

## Next Generation case study 6: raising funds for community energy activities



Images: Bath&West Community Energy/CREW Energy

### Summary of key points:

If your community energy group wants to get a new project off the ground - whether it involves renewable energy generation, heat, electric vehicles, software platforms or demand flexibility - what are your finance options? Key learning points from the Next Generation programme are:

- If you have a relatively low-risk project, you could consider a **community bond offer** or (if your group is structured as a Community Benefit Society or Co-op) a **community share offer**.
- **Cultivate your mailing list** and convert supporters into paid-up members through your community share offer (possibly using a **crowdfunding site** to reach a wider audience).
- If the project can generate a reasonable financial return, and also demonstrate carbon and/or social impact, it's also worth investigating the potential for **social investment**, possibly with support from specialist community energy finance advisers.
- For newer business models, riskier or lower return projects, you may need to look for full or partial **grant funding or sponsorship**
- If your project will generate health, welfare benefits (e.g. via fuel poverty work) or will help local public sector organisations or private firms to manage their energy or reduce their carbon, consider providing **paid advice or services** to other local organisations.

## Learning from the Next Generation programme:



### Project investment – the basics

There is usually a relationship between the riskiness of a project and the level of return that investors will seek. The overall level of return sought will be influenced by returns available in the wider financial market (e.g. prevailing interest rates). See **Next Generation Practical Learning Guide 4** on managing risk in innovative business models.

Ways of reducing investor risk, so that investors are willing to accept a lower level of return, which will be important for many community energy projects, include:

- Lining up firm income streams (e.g. Renewable Heat Incentive income and Power Purchasing Agreement income, which are generally index-linked; or secure energy savings).
- Being able to demonstrate that you have a robust business case (and showing that it is resilient to a wide range of outcomes).
- Providing security (e.g. guarantees or backing in the form of land or other assets).
- Promising seniority (i.e. giving investors priority over other funders in terms of receiving interest payments and – eventually – getting their money back).

If you are able to raise some funds through grants or sponsorship, this can improve the return on investment for investors in the rest of the project because costs, and therefore investment needs, are reduced relative to income.

### Community share or bond raises

Community energy groups constituted as Community Benefit Societies (CBS) or Co-operatives<sup>1</sup> can issue community shares, while these groups and Community Interest Companies can issue community bonds. Both approaches are best suited to relatively low-risk projects, where you are confident that you will be able to repay members' contributions and investors' capital with some interest.

- **Community shares:** people buying community shares become members of the CBS and have one vote at general meetings of the CBS Annual General Meeting. Unlike normal company shares, community shares cannot be bought or sold but they can be bought back or 'withdrawn' by the CBS. Community share offers don't have to promise a specific rate of

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<sup>1</sup> Groups constituted as 'Community Interest Companies' can issue shares provided that they are constituted as a 'company limited by shares' rather than a 'company limited by guarantee'. But these are not classed as 'community shares'.

interest or withdrawal date, although the group has to carry through promises made in the share offer document. So shareholders normally carry some of the risk involved in the group's activities.

- A recent survey of community energy group members, presented in a separate Next Generation case study, found that – assuming that bank rates remain low - 83% of members in the sample expressed interest in buying community shares again. Of those who would be prepared to purchase shares again, over half (51%) stated that they would be prepared to have a return of 1-2%. A range of interest rates are shown in the current offers advertised on [Ethex](#) and on the Community Energy England's [share offer page](#).
- The process of launching a community share offer requires considerable publicity and may be a good way of raising the profile, and extending the membership, of your group. Aim to grow your mailing list and work to convert supporters to paid-up members. Crowdfunding is another option to attract a wide audience to community share offers. It's worth bearing in mind that wide publicity and crowdfunding sites are likely to attract members from outside your local area, which may or may not be what your group is looking for.



**Raise your profile through a successful share offer:** [CREW Energy](#)

launched their first share offer at a difficult time: mid-pandemic, mid-Brexit deadline, during lockdown and just before Christmas. With help from the [Community Shares unit](#) at Co-operatives UK, pro-bono legal help from Simmons & Simmons, and support from Power to Change's Community Shares Booster Programme, they were nevertheless successful in raising £50,000 to fund the installation of a heat pump in the Devas community club building in London. Their key learning points included:

- Try to do one big share raise, not multiple smaller ones, so that all the effort is worth it.
- Think about how to maintain upward momentum throughout the process – 'success' breeds more success.
- Keep levels of awareness high by using social media and running engagement events (e.g. CREW Energy's virtual Q&A session in January 2021 was followed by an additional £15,000 of investments).

- A number of organisations offer support and guidance to groups launching share offers or trying to increase their membership base. These include [Communities for Renewables](#), [Energy4All](#), the [Community Shares unit](#) at Co-operatives UK and the [Community Shares company](#).



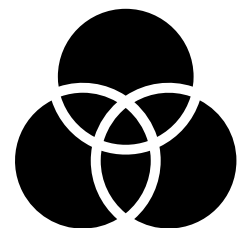
#### **Community energy bonds:** [Bath & West](#)

[Community Energy](#) has raised £11 million since 2010 using a combination of share and bond offers. For example, across 2016 and 2017, they raised £2.5 million from two 2-year fixed interest bonds and one 5-year fixed interest bond for construction finance and re-financing of a range of ground mounted and roof top schemes totalling 9.5MW. They offered an interest rate of 5% (5.5% in the first year for existing members) and a minimum investment of £500. BWCE are currently considering setting up a longer-term bond for new projects. [Communities for Renewables](#) have helped a number of other community energy groups to issue bonds (e.g. Burnham & Weston Energy; Ferry Farm CBS; Gawcott Fields Community Solar CIC).

