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# Next Generation Community Energy

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## Interim evaluation report – executive summary

A report prepared for Power to Change

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## About this paper

This working paper presents findings from Year 1 of CAG Consultant's evaluation of the Next Generation programme. While the overall programme started in June 2018, CAG Consultants, in partnership with Fiveways, were commissioned by Power to Change to evaluate the Next Generation programme in April 2019. The programme aims to support the community energy sector in two ways: by bringing more solar farms into community ownership whilst maximising the financial, environmental and social impact for their local communities, and by supporting the development of innovative business models for the community energy that are not dependent on Feed in Tariff subsidies. This paper presents interim evaluation findings about parts of the Next Generation programme, covering the processes used and early outcomes in both parts of the programme. It also shares learning from the programme for the benefit of community groups, policy makers and other community energy stakeholders, and makes recommendations for Year 2 of the Next Generation programme and wider work by Power to Change.

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## About the authors

CAG Consultants is an employee-owned co-operative with more than 30 years' experience of high-quality research and evaluation on economic, social and environmental issues, with particular expertise on evaluation and sustainable energy. Fiveways have broad expertise in advising and evaluating the community and voluntary sector, including governance and diversity issues.

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# 1. Introduction

The Next Generation programme offers grant funding alongside training, support and mentoring to Community Energy Businesses through two programmes:

## **Next Generation Fund (referred to here as the ‘Innovation programme’)**

The Innovation programme provides grant funding and accompanying support for community energy groups developing innovative post-subsidy business models. It identifies these through a competitive bidding process. Five projects were successful in Round 1 of the innovation competition, while six further projects were successful in Round 2. Support for the innovation programme is provided by an expert consortium led by the Centre for Sustainable Energy (CSE).

## **The Community Owned Renewable Energy (CORE) programme**

CORE has supported the purchase of new and existing solar farms, by new and existing community groups. These solar farms receive Feed in Tariff (FiTs) and Renewable Obligation Certificate (ROCs) subsidy for all or part of their electricity generation as they were commissioned prior to end March 2020. Nine solar farms were acquired by CORE Partners, a partnership between Power to Change and Big Society Capital, with fund management and advice from Environmental Finance (EF). The intention is that these assets be transferred to community ownership and management. The initial acquisition of the solar farms has been financed by Power to Change’s endowment (equity), and Big Society Capital (equity and debt facility). Both organisations require repayment and to generate interest on their investment, but the intention is that this investment will be short-lived and the assets refinanced by a combination of debt finance and community shares. EF are managing the provision of support on asset optimisation and refinancing for CORE assets. In tandem with the asset acquisition, optimisation and refinancing work participating community organisations are eligible for community grant support. This is managed by Power to Change and provided via a combination of the CSE consortium and other providers.

This evaluation covers both these programmes, including all aspects of Power to Change’s involvement in the CORE programme. Early evaluation findings for each programme are summarised in subsequent sections. Further research will be undertaken to refine these findings during Year 2 of the evaluation.

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## 2. Summary of findings about innovation programme

### Learning about process

The two rounds of Next Generation Fund were well subscribed and provided a good range of potential projects. Five Round 1 groups and six Round 2 groups were selected for initial funding. The Round 2 groups involve highly innovative models, while the Round 1 groups provide more of a balance between ‘innovation’ and ‘replicability.’ All of these projects progressed through the ‘Research and Development’ (R&D) phase into the main grant support programme. This evaluation has focused on the five Round 1 groups, because Round 2 groups had not fully passed the R&D phase at the time of the evaluation research.

Progress through the four phases of the grant support programme by Round 1 projects has been delayed, partly because of the implementation of individual projects and partly because of difficulty in demonstrating the continued viability of candidate business models, some of which appear to offer fairly marginal returns. There is scope for improvement of the grant committee process, including streamlining and optimising the ‘stage gate’ approval process which projects are required to pass between phases of grant support. Short-term delivery of the innovation projects has been delayed by the coronavirus pandemic; the economic impacts of the pandemic may have further consequences for the later stages of the programme.

The early impacts of the innovation programme are outlined overleaf.

