



## LET THE PEOPLE INVEST :

BUDGET UPDATE 2011

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### Introduction

*The budget is clearly directed towards helping industry in general rather than targeting Cleantech and low carbon as an engine of growth.*

*There are some welcome measures -but a severe risk of unintended consequences which could damage big society community based renewables in particular: removing a major plank for its funding. Rather than create growth some of the measures could stop community schemes dead in their tracks and cost up to £5 billion of investment and 20,000 future jobs in a 5 year period.<sup>1</sup> See 2 below.*

*It seems Treasury is unwilling to trust the people to responsibly invest in low carbon.*

*Rural communities don't just want help with the cost of fossil fuel in their tank- they also want help to decarbonise their building infrastructure and reduce their dependence on fossil fuels overall.*

*The measures also make the independent financing of renewables in social housing more difficult -meaning that less capital will flow to taking the fuel poor out of the looming energy trap.*

*It is to be hoped that these consequences are unintended and focussed at city investors seeking to profit from tariffs (as indicated in recent ministerial statements) and that government will be willing to modify its stance for community interest companies and industrial provident societies (coops)- the structures most likely to be used by genuinely community based enterprises.*

### Key points for cleantech manufacturing and renewables and energy efficiency infrastructure

***1.The creation of a Green Investment Bank is very welcome . However its capitalisation remains low in relation to the financing gap that exists for low carbon infrastructure .***

In this respect the delay in allocating borrowing powers whilst understandable in the context of the public finances, is disappointing. It may calm the symptoms of the financial crisis but the £18 billion it potentially provides whilst helpful , is a palliative given the £80 to £120 billion liquidity requirement in the next few years.<sup>2</sup>

*One solution would be the creation of a new asset class recommended in our report "let the people invest: 10 tax incentives for low carbon growth" – the tax exempt bond.*

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<sup>1</sup> Let the people invest 10 tax incentives for low carbon growth march 2011 p20

<sup>2</sup> Climate changematters estimates.



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Already used in the US this could be targeted towards large community based low carbon infrastructure and could raise £2 to £3 billion annually.

Because the cost to Treasury is simply the tax on interest foregone (its impact on funding requirements annually would be very low) whilst its impact could be very large: if £10 billion were raised over 5 years the cost would be £150m to £200m annually and 40,000 jobs result<sup>3</sup>.

*We would urge the chancellor to examine the introduction of tax exempt bonds by April 2012, to enhance the activities of a Green investment bank.*

Because the debt would remain on the balance sheet of community projects and would be non recourse to government (with the Green Investment Bank acting merely as arranger) it would satisfy Treasury concerns about the level of public debt, whilst transforming the amount of capital available to the low carbon sector.

***2. The smallprint accompanying the announced reform of EIS relief is potentially disastrous for community renewables schemes*** as relief will be withdrawn from companies benefitting from feed in tariffs which will be added to the list of excluded activities.

The first community wind scheme in the UK Baywind, relied on a precursor to EIS, the BES scheme for its funding and a number of community low carbon enterprises are planned which rely on EIS or potentially VCT funding of community investment company CIC or industrial provident society structures.

These are not the city based schemes targeted by the chancellor, but rather whole community movements seeking to assume the burden of investment normally taken on by utilities or the state.

*It is unhelpful that community based low carbon companies seeking EIS funding should suffer collateral damage from the Chancellor's small print bombshell rather they should be able to take advantage of the increased limits to fund community chp schemes for example.*

Whilst there may be some sympathy for curtailing some of the recent abuses of using VCT or EIS monies to fund large-scale solar farms, it is vital EIS and VCT monies can still flow to these vehicles- otherwise the big society low carbon infrastructure movement could be stopped dead in its tracks.

The measures also make the independent financing of renewables in social housing more difficult – a sector already disadvantaged by the phased and delayed roll out of the renewable heat incentive (RHI) - meaning that less capital will flow to taking the fuel poor out of the looming energy trap.

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<sup>3</sup>. ibid



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Controls to prevent abuse would be accepted by such community schemes, e.g. limiting dividends to a certain percentage of funds invested to well below the current 20 per cent.

*The message has to be: please think again and allow community schemes in appropriate structures to benefit both from tariffs and EIS relief.*

The problem is compounded by reference to a consultation in May as to the level of capital allowances feed in tariff and rhi schemes are to benefit from; with the implication that they could be reduced. This could be the final blow – it seems the big society approach to low carbon infrastructure will be the preserve of the well funded few. It will certainly delay impeding investment decisions.

We wonder whether this outcome was what was intended -can Treasury be really that determined to give with one hand to the low carbon community and take with the other?

We believe 20,000 low carbon jobs could be lost over the next 5 years as a consequence of this measure and the sector lose £5 billion of investment.

***3. In contrast the announced reform of EIS relief to 30 per cent is very welcome for cleantech manufacturing*** when combined with increase in limits for assets to £15m for EIS and the annual investment limit for qualifying companies to £10m . This could be of very significant benefit to Cleantech manufacturing industry start ups -as previously limits were too low to be of any use.

The cost of the EIS initiative is stated in the budget document as £105m to £120m per year. We believe that Treasury may well have underestimated the level of take up of this scheme and that relief to the Cleantech sector alone could be greater than the whole amount costed in the budget.

We estimate that approximately 25, 000 direct and indirect jobs could be created over a 5 year period based on Treasury costings, with more jobs created if such companies are able to claim the new higher 200 per cent R and D capital expenditure allowances up to the demonstration plant stage.

As ever the devil will be in the detail with the danger that the relief does not lead to differential investment in Cleantech manufacturing.

*It would have been much preferable to give 100 per cent capital allowances for all Cleantech manufacturing which would we estimate would have created 40,000 to 50,000 direct and indirect jobs.*

There is a hint that such enhanced allowances may be made available in some enterprise zones which may be welcome but it begs the question whether equipment manufacturers will wish to locate in such zones when they may have less restrictions on



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sites when setting up facilities in other countries -many of whom have competing incentives.

*There is potentially a serious weakness in Treasuries approach to such initiatives as they seem to only account for the cost of such schemes and do not appear to take account of the future payroll tax and corporation tax revenues that will result (even allowing for company failures). A more informed approach would allow a more widely drawn relief to the benefit to public finances in the medium term.*

### Conclusions

Whilst there are many welcome features to the budget particularly in relation to the green investment bank, for many communities the danger is that it is a budget for fossil fuelled rather than low carbon driven growth. It would be very helpful if government could reverse the unintended consequence of today's statement for Community renewables.

Had all of the measures we suggested in our report : **let the people invest** been adopted then we believe then approximately 100,000 more Cleantech jobs would be created than those likely to arise from these measures, for the sake of £300 to £400m extra expenditure- all of which would have been paid back to Treasury in the medium term.

We believe that proposals for tax exempt bonds and allowing community schemes to benefit both from eis and feed in tariffs should be implemented in time for April 2012 with the other measures we proposed in our report also given due consideration.

Indeed community schemes need to know where they are now if they are not to fall by the wayside.

As stated by a prominent community renewables player who has remodelled his business on the withdrawal of EIS relief.

*'I think we can say it would force us to focus on 3 turbine plus RO projects on windy sites. That would mean our business model would have to be site driven rather than community driven, and so change us from a 'a developer of community projects' to a 'developer of good wind projects that also create community benefit'.*

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