The promise: **Community scale renewables must be part of the solution to meeting WAG's target of a 3% annual reduction in carbon emissions**

When the "Communiversity" group (award winning welsh community groups – Green Valleys, Cwm Arian etc) met with Jane Davidson it was offered that "communities" across Wales could collectively deliver 0.5% per annum towards the annual 3% target. This paper outlines the key problem in delivering on this promise and proposes a way forward. a Wales Energy Investment Trust or Green Bank.

The problem: **There is a financing gap which it is difficult for communities to overcome:**

Before Feed-in Tariffs community renewable projects were largely grant funded.

This shift from capital subsidy to price subsidy has, quite rightly, removed the scope for grant funding for community renewable projects – a change made more abrupt by the rigorous application of State Aid rules.

For the larger renewable energy schemes with capital budgets above £500,000 the Feed-in Tariffs provide the returns for commercial project finance and capital investment.

For private domestic schemes with budgets of say up to £25,000 the Feed-in Tariffs are providing sufficient incentive for householders to invest.

However, there is a funding gap: for smaller community schemes (e.g. £25,000 for PV on the community hall roof - Monmouthshire) and the mid-sized community project (e.g. a £150,000 25kW hydro project – South Powys) there is a funding crisis which will prevent most of these economically viable schemes from being developed.

These small and mid-sized community projects are struggling to raise the finance because:

- The loans are too small for commercial (non-recourse) project finance to be provided by existing commercial lenders
- Community groups do not typically own land or have other assets that can act as security for a loan
- The complications, legislation, and set-up costs of share offers often deter the local community from raising it

themselves and in many cases the community can't provide enough investment cash

– The projects are too small to attract institutional investors despite the excellent returns on offer

But many communities across Wales have been motivated by years of campaigning to champion community renewable projects. But now, without access to grants they don't have access to the capital that ensures a lasting community benefit. For some of the poorer Communities First areas this means that the disappearance of grant funding will prevent them from participating in the revolution being driven by FIT. No assets, no capital, means no long-term revenue share – bearing out the charge against FIT that they are a subsidy for richer communities with capital.

The consequence: **Community scale renewable energy generation will not occur on the scale that is needed – frustrating communities and hindering our national carbon reduction goals, depriving long-term income to our poorest communities, excluding these communities from the new Green Economy and leaving the door open to "bad deals" from privately financed developers.**

Existing solutions: **Are there existing solutions that can fulfil this gap?**

Ynni'r Fro – re-launched as a loan scheme?
We need to see the details put it is expected that this will provide loan or grant and loan packages for 9 hydro exemplar projects between 50kW and 1500kW – but with over 40 hydro projects alone registered with Ynni'r Fro (120 across all technologies) this will meet only a tiny fraction of the demand and will not be able to help the financing needs of smaller community projects that must get finance if we are to meet our carbon reduction targets.

The market will provide loan solutions?
Because of the cost of due diligence and set-up costs non-recourse loan finance, without a separate security such as a charge over land, is unlikely to be available for loans below £150,000+ and where it is available it will be at high interest rates above, currently 6.5+%.

Small loans may be available but only for those with assets to give as security – not something that community groups, especially in the poorer areas can arrange.

The market will provide capital solutions?

There is no shortage of investment capital wanting to be deployed in attractive renewable energy schemes. However as with loan capital the cost of managing small project investments is almost the same as a large investments and the money will be drawn to finance a few larger private projects – leaving the community-scale projects unfunded.

A new solution: A community renewable investment fund…a Green Bank for Wales

These projects do not require "soft" or zero interest loans. The Feed-in Tariffs and ROCs provide sufficient inducement for investment. The problem is that mid-sized and small community schemes can't access the commercial loan and capital funds. These projects will make good returns but have to be funded by an organization that is designed specifically to meet this need.

This investment fund would need to offer the following services:

- Loan finance from £15,000 to £200,000 for renewable energy projects with some community involvement. The loan would be at broadly commercial rates, say 5%, and with repayment periods of 5-10 years

- Capital fund for investment alongside the loan finance (or other capital finance such as community secured private grants, landowner investment etc). The nature of the capital investment is outlined below.

- A small "risk fund" to fund feasibility studies – the cost of these feasibility studies would be repaid with the full project finance plus a suitable premium to cover the cost of unsuccessful feasibility studies

- The investment trust would only provide finance – it would not get involved in technology advice, mentoring, or community support – this will remain the job of EST, Energy Agencies and other projects.

Investment criteria:

The investment fund would need to make commercially viable investment decisions but should be able to rely on the expertise from MCS accredited providers for feasibility studies, and potentially support from a network of experienced community groups and organisations like Ynni'r Fro across Wales to help with community engagement and related issues (e.g. Awel Aman Tawe, The Green Valleys, Cwm

Arian etc. – a grouping which through a separate initiative is seeking to work more closely together with a common voice.)

Capital raising:

The capital that is needed to fund these projects will need to come from a number of sources

- Because of the size of funding required there will have to be investment capital raised from some substantial investors – these could include local authority and charity treasury investments, pension funds and other institutional investors
- However, the guiding principle should be to keep the investment *from* Wales to be *invested in* Wales. In addition to the larger £0.5m+ institutional investments there needs to be local fundraising so that individuals can invest in the fund.
- Ideally there needs to be a system such that investors' capital can be matched to either specific regions or projects (i.e. Powys Council treasury fund is invested in Powys projects, or local community investment is invested in a specific scheme – if required) as well as the ability for some investors to invest across the entire portfolio
- There will need to be some underwriting of the capital fund by WAG or Finance Wales

How big does the fund need to be?

A quick calculation: say 200 community schemes over the first 6 years (long enough for the fund to start being able to reinvest repaid loans and capital) with an average total project budget of £100,000 each is £20m. £10m loan finance, £10m capital finance.

Management and funding?

The fund can be administered by an existing organisation with experience of lending and capital raising: Finance Wales, Charity Bank, and others...or it may be possible to manage this fund along the lines of the existing Community Banking Partnerships as pioneered by the Robert Owen Community Banking Fund – where Michael Brown has already has a working model for deploying local authority treasury funds into local, community owned energy schemes.

The management costs can be based on standard fund management fees of say 2% of investment capital and 1% of loan capital – or about £300,000 a year. There would be a set-up cost and a long-term profit share as an incentive for capital returns. In the medium term this initiative would self financing and would ensure that Wales claims its full share of the 20 year plus benefit from Feed-in Tariffs.

Next steps:

Discussion of broad principles and the opportunity to develop the idea with leadership and collaboration from WAG

Refinement of need and outline model

Broader discussion and consultation with potential partners