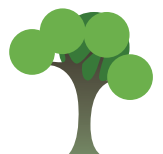


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Integreat Yorkshire, growing people's skills to make great places

The road to recovery briefings:

Briefing 2: Financing community renewables



Introduction

Despite the growing political and public will to expand the use of renewable energy, the financing of small-scale schemes remains challenging.

While profit is unlikely to be the main motivation for a community-based project, financial viability is essential.

There are significant difficulties in raising enough money to take an idea through the initial planning and consultation phases to the stage of an investment proposal. And even if this hurdle is overcome, major capital funding is required to install energy generation technology.

Various funding streams and support networks are available but the system can be complex, the resulting investment may be insufficient and there is often a lack of longer term support. Creating a community share offer to raise investment, for example, can cost tens of thousands of pounds. An environmental impact statement for a large wind turbine could cost hundreds of thousands.

Capital expenses can be huge. A small scale hydro-electric plant on a weir can cost around £300,000 and a wind farm scheme over £1m. Connecting to the national grid in order to sell electricity can involve a major outlay.

Yet all these issues have been overcome by the numerous successful community renewable schemes generating electricity today.

Partnerships between communities and specialist organisations have emerged to address these challenges.

Energy4All and H2oPE, for example, use co-operative models and take on the burden of risk on behalf of the community. They provide the technical and financial expertise to progress what are often complex projects.

Funding generally comes through a combination of grants, community share issues and commercial loans.

Grant funding is often critical in the early stages of a scheme. Funds must be found for research and consultation, before the idea can be presented as a viable proposition to investors.

Grants are available from a large number of regional, national and European sources. Identifying the right financing opportunities is a complex task and expertise will be required.

Help is available from Future Energy Yorkshire's (FEY) online decision tree. It enables green energy projects to target appropriate funding organisations. The Energy Saving Trust also has a funding search facility on its website.



Investments of £20,000 to £500,000 are available from FEY, which has £4.6m until March 2011 to support the capital costs of sustainable energy projects. A key selection criterion is the amount of CO2 saved per pound of funding required.

Other grant providers range from energy companies, to the Big Lottery Fund's Awards for All, to sources sometimes overlooked such as the Landfill Community Fund (see link, below).

A legal entity must be formed to access grants and investment and the choice of community structure is critical to the potential scope, financing and benefits of any proposed scheme.

Co-operative structures in the shape of Industrial and Provident Societies have worked successfully in community renewable projects and are increasingly used for small-scale schemes.

They provide an effective vehicle for community share issues, which can stimulate local interest and involvement. Such shares have both ethical and financial attractions, as demonstrated by the Baywind scheme in Cumbria, whose investors have received a return of up to 8.2%.

Meeting the administrative cost of a community share issue may not be viable for very small projects. But grants are available through the private sector, government programmes, regional development agencies and charitable trusts. Local authorities may also be able to help, along with agencies such as Key Fund Yorkshire, which provides finance for social enterprises.

Expert help is often needed to find appropriate funding (see the links below for a list of sources of advice). Once money is raised from the community or from grants, the rest often comes from commercial loans from specialist banks.

The type of technology chosen can make a big difference to potential funding sources, costs and profits. Large scale wind turbines, for instance, incur substantial planning and capital costs but can produce a high output of electricity, generating significant revenue through sales to the national grid.

Recent developments

Several successful approaches to community renewables have emerged in recent years. No single investment model can be recommended above others because of the differing nature, scale and objectives of developments.

Recent research by Future Energy Yorkshire (FEY) concluded that for schemes valued at less than £1m a co-operative Industrial and Provident Society is the most appropriate structure.

This provides a vehicle for a relatively low-cost community share offer and has a proven



track record in raising substantial funds. Shareholders can also claim tax incentives under the government's Enterprise Investment Scheme.

Projects costing more than £1m could justify producing a prospectus for a public share issue, at a cost of around £100,000.

If a private developer of a renewable energy scheme is paying revenue into a community trust – a low risk model – various organisational models can be used, including a charity, a community interest company (CIC) or Industrial and Provident Societies (IPS).

