIT as the investment becomes higher risk.

Lack of investment incentives such as social investment tax relief (SITR) or Enterprise Investment Scheme (EIS). This again makes it more challenging to raise finance to develop projects and reduces investor demand for community bond or community share offers. For example, Triodos Bank is currently raising finance on its crowdfunding platform for Bristol Energy Cooperative through a community share offer. The demand for this has been notably less than for community renewables bond offers which can be held in an ISA, making them more tax efficient.

Non-financial barriers

Time. Most community energy groups are run and led by volunteers and have limited time and resources to commit to developing projects. Not having funding for such posts is part of the issue here.

Skills/Knowledge. Community groups do not often have, or have access to, the necessary technical and financial skills required to develop and deliver viable projects.

4. <u>Please indicate whether the community energy scheme(s) you typically work with are urban or rural? a. Urban b. Rural</u>

b. Predominantly rural, some urban

5. <u>Are there any regional issues impeding community energy projects? Please include any relevant quantitative and qualitative evidence.</u>

In our experience grant funding for the development of community energy projects has been more available in Scotland and Wales (predominantly through Welsh Government and CARES in Scotland) aiding the financial viability of projects in these countries, as compared to England. This was corroborated by the 2022 State of the Sector report on community energy.
The de-facto ban on new wind developments in England remains a real issue impeding community energy projects in this region.

6. <u>Where you have identified possible or actual barriers, do you have any proposals for how these might be reduced or removed, and why do you think the actions you propose would be effective and appropriate?</u>

Funding. The sector needs a well-funded and long-term source of catalysing finance (including grants) to support development and/or construction costs. There are many ways in which this could be achieved, as outlined by organisations such as Power for People and Community Energy England.

One example is the establishment of a National Community Energy Fund to replace the Rural Community Energy Fund. Its function would be to support urban and rural projects, heat, energy efficiency and retrofit projects, with feasibility and development grants and loans. It should include capacity building funding to enable the sector to grow again. The fund should seek to realise the potential for the sector identified in 2020 of 5GW of installed capacity.

Electricity markets. Projects need confidence in their revenue generation and the ability to sell locally generated energy without the prohibitive costs and administrative burden of becoming a licensed supplier.

In the absence of the highly effective Feed-In Tariff, there are various ways in which this could be achieved, such as the two-part solution laid out by the Local Electricity Bill[1]. Alternatively, a Community Energy Contract for Difference[2], simplified and with an enhanced strike price, or a Community Smart Export Guarantee with a guaranteed floor price over an extended period.

Tax relief. A scheme which provides tax advantages for investing in community shares would make a significant difference to the investment raising potential of many schemes. We would call for reinstating eligibility for the Enterprise Investment Scheme (EIS) for community energy shares in schemes operated by Community Interest Companies, Co-Operatives and Community Benefit Societies. (Eligibility was revoked in 2016 because there was concern that it was inappropriate for schemes to benefit from two government tax advantages; the feed in tariff and EIS tax relief, however, this no longer applies.)

Tax relief of this nature can have a significant impact in directing investment but should not be viewed as hugely fiscally significant. The size of this market and the proportion of investors accessing tax relief is comparatively small. For example, the 2022 State of the Sector report on community energy stated that £6.1m had been raised via community shares in 2021 across the UK – with tax relief at 30%, if fully utilised, it would be £1.83m.

7. <u>Which existing or past government support mechanisms and policies have been most helpful in implementing community energy projects and why?</u>

Social Investment Tax Relief, the Enterprise Investment Scheme, and the Seed Enterprise Investment Scheme all made investing in community energy projects more attractive and lowered the risk for investors, making it easier for projects to attract finance.
The Local Energy Scotland/Scottish Government Community and Renewable Energy Scheme (CARES) funding for community organisations and charities facilitates projects that would otherwise struggle to access funding. The State of the Sector survey[3] showed that 88% of development funding for community projects in 2021 came from CARES.

[1] Local Electricity (No. 2) Bill - Parliamentary Bills - UK Parliament
[2] 1591032846_ContractsforDifference_CEECESCEWresponse.pdf (communityenergyengland.org)
[3] 'Community Energy State of the Sector Report'; 2022

Ofgem's Feed-In Tariff and Renewable Obligation Certificate schemes provided much needed income security to many renewable energy projects. This is evidenced by the huge reduction in new community energy projects since April 2019 when the subsidy schemes were removed.

8. Could you share any evidence, either quantitative or qualitative, demonstrating how community energy projects are supporting the delivery of the UK's national net zero targets and providing additional benefits (e.g., reducing fuel poverty and improving community well-being).

The importance of community energy is more than just renewable energy. Community energy supports systemic transformation by accelerating the transition to a more sustainable society and economy. This are some of the principal additional benefits:

Job creation. In 2021 community energy groups across the UK had 3,325 volunteers and 644 full time staff, with around 30% of groups employing no paid staff.[4] This equates to roughly five volunteers for every paid staff member. At a ten-fold increase, and with the professionalisation of the sector that the access to local markets would create, more than 33,000 jobs could be created.[5] Almost all constituencies would benefit from this, due to the distributed nature of community energy schemes.

