



Proposal to Change BWCE's Interest Rate Policy

1 Current BWCE Interest Rate Policy

- Shares purchased before February 2019 have a target annual interest rate payment of 3.5% above the Retail Price Index (RPI), as published by the Office for National Statistics in December of the year in question.
- Shares purchased after February 2019 have a target annual interest rate payment of 4%.
- Interest payments are made subject to the performance of BWCE's renewables projects.
- This interest rate policy was updated and approved at the AGM in 2020 and first applied for the financial year 2019-20.

2 Proposed Change to BWCE Interest Rate Policy

- **Following discussions with the Financial Conduct Authority (FCA) we are proposing to cap interest paid on shares purchased before February 2019 at 7%.**
- **This is not a decision that the Board have taken lightly. But after detailed consultation with the FCA, and considering the FCA's interpretation of relevant regulations, we feel strongly that this is a prudent approach for BWCE to take.**
- **There are no changes proposed to interest paid on shares purchased after February 2019, because of discussions with the FCA.**
- **However, the BWCE board is considering increasing the target interest rate on all these newer shares to 5%, an intention signalled in the share offer document.**

3 Implications for this Year's Interest Payments

- For the financial year 2021-2022, ending March 31st 2022, interest rate payments will be approved by members at our AGM in September this year and paid out in October.
- Based on our current interest rate policy, BWCE's interest payment for shares purchased before February 2019 would be linked to RPI as published by ONS in December 2021, which at that time was 7.5%. See [here](#).
- So, member interest for these older shares for financial year 2021-22 would have been 3.5% plus 7.5% or 11%.
- With the proposed change to our interest rate policy, interest on these older shares will be capped at 7%.
- Interest on shares purchased after Feb 2019 will remain at 4% for financial year 2021-22
- The currently open share offer document flags the BWCE board's intention to increase the target rate for new shares from 4% to 5% when possible. This will be enacted soon with the launch of an updated share offer document and business plan.
- This will not impact the interest paid for the financial year 2021-22 and due for approval at this September's AGM.

4 Why Are We Proposing These Changes?

4.1 FCA Guidance on Interest Payments

- Each year we submit a report to the FCA summarising our financial and non-financial performance, including what interest rate we pay to members.
- The FCA are the body that registers all Community Benefit Societies (CBSs) and who have the power to de-register us.



- We have become aware of a greater focus placed by the FCA on interest payments made by CBSs such as BWCE.
- The FCA requires all CBSs to set their interest rate at the minimum level necessary to obtain and retain capital.
- The FCA's intention with this is to prevent CBSs indirectly distributing profit to members and so protect community benefit.
- In some cases, the FCA have threatened other CBSs with de-registration where they believe they are contravening this guidance and are in effect, distributing profits.
- Given the increased focus on these issues from the FCA and as we are required to inform the FCA every year what interest rate payments we make, we decided to proactively enter into dialogue about the rapid spike in RPI and its impact on the interest we pay.

4.2 Dialogue with the FCA

- The FCA made clear that in their view, because our income was linked to RPI, rapid increases in RPI would likely result in BWCE making more profit.
- As a result, if we made more profit in the year and we paid more to members in interest, then the likelihood is that we would be indirectly distributing profit.
- By proposing a cap on interest rate payments that we will not pay more than, we were able to demonstrate to the FCA that we are not able to respond to above target performance by paying more interest to members.
- The cap of 7% is proposed as the figure that was set in the original share offer documents.

4.3 Our responsibilities as a Community Benefit Society

- As a Community Benefit Society, our principal objective is to generate community benefit rather than profit maximise to the benefit of members.
- Interest rate payments are regarded as a cost on the business, rather than a distribution of profits.
- This means in years where we do well financially, we cannot pay more to members. We have to either invest profit in the business or make charitable donations.

5 Financial Implications for BWCE and the Potential for Increasing BWCE Impact

- There are two factors that are increasing BWCE income:
 1. Higher than average RPI that increases our Feed in Tariff payments.
 2. Significant medium term increases in the price we sell our electricity for.
- For this financial year, 2022-23, these two factors could increase BWCE income by more than £150,000, subject to the performance of our renewable energy projects.
- For financial year 2023-24, these two factors could increase BWCE income by more than £300,000, subject to the performance of our renewable energy projects.
- If interest payments are capped at 7%, then the increase in costs is small relative to the increase in income outlined above.
- This places a responsibility on the BWCE board to consider how best to use additional funds to add greater urgency around plans to reduce carbon emissions and where possible alleviate the impact of the high energy prices that we are benefiting from.
- Options for investment of any surplus funds, include:
 1. Investment in existing renewable energy projects to protect and improve project performance and site biodiversity



2. Investment in the business to strengthen organisational resilience by increasing staff capacity around business development
 3. Investment in existing work areas that have the potential to develop as financially sustainable community services, such as extensions to our [Flex Community](#) project
 4. Investment in new work areas that have the potential to develop as financially sustainable community services, such as energy efficiency advice and associated services for better off, 'able to pay' households
 5. Investment in work areas that address issues exacerbated by high energy prices, such as addressing fuel poverty and the provision of affordable warmth
 6. Investment in higher community fund payments to provide more funding to support community action on carbon reduction and fuel poverty
- For this financial year 2022-23, the BWCE board have decided to invest in points 1 and 2 above and to seek grant funding to address point 5.
 - With regards point 1, plans to invest in biodiversity improvements at Portworthy together with a range of medium priority maintenance tasks across our rooftop schemes have been budgeted for.
 - With regards point 2, investment in the development of new renewable energy projects has been increased by 50%, together with a commitment to recruit staff capacity to support the MD on business development.
 - The BWCE board are considering investment during next financial year 2023-24, across points 3, 4 and 6, subject to consideration of the issues raised below.
 - Other risks and issues that have been and will need to be considered before investment of additional funds include:
 - The performance of our renewable energy projects against their forecast target.
 - The need to retain sufficient working capital to manage cashflow and to create a buffer against below average sunshine levels and poor project performance.
 - Other options for enhancing BWCE's impact.
 - The impact of the government's windfall tax, if it's extended to electricity generation and community energy is included within its scope.
 - For example, with regards working capital, BWCE's board looks to retain a positive cash balance after accounting for capital funds raised and reserve account balances, that typically ranges from between £200,000 to £500,000 depending on the time of year.
 - BWCE of course receives the majority of its income during the Spring and Summer months as a result of higher sunshine levels.

6 Next Steps

- Receive feedback from members on the proposed changes to BWCE's interest rate policy.
- Deadline for share withdrawal requests extended to the end of July this year, if members decide to withdraw their BWCE shares.
- If approved by the BWCE board, re-launch our existing locally promoted share offer with a target interest rate of 5%.
- If necessary, in light of the scale of new renewables projects developed, and approved by the BWCE board, launch a new nationally promoted bond offer with a target interest rate of 4%.
- Present proposed changes to BWCE's interest rate policy in light of feedback, together with the proposed interest rates for 2021-22, to BWCE's AGM in September for approval.
- Present proposals for the use of additional funds in 2023-24 to BWCE's AGM in September for approval.