Grants are available from numerous sources. FEY's Grid Connected Renewables scheme, for example, is providing millions of pounds for green energy initiatives.

The Development Trusts Association – an umbrella organisation for community enterprises – is looking at how it can help its members fund sustainable energy schemes.

The financial and technical risks of developing community renewables have led to the emergence of several organisations who work hand-in-hand with communities to provide expertise at each stage of development, as long as they think the scheme is viable.

Energy4All, for example, has developed a co-operative model that gives almost commercial returns on wind farms. It is looking at expanding into hydro-electric power.

H2oPE specialises in small scale hydro-electric projects on weirs. It has successfully used a community share offer through an IPS structure and is planning to identify four new sites per year.

Specialist banks such as Unity Trust, Charity Bank and Co-operative Bank are playing an increasing role in providing loan finance. Many such banks have been protected from the credit crunch because their investment portfolio tends to be less risky than mainstream banks, and they are still keen and able to lend to suitable projects.

The government, meanwhile, is moving away from grant support towards mechanisms that create revenue incentives. From April, schemes generating less than 50kW are eligible for double Renewable Obligation Certificate subsidies.

It also plans to introduce a 'feed-in-tariff', whereby electricity companies commit to buy renewable energy at an agreed price on long-term contracts of up to 25 years. This could increase profitability and security for community renewable schemes selling via the national grid.

The government is consulting on a Community Energy Saving Programme (CESP), which is expected to deliver around 100 schemes in low-income communities through partnerships involving local authorities, suppliers and generators.

It's hoped that the current appetite for renewable energy will lead to increased and longer term security of funding for such projects.



Case Study – Bro Dyfi Community Renewables Ltd

The launch of the UK's first community-owned wind turbine in 2003 began as an idea among a handful of residents of the Welsh village of Pantperthog in 1999.

The success of the 75kW turbine on Forestry Commission land above the Centre for Alternative Technology (CAT), at Cilgwyn, was largely due to the determination of local people who persevered through complex funding and support systems.

This was an entirely community-led project, but it benefited greatly from early advice from two local professionals, working for ecodyfi (a local community regeneration group) and Powys Energy Agency.

Due to the small-scale nature of the development an Industrial and Provident Society (IPS) was created to pave the way for a community share offer at limited cost. To do this a legal identity with limited liability was required, so Bro Dyfi Community Renewables Ltd (BDCR) was formed.

The Baywind Energy Co-operative added further confidence to the share offer by agreeing to underwrite it. In the event shares were oversubscribed and had to be limited to £1,000 per investor. A total of 57 BDCR members, almost all local, invested over £23,000 in the project.

The total capital costs amounted to £81,000. BDCR secured a European Regional Development Fund (ERDF) grant of £19,500 through ecodyfi, £10,000 from the ScottishPower Green Energy Trust and a £17,500 grant from the Energy Saving Trust (EST).

The rest of the capital came as equity from community members, EST and Baywind, while some of the people involved in the project gave their time in exchange for shares.

Initially electricity was supplied to CAT, and any surplus sold on to the grid. BDCR now has a deal to sell all the electricity to the government's Non Fossil Purchasing Agency.

The project is estimated to have put £55,000 into the local economy. Construction, administration, operation and maintenance contracts were all placed with local companies and all revenue from the project is retained locally.

A proportion of the income generated from the wind turbine is diverted into an energy conservation fund, managed by BDCR, CAT, ecodyfi and Glantwymyn Community Council, which aims to reduce carbon dioxide emissions within the Dulas and Dyfi valleys. The fund receives income from the dividends of shares bought with an EST grant of £12,650.

A second project to replace a redundant turbine at Mynydd Glandulas was undertaken in 2006.



BDCR used a similar financial model to raise the £350,000 required, including £175,500 from a share issue. Profits will again be diverted into projects to benefit the local community.

Expert view: Jemma Benson, Future Energy Yorkshire

It's essential that any community renewable project looking for finance is structured in a way that can attract bank loans. This is sometimes referred to as being 'bankable'.

Bankable models usually have direct community ownership from a share offer, or a direct revenue share paid from a renewable energy project to a designated local community.

However the benefit is provided to the community, it is important that appropriate, transparent systems are put in place to enable investors to understand the implications of their investment.

