BWCE 2018 AGM

Financial Report and Proposal for Member and Community Fund Payments

1. Brief Overview of the Year 2017-2018

During the year we:

- Developed and launched our new business plan to 2021
- Developed a partnership with the not-for-profit energy supplier, Our Power, and played a key role in the development of a new local energy supply tariff procured by B&NES Council. The new tariff will supply electricity generated from local renewables, including our community owned projects.
- Developed and secured funding for an innovative new neighbourhood pilot, testing community approaches to peak demand management and domestic solar and battery storage.
- Raised just under £1 million from BWCE's third bond offer.
- Completed the first phase of BWCE's debt refinancing with Triodos, worth around £5.5 million, and fully redeemed BWCE's first bond worth £1.68 million. Re-financing debt at lower interest rates reduces our cost of capital.
- Worked with our asset management provider, Mongoose Energy, to re-procure our Operations and Maintenance service provider for our larger ground mounted solar schemes. The procurement process was part of a larger exercise across multiple community energy groups and as a result secured services from British Solar Renewables against a wider scope of services at a lower cost.
- Engaged with national policy through government consultations and independent lobbying activities.

Both the new local energy tariff and the innovation pilot were launched in the first half of 2018-19.

We were unable to develop any new renewable energy projects during the year as a result of cuts in government subsidies for renewable energy. We remain hopeful that it will become possible to develop new projects again as installation costs fall to the point that subsidy free projects become financially viable. The total capacity of our projects remains at 12.35MW of solar PV, plus one small hydro scheme.

During the year our projects generated just over 12,000kWh, enough electricity to meet the equivalent annual electricity demand from nearly 4,000 typical UK homes[1] and reduce carbon dioxide emissions by the equivalent of the full carbon footprint of nearly 1,000 B&NES residents[2]. The carbon emission reductions from our projects are assessed in comparison to the carbon intensity of the grid. As the carbon intensity of UK electricity supplied by the grid continues to fall, so the comparative carbon impact of our projects is lower than last year.

Solar irradiation levels in the year were below average for the third year running. A more detailed analysis of project performance and the impact of lower than average sunshine levels can be found on our website, here http://www.bwce.coop/resources/bwce-documents.

We again supported a range of excellent community projects through last year's community fund contribution. See http://www.bwce.coop/communityfund/bwce-fund-2018-allocations/ for details.

We continue to take an active involvement in national policy debates, responding to government consultations and engaging through sector associations as a board member of Community Energy England and a member of Regen SW.

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[1] Assumes 3,100 kWh per year consumed by a typical home without electric storage heaters. From Ofgem https://www.ofgem.gov.uk/gas/retail-market/monitoring-data-and-statistics/typical-domestic-consumption-values

[2] Assumes 3.9 tonnes CO_2 emissions/capita for residents in Bath & North East Somerset. From DECC https://www.gov.uk/government/statistics/uk-local-authority-and-regional-carbon-dioxide-emissions-national-statistics-2005-2016

2. Background to BWCE Finances

The following principles underlie our finances and are useful to consider when reviewing BWCE's accounts.

- BWCE is an asset owning community enterprise, generating secure long term, index linked income streams, subject to performance and market conditions
- BWCE commits to paying interest on members' investments and repaying members' capital as finances allow, as well as recycling surplus cash back into local community action on fuel poverty and carbon reduction
- BWCE's assets are subject to depreciation at a rate that significantly undervalues these assets in the early years and that has a considerable impact on the profit and loss account
- BWCE generates significantly more cash in a year than the profit shown in its consolidated accounts due to the impact of depreciation
- BWCE adopts a recognised approach to re-valuing its assets in line with their market value, based on an analysis of its discounted future cashflow using independently verified discount rates
- BWCE's accounts show member interest and community fund payments made in that financial year, but which relate to the previous year's performance, i.e. payments made in 2017/18 relate to generation in 2016/17
- BWCE's board assesses its ability to pay interest to members and make contributions to its community fund based on the gross profit/loss made by its projects compared to budget.
- BWCE generates significant cashflow headroom in the first 6 months of the financial year as this coincides with the most productive summer months for generating solar electricity.

3. Commentary on BWCE Accounts for Year Ending March 2018

We believe BWCE is in a strong financial position with a significant portfolio of solar PV projects generating a healthy cash surplus. Across its portfolio, BWCE now has fixed assets worth £16.7 million and annual income of over £1.5 million, with an operating profit of just over £300,000.

Both income for the year and gross profit have gone up significantly this year on the back of a full year of project operation for BWCE's newest projects, the Crewkerne & Stowey solar arrays and Old Mill Hydro.

However as noted above, sunshine levels were below average last year for the third year running. As a result, our profits against budget have been reduced by around £75,000.

Each year, BWCE's projects are revalued based on the net present value of future cashflows, before financing costs.

This year the revaluation considered the impact of our refinancing. Our debt provider requires us to take a more conservative approach to unplanned project maintenance by making an annual contribution to a separate maintenance reserve account. Whilst these funds will only be used if projects do need additional unplanned maintenance, the payments are regarded as a project cost in the accounts and so have a negative impact on the revaluation of the projects.

Where existing revaluation reserves can soak up the negative impact of this allowance they do. However, on projects where there is insufficient revaluation reserve, the reduction in value is represented as a direct impact on the P&L as an impairment, included in the depreciation cost, see also note 4 to the accounts.

