

BWCE 2017 AGM

Briefing: Financial Report and Proposal for Member and Community Fund Payments

Brief Overview of the Year 2016-2017

During the year we:

- Built and successfully commissioned a 250kW solar array near Stowey, west of Bath
- Built and successfully commissioned BWCE's first ever hydro scheme, a modern water wheel at Old Mill Hotel in Bathampton.
- Raised just under £1 million from a community share offer and £1.7 million from BWCE's second bond offer, primarily to acquire the Crewkerne 5MW solar array. The balance of funds for the project was raised from debt provided by Triodos Bank.
- Completed several phases of a feasibility study looking at the potential for battery storage at Bath Spa University, working with partners including Immersa and Cooperative Futures.
- Carried out a review of potential cost savings with our key partner Mongoose Energy, particularly looking to procure services across multiple community enterprises. As a result, for example, reducing project insurance by 14% and now with plans in place to reduce the cost of capital through re-financing debt at lower interest rates.

As with the Portworthy project last year, we took the Crewkerne solar array into community ownership before government support schemes closed and the opportunity was lost. The project was financed with the support of an existing local community energy enterprise, who will look to buy into the project when BWCE's bond matures next year.

By the end of the year, the total capacity of our projects was 12.35MW of solar PV plus one small hydro scheme, generating enough electricity in a full year to meet the equivalent annual electricity demand from approx 4,000 typical UK homes¹ and reduce carbon dioxide emissions by the equivalent of the full carbon footprint of nearly 1,250 B&NES residents².

Sunshine levels in the year were below average for the second year running, though this year they were significantly lower. 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 also supported a range of excellent community projects through last year's community fund contribution. See <http://www.bwce.coop/communityfund/> for more details.

National Context

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.

Changes within key government departments and a lack of clarity around the role of community energy within wider energy policy has created uncertainty. However, new opportunities are emerging for

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 4.2 tonnes CO2 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-2005-2015>

community energy organisations like BWCE as the electricity network adapts to increasing intermittent generation resulting from the growth in renewables. This shift from a total reliance on centralised generation from large power plants is forcing a rethink around electricity markets and increases the potential for battery storage, consumer owned generation and the need for balancing demand and supply at a more local level.

These opportunities and how we will look to maximize them locally are outlined within our latest business plan overview that can be downloaded from our website.

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' investment 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 2016/17 relate to generation in 2015/16
- BWCE's board assesses its ability to pay interest to members and make contributions to its community fund based on its available cash reserves, after considering its existing commitments
- 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.

Commentary on BWCE Accounts

We believe BWCE is in a strong financial position with a significant portfolio of solar PV projects generating a healthy cash surplus. BWCE Group now has fixed assets worth £16.5 million and annual income of over £1 million, with an operating profit of just over £300,000. BWCE is no longer generating any development income as this is an activity, with all its risks and liabilities, which Mongoose Energy now carries out on behalf of BWCE. The accounts for 2015-16 show income for development but also significant costs on development under 'Cost of Sales'.

'Other operating costs' are significantly higher than last year due to increased loan costs and accrued interest payments on the bonds. During this year there was a full year of interest on the loans and accrued for the bonds on the Portworthy solar array (rather than only for one quarter in the previous year). There was also interest on the new loans and accrued for the bonds for the Crewkerne solar array, added this year.

The added loans and bonds taken on this year are also reflected in increased 'Long-term liabilities'.

'Net current assets' stand at just under £635,000. This is lower than last year but only because last year's net current assets included significant funds raised for Old Mill hydro and Stowey solar array built during 2016-17.

Below forecast project performance, as outlined above, together with lower than expected income from electricity sales reduced profits by around £100,000.

These accounts cover the operation of the Crewkerne array from 1st October 2016 to 31st March 2017 only. The period between commissioning of the project in June 2016 and the end of September 2016 is covered in Crewkerne Community Solar CIC's 2015-2016 accounts, which had a September year end. BWCE acquired Crewkerne CIC in December 2016. The profit for the June to September period amounted to £189,901. Whilst this value is not represented in the consolidated P&L, it is represented in the 'Net current assets' and the reserves and so has a positive impact on BWCE's overall financial position. The financial year for Crewkerne has now been aligned with the rest of the BWCE group.

The losses shown in the profit and loss account to date are offset by the revaluation reserve, generated as outlined above, and the added value generated by the Crewkerne solar array, leaving shareholder funds well in excess of member investment in the community enterprise.

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

Bath & West Community Energy	2016-17	Notes to 2016-17 summary	2015-16
Trading Performance			
Electricity Generation Income	£1,016,097	Feed in tariff plus export income	£496,047
Development Income	£0	No longer a part of BWCE activities	£623,559
Other income	£109,564	Consultancy, interest earned & grant	£100,448
	<u>£1,125,661</u>		<u>£1,220,054</u>
Cost of sales	-£304,404	Cost of operating projects, not inc. cost of capital	-£712,643
Other Operating Costs	-£91,234	BWCE overheads, including community fund	-£127,105
Interest on loans and bonds	-£430,788	Bond interest accrued in year for future payment	-£99,798
Surplus Before Members' Interest	£299,235		£280,508
Members' Interest	-£257,859	Interest paid to members in year	-£153,060
	£41,376		£127,448
Revaluation of Assets less Depreciation	£183,360		£50,565
Total Comprehensive Income	<u>£224,736</u>		<u>£178,013</u>
BWCE Assets			
Project Fixed Assets	£16,538,358	Value of renewable assets after revaluation	£9,751,019
<i>Debtors less Creditors</i>	-£272,784	Includes development loan paid off after year end	£464,731
<i>Cash at Bank plus Work in Progress</i>	£907,775	Includes cash to pay off development loan	£284,536
Net Current Assets	<u>£634,991</u>		<u>£749,267</u>
Total Assets	£17,173,349		£10,500,286
Less Long Term Liabilities	-£10,593,805	Bonds and bank debt	-£5,339,327
Net Assets at Year End	<u>£6,579,544</u>		<u>£5,160,959</u>
BWCE Capital & Reserves			
Share Capital	£5,722,320	Member shareholding	£4,727,420
Reserves less P&L account	£857,224		£433,539
Total Group Funds	<u>£6,579,544</u>		<u>£5,160,959</u>

Proposal for Member Interest and Community Fund Payments in 2017-18

BWCE generated enough cash in the year up to March 2017 for us to pay 6% interest to members, and £30k into the community fund during the current year. We judge our ability to make payments in 2017-18, based on an analysis of our cash reserves, after considering our existing commitments at the end of the 2016-17 financial year.

These payments are lower than the target interest rate of 7% and community fund payments of around £75,000 due to the lower than forecast project performance as outlined above.

Early Indications for Financial Year 2017-18

Project performance from April to August this year has continued to be below target due to continuing lower than average solar radiation levels. If this continues, it will be the third year in a row that we will have had below average solar radiation and the second year it has been significantly below average.

We do not believe that this is a new norm, merely a prolonged dip. For further analysis of this, see the detailed report on project performance on our website here <http://www.bwce.coop/resources/bwce-documents>.

Because of the above, we would like to give early notification to members that next year's interest payment, which becomes due in October 2018, may also be lower than 7%. The board believes it should be in the range of 6-7%, depending on the performance of all our projects for the rest of the year. The board believes this still offers a fair and reasonable return after inflation.