This is why IPS structures are currently favoured for community share offer schemes: there are set regulations and preferred structuring models that can be used to ensure the project is bankable. An IPS also has added tax benefits to investors which can help to secure investment, particularly from the local community.

If the project has a clear community ownership then grants and additional support are often available. These can reduce the burden on raising community investment or reliance on banking finance.

Banking partners should be selected carefully. Some banks that are active in community renewables have a similar ethos to community projects. In some cases they can offer preferential terms.

If a clear financial model with projected returns to investors is presented, a community project should be viewed on the same terms as a private sector renewable energy project.

Concerns may be raised about how the community investment will be raised and about contingency plans if the target amount cannot be raised. This issue should be clearly explained when seeking finance.

Renewable energy projects of appropriate scale and technology, which clearly benefit the local community and where the local community is involved from the start, are often most successful at attracting funding.

Technologies that have been successfully developed in the community sector include wind turbines, small scale hydro power and solar installations.

It can be harder to achieve community investment in projects such as anaerobic digestion that involve waste, because of the associations with waste processing and handling.

However this is an area where public perceptions are changing. Projects involving community operated food waste collection, for example, are now being investigated.



Checklist

1. Get whatever advice and support you can. Financing community renewable projects is a complex area, but there are people who can help you. Get help from local authorities, agencies such as Future Energy Yorkshire and government bodies.
2. Investigate sources of grants. See what funding is available to help meet your start-up costs and pay for feasibility studies, technical advice and any other expertise you may need.
3. Choose a structure that fits your purpose. If you have a commercially viable proposition, you may wish to seek private venture capital – but you may find yourself ineligible for grants. If you want to generate funds for community purposes, commercial investors may be less willing to get involved.
4. Find appropriate partners. Going it alone isn't usually a good idea – find somebody with expertise in managing and delivering similar projects and benefit from their experience.
5. Make sure your project is viable. Will it generate the returns you are looking for? Calculate the capital and running costs, the potential energy generation and the likely best sale price that can be achieved (by comparing prices from green energy wholesale companies). Will your project be able to recoup its start-up costs?
6. Stay informed. Policy is continually being updated and may affect your project ideas, or present new opportunities. New forms of support may emerge as the government seeks to achieve its emissions reduction targets.

Find out more:

National organisations

www.berr.gov.uk/energy/sources/renewables/index.html - Department for Business, Enterprise and Regulatory Reform – provides general guidance on renewables and funding. Useful BERR reports include: Delivering Community Benefits from Wind Energy Development: A Toolkit and Bankable Models which Enable Local Community Wind Farm Ownership

www.decc.gov.uk - Department of Energy and Climate Change

www.energysavingtrust.org.uk/cafe – Energy Savings Trust's Community Action for Energy programme – a national resource of advice and networking including a database and news on funding opportunities. Also has a series of case studies

www.entrust.org.uk/home/lcf/funders-directory - Entrust regulates the Landfill Communities Fund - see <http://www.entrust.org.uk/home/lcf> - and provides a list of funders under this programme in Yorkshire



Regional organisations

www.fey.org.uk - Future Energy Yorkshire. Provides an online funding tool, a range of regional support and advice and details of its own funding programme

www.keyfundyorks.org.uk - Key Fund Yorkshire offers grants, loans, investment and support for third sector organisations in Yorkshire

Other sources of expertise

www.managenergy.net - European Commission Directorate-General for Energy and Transport - European wide database of good practice case studies and information on European funding

www.lowcarbonbuildingsphase2.org.uk - The Low Carbon Buildings Programme (LCBP2) offers grants to install microgeneration technologies in public sector buildings (including schools, hospitals, housing associations and local authorities) and for charitable bodies

www.energy4all.co.uk - Energy4All is developing a co-operative ownership model for communities to own complete sites, or to buy a stake in a site from a commercial developer. Includes Energy4All's energy steps feature which provides a step-by-step guide to setting up a community wind turbine project

www.h2ope.org.uk - H2oPE specialises in small-scale hydro-electric schemes

www.bdc.org.uk - Bro Dyfi Community Renewables