Energy security. Enabling the supply of locally generated electricity would reduce dependence on imported energy, increasing the resilience of domestic energy supply. Community energy groups tend to create investment amongst local people in smaller installations not likely to be built by larger developers.

Cheaper prices and warmer homes. By ploughing profits back into the local area, community energy can help people cut their bills. In 2021, community energy groups spent £510,160 on energy efficiency upgrades, helping 20,843 people reduce their energy bills and stay warm. An additional 57,600 individuals were engaged in energy efficiency initiatives. The efforts of community energy groups saved £3.35 million on consumer energy bills in 2021.[6]

At a tenfold increase in community energy, £90 million could be saved on consumer bills due to the expansion of energy efficiency initiatives,[7] helping 830,000 people.

Addressing climate change. If community energy generation was enabled to grow to 3,000 megawatts – a tenfold increase – around 1.5 million tonnes of greenhouse gas emissions could be saved each year. This is roughly equivalent to the emissions of all UK domestic flights.[8]

[4] Community Energy England, 'Community Energy State of the Sector Report'; 2022
[5] The Poverty and Environment Trust, 'The Call for A Level Playing Field'; December 2021
[6] Community Energy England, 'Community Energy State of the Sector Report'; 2022
[7] WPI Economics for SP Energy Networks, 'The Future of Community Energy'; January 2020;
[8] Ibid

Public appetite for Net Zero. Community energy is a vital foundation stone of the sustainable economy we are striving to create and can drive public acceptance and an appetite for change. It enables people to see tangible benefits in their area: a friend is employed by the community energy company; the local sports centre is refurbished from the community energy fund – these can create profound perception benefits.

Furthermore, the 'Review of Electricity Market Arrangements (REMA): technical research supporting consultation' report, commissioned by the Department for Energy Security and Net Zero and published on 12th March 2024 concluded that, "Local markets can support more efficient use of transmission and distribution system networks and resources, which would contribute to lower system costs."[9]

The latest State of the Sector report published in 2022 stated that the total community owned electricity generation capacity across the UK was 331 MW (by the end of 2021). The same report stated the following other benefits from community energy (in the year of 2021):

- An estimated £3.35m saved from UK energy bills due to energy efficiency interventions
- £15m of community energy income spent locally boosting local economies – benefits include providing income for local businesses and knock on effects of job creation, higher pay, strengthening local supply chains, increased living standards
- Community benefit fund value of £4.9m. This was sued to fund initiatives such as sustainable travel, sports clubs, local food growing, biodiversity, carbon reduction, fuel poverty

Additional Triodos case studies:

Sheriffhales Community Energy is a not-for-profit community benefit society, governed by local volunteer directors, owned by its members and operated to benefit the community of Sheriffhales village, with the aim of generating an income for the parish.
The historic village of Sheriffhales is located on the eastern side of Shropshire in the UK and has a population of around 700 people. The village has an agrarian economy and does not have a village pub, shop or bus but it is one of the few villages in the UK to own its own solar farm.

Located on the outskirts of the village, the 3.1MWp ground mounted solar farm is expected to generate almost 3,000 MWh of renewable electricity annually – enough to power 839 households each year. Originally commissioned in 2016 by a commercial renewable energy company, the solar farm was brought into part-community ownership within the same year, then in 2018 it received short-term investment from a social investment fund. The EUR 3.4 million loan facility provided Triodos Bank in 2022 enabled the community to take full ownership of the facility and secure the solar farm's long-term future.

[9] Electricity market design – Review of Electricity Markets Arrangements, Ove Arup and Partners, page 101

To date the community fund has provided well over £150,000 of support to local social and environmental projects, including funding food parcels during the Covid-19 pandemic, a subsidised taxi service for eligible village residents, a village hall extension and providing LED lightbulbs to every house in the parish.

Protecting local biodiversity and wildlife has also been a priority for the project. The land under and around the solar panels maintains species of grasses, herbs and wildflowers, while bat and bird boxes are located around the site.

Empower Community Foundation is a charity that owns two solar parks – Drove Lane near Salisbury in England and New Mains, in Scotland. The organisation distributes any additional income generated from the sale of its electricity back into the local communities.

In Salisbury, for example, Empower has worked in conjunction with Salisbury Council and with Wiltshire Community Foundation in order to support an initiative called Stronger Families. The programme addresses family breakdown, child poverty and mental illness in one of the most deprived areas of Wiltshire.

Similarly, Empower works with Foundation Scotland to support a variety of local initiatives near its New Mains solar park, including Voluntary Action Angus (VAA). During the pandemic, VAA helped to support vulnerable people in the local community through the Humanitarian Assistance Angus Response Team, which contacted over a staggering 98% of the 4500 vulnerable people in the area.

In May 2023, we promoted the second tranche of the Empower Community Foundation's bond offer to enable them to refinance more costly subordinated debt in their Scottish solar project. The bond offer was first promoted exclusively to existing bondholders who invested £600,000. The offer was then opened to the public and the remaining £1.4m was raised in just 24 hours. While the second tranche of bonds was priced at a higher interest rate than the first, the much higher electricity prices at the time meant that as much as £8 million of community benefit was projected to be distributed to the charity over the life of the scheme – much higher than originally forecast.