**Environment and Housing Board**
13 November 2013

**Item 5**

# LGA position on the community benefits associated with shale gas operations (fracking)

**Purpose of report**

For discussion and direction.


**Summary**

Following discussion at the last Board meeting the LGA position on the community benefits associated with shale gas operations (fracking) has been subject to further discussion by lead members and revised accordingly.


**Recommendation**

That the Board discusses and approves the revised position set out at paragraph 10 and agrees the next steps as set out at paragraph 11.

**Action**

Officers to take forward work as agreed by the Board.


| | |
|---|---|
| **Contact officer:** | Jo Allchurch |
| **Position:** | Adviser |
| **Phone no:** | 07900 931045 |
| **E-mail:** | Jo.allchurch@local.gov.uk |

Local Government Association



# LGA position on the community benefits associated with shale gas operations (fracking)

## Context

1. Current Government energy policy states that energy supplies in the UK should come from a variety of sources. Onshore oil and gas (including shale gas) is one part of that energy mix, as set out in the Government's Annual Energy Statement in December 2012[1]. Whilst policy on fracking is still developing, Government has made clear its intention to promote its development in the UK.

2. The Environment and Housing Board's previous discussions on fracking have highlighted that decisions about whether fracking projects go ahead should be made at local level through the planning process. In taking such decisions councils will need to consider the environmental and safety impacts of the scheme and benefits that may mitigate impacts and deliver enhancements to communities. It is clear that some political groups and communities in certain places do not agree that fracking is the right option in their areas and these views will be represented in decision making.

3. This paper outlines proposals for an LGA position and proposed lobbying strategy on fracking, with a focus on maximising the benefit to local communities which may host shale gas developments.

## Background

4. Ensuring community engagement and representation will be key in considering planning applications for shale gas development since fracking is an emerging industry and a highly emotive subject for communities affected. It is likely that in the absence of community support, successful applications will become increasingly difficult. Communities will need assurances as to the safety of the public and the mitigation required to avoid any significant impact on the environment.

5. Councils wish to ensure that shale gas development delivers long-term benefits to those communities that host development in their area and that any disbenefits and risks are properly mitigated. Therefore, it is vitally important that there should be transparent and significant offsetting benefits available to communities which decide they do wish to agree to permit fracking.

6. Whilst the government is proposing a financial framework that will give shale gas firms the 'most generous tax breaks in the world', the monetary community benefits being proposed for local communities are poor in relation to those elsewhere in the world. International comparisons suggest that a typical benchmark for a local community share of fracking revenues lies between 5% and 10%.

7. It is also a source of concern that the offer of community benefits rests on a purely voluntary commitment by a trade body, the United Kingdom Onshore Operators Group (UKOOG) that has no ability to enforce its terms on producers.

---

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/65633/7086-annual-energy-statement-2012.pdf

8. Other countries use a number of models to manage community benefit levies from petrochemical extraction. It is widely recognised that this revenue represents the one-off use of a natural asset and is not ordinary tax revenue to be substituted for day-to-day government financing. In Norway, for example, oil revenue has been held in the world's largest sovereign wealth fund[2], the Government Pension Fund, worth £737 billion. A Norwegian fiscal rule limits usage of oil revenues collected to 4 per cent per annum to facilitate long-term, good management of funds in order to benefit both current and future generations.

9. In addition, in relation to existing taxation arrangements, it is important to note that local authorities now retain 100 per cent of the business rates from renewable energy projects (since April 2013). This does not apply to fracking. If it is national policy to create fiscal incentives for fracking, it would make sense for local authorities to retain 100 per cent of business rates for shale gas developments.

**Proposed LGA position**

10. Members are invited to consider the following approach to an LGA position and proposed lobbying strategy on fracking:

    10.1. The LGA position does **not** take a view on whether fracking is the right solution, but that fracking schemes should be a matter for local decision making and therefore be considered through the local planning system.

    10.2. Local communities should decide, through their democratically-elected councils, whether or not to host fracking operations in their areas and local attitudes to fracking should not be overridden by national policy.

    10.3. The local planning system must be supported and complemented by a robust and transparent regime enforced by the other key regulators for fracking, namely the Health and Safety Executive (HSE), the Department for Energy and Climate Change (DECC) and the Environment Agency.

    10.4. Local authorities will need to be assured to enable communities to feel safe that the issues covered by these other regulatory regimes (for example seismic activity, water pollution, disposal of waste water, well consutruction and integrity) can and will be adequately addressed before they can consider granting planning permission.

    10.5. Any financial benefits scheme set up for local communities who accept fracking in their areas should mitigate the adverse impacts of the development and deliver significant benefit to those communities.

    10.6. Given the significant tax breaks that are being proposed by government to drive forward shale gas development in this country and the impact of on local communities, the industry should increase its current community benefits offer. That offer should be more in line with those offered elsewhere in the world and should be set at 10 per cent of gross revenues.

---
[2] http://www.swfinstitute.org/sovereignwealthmap.html

10.7. The community benefit share should be enforcible, so needs to be put on a statutory footing.

10.8. Arrangments for holding community funds need to reflect the fact the revenue is the one-off use of an asset and should not be treated as an ordinary tax revenue for day-to-day financing. Further consideration needs to be given to models for community benefit funds to ensure that they support communities' priorities and deliver lasting benefits in a transparent and accountable way. Options include councils holding the funding on behalf of the community, another is for an arms-length charitable fund jointly administered by local government and local partners. Local government has a central role to play in ensuring the governance arrangements reflect community preferences and offer accountability and should be involved in designing schemes in their areas.

10.9. Separately, the local share of business rates from hereditaments relating to fracking projects should be set at 100 per cent.

**Next steps**

11. In order to promote the LGA's position on fracking we will:

11.1. Write to relevant Ministers (Department for Energy and Climate Change, Department for Communities and Local Government and the Treasury).

11.2. Engage with other MPs with an interest in fracking.

11.3. Engage with key regulators.

11.4. Engage with industry.

11.5. Engage with other key stakeholders including the District Councils Network (DCN) and County Councils Network (CCN).