### Impact on grantees

The main impact of the programme on grantees to date has been to fund and support business model innovation. While some of the business model ideas would have been pursued by the grantees without funding, the grantees would not have been able to progress them so quickly. External stakeholders commented that, while there were other sources of funding for new initiatives by Community Energy (CE) groups, they were less focused on innovation and were not accompanied by the other forms of support, ideas and resourcing that the Next Generation programme offers. For most of the Round 1 groups, the most useful aspect of Next Generation funding was that it enabled the groups to access specialist external advice (e.g. legal advice; techno-economic modelling) to progress their emerging business models. The more general strategic advice provided by the delivery consortium, together with specialist advice on electricity flexibility issues and CEB management issues provided by the consortium, also helped groups to progress their business models and strengthen other aspects of their delivery, particularly two groups that were still refining their project ideas). For one other group, the learning to date on their Next Generation business model has already enabled them to prepare a larger funding application which might allow roll-out of their approach. The business models are at too early a stage to assess whether they will increase the financial sustainability and resilience of the Round 1 groups, but there is potential for them to do so. At least two groups hope to raise community shares or bonds to fund roll-out of their models, if viable.

### Impact on people

Only one of the Round 1 groups uses permanent staff. While Next Generation funding did directly not result in an increase in permanent employment by the Round 1 groups, it enabled several groups to pay for consultancy inputs from their directors and volunteers and to bring in one or two members of staff on short-term consultancy contracts. Consultancy payments enabled directors to make inputs on a greater scale than they would otherwise, in some cases enabling them to progress ideas that they would not otherwise have progressed. Some retired directors, who did not need their consultancy payments, recycled the payments into their CE group to help pay for more external inputs. The learning from the innovation projects also expanded the knowledge of individual directors and staff members in the Round 1 groups.

### Impact on places

As delivery of the Round 1 projects has not yet started, there is as yet no direct evidence of social benefits arising from innovation project delivery. There are several expected benefits, both directly through project implementation and – for the models that might generate a higher return – indirectly through increased contributions to the groups' CBFs. Going forward, there may be some issues about the targeting of interventions for some business models (e.g. EVs, roof-top solar). Targeting interventions at 'early adopters' would provide maximum evidence of business model feasibility within the timescale of the programme, as take-up is likely to be higher. But this might result in the innovation projects benefiting a less diverse range of beneficiaries than if they were targeted at socio-economic groups in greater need.

### Impact on marketplace

The purpose of the innovation programme is to generate learning on new post-subsidy business models for the CE marketplace (i.e. the community energy businesses sector, the wider community business sector and other CE stakeholders and policy makers). None of the business models are yet 'proven' to be viable. One project has been being held up by regulatory problems in obtaining FCA authorisation.

While it does not guarantee successful outcomes, there is considerable interest in the wider CE sector and learning is already being shared regarding the progression of these business models and challenges in their development. The Round 1 groups have close links with a wider range of community organisations and public sector bodies in their local areas, and are part of both regional and national CE networks, providing them with good opportunities to share learning on the business models. However, unsuccessful applicants and other external stakeholders commented that there were some important gaps in the types of CE innovation supported by the Next Generation programme. In particular, Next Generation has not funded any business models for energy-efficiency retrofit work in the domestic sector<sup>1</sup>, despite domestic energy-efficiency retrofit projects being shortlisted within the selection process. Representatives from the Next Generation programme reported that they had hoped to support retrofit projects but were concerned that the proposed business models were not sufficiently viable to be progressed through the programme. A further gap that was mentioned was the lack of any models explicitly focusing on the negotiation of 'Power Purchasing Agreements' (PPAs) premised on social impacts from CE. However, negotiation of PPAs forms one element of some selected business models.

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<sup>1</sup> Community energy initiatives on retrofit work is being funded others (e.g. by the Department of Business, Energy and Industrial Strategy (BEIS) via the Retrofit Supply Chain Pilot programme).

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## 3. Summary of findings on the CORE programme

### Learning about process

The Community Owned Renewable Energy (CORE) programme is a £40 million investment programme that has at the time of writing acquired a total generation capacity of 34 MW across eight ground-mounted solar farms in England, and a further 5 MW single solar farm in Wales. The primary aim of the programme is to transfer these into the ownership of local communities, after having optimised them to maximise their potential for generating financial, environmental and social impacts. CORE aims to help reinvigorate the community energy market by demonstrating, and stimulating, wider interest and recognition of the benefits that can be delivered to local communities through the ownership of revenue generating assets.

The CORE programme deviated from its original design in three ways: through a delayed start and then an extended acquisition period, through the acquisition of distressed assets and in developing a new one, and through the establishment of a cooperatively owned asset management business. These changes resulted in the CORE assets being higher cost than expected, in the acquisition of assets that might not otherwise have been included in the programme (because they were distressed) and in the workload for delivery partners being more challenging than expected. One delivery partner's inputs were higher than planned for, without a commensurate increase in payments for those inputs.