Depreciation this year is higher because of this and the full year of depreciation on BWCE's new projects. Higher depreciation generates a larger accounting loss when compared to last year.

The value of BWCE's fixed assets has gone up due to the capitalisation of the costs of re-financing nearly £5.5 million and raising nearly £1 million in bonds. These costs are then amortised over the life of the projects, or the five year life of the bond. BWCE will be re-financing a further £4.7 million during the first half of 2018-19.

On the balance sheet the impact of the re-finance can be seen in the significant increase in cash at bank and in net current assets. Cash at bank includes £490k in debt service and maintenance reserve accounts, as well as around £470k of additional capital generated from fundraising and the first phase of the re-finance by the end of March 2018.

Some of these funds, together with the second phase of the re-finance, were used to redeem over £850k of BWCE's second bond in July 2018.

BWCE monitors the level of additional capital it holds as a matter of course to ensure that it is used only for investment in new projects or the business. As the organisation has grown, it has been increasingly helpful to retain some working capital to allow the organisation to better cope with cashflow demands during the year.

The losses shown in the profit and loss account to date are offset by the revaluation reserve, generated as outlined above.

The table below gives a summary of BWCE's finances, drawn from the consolidated accounts.

Trading Performance	**2017-18**	**Notes to 2017-18 summary**	**2016-17**
Electricity Generation Income	1,520,992	Feed in tariff plus export income	1,016,097
Other income	11,650	Interest earnt	109,564
	1,532,642		1,125,661
Cost of sales	(403,127)	Project costs, not inc. cost of capital	(304,404)
Administrative expenses	(99,565)	BWCE overheads, including community fund	(91,234)
Interest on loans and bonds	(561,045)	Includes accrual for bond interest	(430,788)
Surplus Before Members' Interest	468,905		299,235
Members' Interest	(327,657)	Interest paid to members in year	(257,859)
	141,248		41,376
Revaluation of Assets less Depreciation	(116,831)	Includes impact of additional impairment	183,360
Total Comprehensive Income	24,417		224,736
BWCE Assets			
Project Fixed Assets	16,693,182	Value of renewable assets after revaluation	16,538,358
Debtors less Creditors	*(132,322)*		*(272,784)*
Cash at Bank	*1,188,058*	Includes reserve accounts and unused capital	*907,775*
Net Current Assets	1,055,736		634,991
Total Assets Less Current Liabilities	17,748,917		17,173,349
Less Long Term Liabilities	(11,193,220)	Increase in bonds and bank debt	(10,593,805)
Net Assets at Year End	6,555,697		6,579,544
BWCE Capital & Reserves			
Share Capital	5,674,600	Member shareholding	5,722,320
Reserves less P&L account	881,097		857,224
Total Group Funds	6,555,697		6,579,544

4. Proposal for setting Community Fund and Member Payments for the Period to March 2018

BWCE's board proposes linking community fund and member payments to gross profit margin as outlined in the audited accounts. This approach establishes a transparent link between discretionary payments and the performance of the renewable energy projects that members' investment has helped finance.

- Each year BWCE's board will assess the variance between the gross profit margin shown in the audited accounts and budget
- If the gross profit exceeds budget, then the board will consider whether to offer a higher payment to the community fund or to retain funds for investment in the business
- The board does not have the option of increasing payments to members above the target of 7%. As a Community Benefit Society, BWCE is required to maximise benefit to the community rather than investors.
- If gross profits are below budget, the loss will be recouped from the target interest payment for that year and the target community fund payment on a pro rata basis until member interest reaches 6%
- Beyond that, further losses will be taken off the community fund payment until the fund payment reaches zero. Beyond that, further losses will be taken off member payments to take payments below 6% until all losses are recouped.
- An assessment of cash reserves will enable the board to check that this level of payment is appropriate, based on future cashflow projections. The board reserves the right to vary the payments if necessary based on this assessment, acting in the best interests of the business.

The key figures from this year's audited accounts, compared to budget, are summarised in table 2.

Table 2	Actual 2017-18	Budget 2017-18	Variance
Electricity trading revenue	£1,520,992	£1,598,919	(£77,927)
Cost of sales	(£403,127)	(£405,623)	£2,496
Gross profit/loss	£1,117,865	£1,193,295	(£75,430)

Allocating this year's project loss on a pro rata basis takes member interest down to 6% before beginning to absorb a higher proportion of the fund, as outlined in table 3.

Table 3	Target rate		Reduced rate		Loss recouped	% pro rata loss
	%	£	%	£		
Interest	7%	£397,222	6%	£340,476	£56,746	14.29%
Fund	£50,000		£31,316		£18,684	37.37%
	£447,222		**£371,792**		£75,430	16.87%

The proposal to members is therefore to award 6% interest and £30,000 to the community fund for the period to March 2018.

This feels comparable to last year, given that our projects performed only marginally better this year than they did the previous year, 4% below target rather than 5% below target.

5. Early Indications for Financial Year 2018-19

Project performance in May to July has been good, with the exception of a few days of outage on one of our larger solar arrays caused by the distribution network operator. However, April was a very poor month with very low sunshine levels at only 75% of forecast.

A full update on this year's performance to date will be provided at the AGM, together with implications for next year's payments to members and the community fund.