- **Community bonds:** bonds involve less risk for the investor, leaving more risk being carried by the community energy group, so they are suited to projects that involve lower risk. They have a fixed interest rate and term, and they can be bought and sold. But they don't give investors membership of the community energy group and don't carry voting rights. While investment is still 'at risk' in an ultimate sense (i.e. they might not get paid if the community energy group failed), community bond holders have priority over shareholders in terms of payment of interest and repayment of capital. Being lower risk for investors, bonds may be attractive at a lower interest rate than shares.

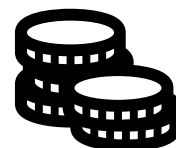
#### **Commercial and 'social investment' loans and bonds**

Like community bonds, commercial bank loans and bonds are most suitable for lower risk projects (e.g. those premised on firm income streams), where you're confident that you will be able to repay the interest and capital. Interest rates can be fixed or variable (i.e. varying with the market), but the community group does not have discretion over whether to make the interest payments or repay capital and repaying loans takes precedence over repaying community shareholders. Some advisers can help groups to obtain finance from commercial or 'social investment' lenders for the pre-development or development phase of major community-owned renewable energy generation projects. These loans can help fund upfront capital costs until the project starts generating revenue. Social investors (e.g. Social and Sustainable Capital, Big Society Capital, Triodos Bank, the Social Investment Business Group, Abundance and so on) are explicitly interested in social and carbon objectives as well as financial returns, but they still look for a return on capital. A searchable list of some funders and advisers interested in specific issues and types of investment is available at [goodfinance.org.uk](#). In future, community energy groups may be able to access funding raised by councils via municipal 'Local Climate Bonds', which are being advocated by Abundance and the Green Investment Finance group.



## Grants and sponsorship

If your project is too risky to be backed by community shares or bonds, you will need to find full or partial grant funding from charitable funds, energy sector bodies or commercial sponsors. There are numerous charitable trusts and public bodies that offer grants. And, with so much corporate interest in 'Environmental, Social and Governance' goals, and the high profile around the Climate Emergency, you may find new doors opening – it's worth approaching local firms to see if they would provide some support. It's also worth checking whether your local Distribution Network Operator has a community energy lead and makes funding available for community energy groups. Community Energy England publish a list of current funding opportunities [here](#).



## Service-based approaches

A different approach to income generation is to offer paid services to partner organisations or other groups/individuals. See **Next Generation Practical Learning Guides 1-3** for insights into partnership working with local authorities, private firms and other organisations. Examples from within and beyond the Next Generation programme include:

- Many community energy groups (such as [Plymouth Energy Community](#) and other Devon-based community energy groups) work in partnership with public sector organisations on fuel poverty issues. Plymouth Energy Community and other Devon-based community energy groups work closely with local authorities and health trusts and energy suppliers via the **Local Energy Advice Programme** and its 'Cosy Devon' initiative. They receive referral fees from the Local Energy Advice Programme for each home visit delivered.
- [South Staffordshire Community Energy](#) has developed the '**Saving Lives with Solar**' scheme through which the University Hospital of the North Midlands NHS Trust pays local fuel poverty charity 'Beat the Cold' for referrals of vulnerable individuals who repeatedly attend the hospital's Accident and Emergency service with respiratory problems. This payment is made on the basis that fuel poverty support for these individuals helps to reduce the frequency of hospital admissions and hence reduces costs incurred by the NHS Trust.
- With support from the Next Generation programme, [Green Fox Community Energy](#) have explored an '**energy services**' approach through which a community energy group could help local schools reach net zero, acting as an energy service company (ESCO) on their behalf. While this approach does not appear fully viable at present, some elements of the model work and could be taken forward.
- [Low Carbon Hub](#) is also developing an **ESCO** with the aid of funding provided via the Government's BASEE competition. The aim of this initiative is to encourage and enable small and medium sized enterprises (SMEs) to install low carbon technologies. The cost of these technologies and the ESCO service is funded via savings made on SME participants' energy bills.



- In another Next Generation innovation project, [Carbon Co-op](#) are developing software tools for a '**data co-op**' approach that will enable individuals or community energy groups to make better use of their energy data. They are already rolling out their '[Powershaper Monitor](#)' service. Data services may be made available to paid-up members, marketed on a subscription basis or made available via a 'social franchise' approach.



## To find out more:

- See **Next Generation Practical Learning Guide 4** on managing risk in innovative business models.
- See **Practical Learning Guides 1-3** on approaches to partnership working with local authorities, private firms and other partner organisations.
- Visit [www.next-generation.org.uk](http://www.next-generation.org.uk) or contact Will Walker at Power to Change to find out more about the Next Generation programme
- You can find out more about the Next Generation innovation projects [here](#).
- See guidance about community share offers from the Community Shares unit [here](#).
- Visit Community Energy England's how to page pages on share offers [here](#)
- See also the [guidance](#) from the Development Land Trust Association on community share and bond issues
- Organisations offering support to community energy groups on community shares and funding include [Communities for Renewables](#), [Energy4All](#), the [Community Shares unit](#) at Co-operatives UK and the [Community Shares company](#)
- To identify some of the social investors or advisers in your area, visit: [goodfinance.org.uk](http://goodfinance.org.uk)