The flexibility adopted by the CORE programme has been a double-edged sword: rescuing distressed CE assets, and forming a cooperative asset management business have been strategically significant, avoiding reputational damage to the CE sector that might have compromised CORE's wider aims. CORE was also credited with developing the UK's first 'post subsidy' community solar farm, as one asset was only partially supported by FiTs. But these changes made the CORE programme more challenging to deliver and manage.

Relations between the main delivery organisations have been strained at several levels and sometimes severely so. Difficulties were reported in the relationships between some key individuals. Sources of tension included: a perceived ‘culture clash’ between some delivery bodies; slippage in refinancing deadlines, possibly owing to the innovative nature of the refinancing and optimisation programme but also likely to be associated with unexpected additional workload; poor communication between the two main delivery bodies; blurred lines of responsibility; and a reported internal conflict of interest for Power to Change – between its role as CORE investor (needing to recoup its investment within a relatively short timeframe) and its objectives to build and support the CE sector.

The initial community grant support offer was poorly received by two CORE groups, who felt it inappropriate given the levels of experience and expertise within their groups. This created some tensions which have only recently been overcome.

Despite major challenges within the delivery process, there is evidence of positive impacts arising from the CORE programme.

### **Impact on grantees**

The CORE programme has had a positive impact on grantees in a range of distinct ways. For one CORE group, the CORE programme has enabled the group to take on management of two solar assets and establish an associated Community Benefit Fund (CBF). Two CORE groups already owned solar assets but were close to failure. Refinancing support offered by the CORE programme has ensured continued community management of these assets and, in one case, has enabled them to make their first repayments to their members and their first CBF payment. In all three cases, the CBF distributions have enhanced the reputation of these CE groups within their area and increased interest in their organisations. One group has recruited new volunteer directors because of its higher profile.

Work by the delivery bodies is supporting the establishment of two new CE groups. It is intended that these groups will take ownership of solar assets and the CBFs associated with them. It is too early to assess how successful the development of these groups will be, but there is already considerable interest from potential volunteer directors.



### Impact on people

The CORE programme has, to date, had mixed impacts on the volunteers within the CORE groups. Directors of one CORE group reported that the experience had more demanding than they had expected and showed that some had found the experience ‘fatiguing’. They hope the appointment of a new part-time project officer will relieve this. Directors at the groups with distressed assets have benefited from being relieved from the challenges and stresses associated with trying to keep their initiative afloat.

Evidence of benefit from the grant support offer was mixed. One CORE group has benefited in some ways but been frustrated in others (owing to delays in support and some support not being available to them). Two other groups have been reluctant to engage with the grant support offer. In part because they were frustrated with the initial offer which they felt failed to acknowledge their experience and expertise, but also because of uncertainty as to its purpose and ultimately a wish to have more discretion over how the grant might be used. There is, however, an appetite for bespoke forms of support in both groups. CORE has developed a new training programme for use with the two emerging groups but the value of this has yet to be established.

### Impact on place

Between 2018 and May 2020, just over £290,000 was transferred from CORE partners to Community Benefit Funds (CBF) relating to the solar assets in the programme. Most, but not yet all, of these funds have been distributed to the local communities served by the CORE projects. The CBF funds have supported fuel poverty initiatives, biodiversity initiatives, awareness raising initiatives, local heritage initiatives, improvements to local infrastructure (e.g. community halls) and other local initiatives. More recently, CBF distributions have helped local voluntary and community organisations cope with the coronavirus crisis. Without the optimisation and refinancing work undertaken by the programme, the current and anticipated level of CBF distributions would have been significantly lower (or – for some distressed assets – zero).

The geographic extent and socio-economic characteristics of the communities served by these CBFs vary between CORE projects. For example, one CORE group’s CBF is reported to serve a tight geographic area, focused on a single parish, while another CBF is focused on a much wider geographic area extending across several districts. Similarly, one CORE group’s CBF serves an area which is predominantly affluent, with pockets of deprivation, while another CORE group’s CBF serves a more disadvantaged population.

### Impact on marketplace

As reported above, the CORE programme has deviated from its original design by taking on two distressed assets, developing a new asset and by helping to establish a cooperatively-owned asset management company. The acquisition of two distressed assets and the establishment of the asset management company are understood to have been actioned as measures to help prevent the reputational harm associated with failed CE projects and to bolster the market by providing access to a cooperatively-owned asset manager, with services provided on an open book basis. This evaluation has not considered the actual market impact but it is likely to be significant, particularly in relation to the prevention of reputational harm.

The CORE programme aims to transfer revenue-generating solar assets into community ownership. Surplus profits are expected to be used to fund local initiatives, which may include additional forms of low or zero carbon energy-related programmes. The three existing CORE groups hope to investigate a range of projects, most of which involve expanding on the solar asset. Some of these ideas overlap with business models being tested by the innovation programme (e.g. investment in EV chargepoints, battery storage, flexibility revenues and so on).

The proposed refinancing plan for the CORE assets has taken into account potential limitations to the scale of community share raises that can be undertaken, particularly in the light of economic difficulties arising from the coronavirus crisis. The scale of proposed community share raises has been scaled down, with more funds to be raised from debt markets and socially-motivated institutions to compensate for this.

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## 4. Key learning points and recommendations

### Innovation programme

Key suggestions for the innovation programme are that an innovation scale be introduced to the assessment process for any future innovation competitions: this would help to clarify the level and type of innovation sought from applicants. We also suggest that the delivery consortium clarifies their support offer to Round 1 and 2 innovation projects and that the operation of the grants committee's reporting and decision-making processes should be reviewed to reduce the burden and delays on innovation groups. We also recommend that the evaluation team should work with the delivery consortium and the projects to set up monitoring systems for the delivery stage of the innovation projects, and that the evaluation team should work with the programme and the projects to identify and communicate strategic lessons during the next evaluation cycle. This should include work with FCA on authorisation issues for community businesses, in partnership with Community Energy England (CEE). Closer liaison is recommended between the programme, CEE and the evaluation team to improve communication of lessons to external audiences.

### CORE programme

Some 'process' problems identified by the evaluation cannot be addressed at this stage whilst others have been recognised and action has, or is, being taken. Most significantly this includes a move towards a more bespoke, negotiated approach to devising and agreeing the community grant support offer. Moving forward, we would suggest the following changes be considered:

A proactive and flexible approach to engaging and supporting the CORE groups via the grant programme, ensuring that local context, including sensitivities and local priorities, are accounted for. This may require some level of compromise in relation to Power to Change's Community Business criteria.

Improve coordination between the CORE programme and supporting grant programme. This will require more effective communication between the two main delivery bodies, better sharing of data and insights in relation to individual projects and earlier identification of project risks (delays etc). Power to Change already convenes and chairs joint fortnightly meetings between the two delivery bodies, but more could be done by all parties to coordinate and improve regular and effective sharing of information within the programme.

Improve the frequency and clarity of communication between the CORE programme and CORE projects, and in particular ensure that risks of delay are communicated as far in advance as possible. We recommend a more streamlined approach with two points of contact, one each for the grant support delivery and refinancing workstreams.

If it has not already been done, we recommended the delivery consortium develop packs of pro-forma policies and other documents as relevant. One CORE group has offered to share theirs and these may be a suitable starting point.

Given the nature, extent and scale of the ambitions identified by each of the three established groups (in terms of energy projects), more effort should be made to ensure they are familiar with and linked into Next Generation innovation activity.

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## 5. Conclusions

The experiences of the innovation programme have highlighted the complexity and challenge of developing new, post-subsidy business models for CE groups. It requires significant investment of time and expertise upfront, and the viability of the emerging business models is still uncertain. There is potential for learning from these models, for policy-makers and practitioners, whether or not they are ultimately successful, and a considerable appetite for this learning in the wider CE sector. To achieve this, it will be important to unlock delays to the progress of innovation projects through the 'stage gates' of the grant funding process and/or extend the timescale for the programme.

The CORE programme has successfully acquired several solar assets and appears to be on course to deliver enhanced CBFs and to enable prompt repayment of the investments made by Power to Change and Big Society Capital. In addition, it has been credited with developing the first 'post subsidy' solar farm (as the asset is only partly covered by FiTs) and has established a cooperatively-owned asset management business. Less positively, delivery of the CORE programme has been a fraught process and there is evidence of significant tensions between the various organisations involved. The main impact of this has been on the grant support programme which appears to have suffered significant delay. There are multiple reasons for this, not least the additional work and complexity that the programme has gained because of taking on the distressed assets, establishing a cooperatively-owned asset management company and integrating a new-build solar farm. Power to Change and the delivery consortium responsible for delivering the community grant support have found it particularly challenging to engage with two existing CORE groups, but changes in the delivery of the grant programme seem likely to unlock progress. This and the success of the transference of the assets to community ownership and management will be assessed later in the evaluation.

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