Frequently Asked Questions: Changes to BWCE's Interest Rate Policy

For information on what the proposed changes to BWCE's interest rate policy are, why the changes are being made and what the implications are for this year's interest rate, please see the separate policy briefing here.

The following questions were raised at a member meeting on 6th July, during which 48 members responded to a poll that indicated that when the policy came to the AGM, 71% would approve the 7% cap, 23% didn't know and 6% would not approve the policy.

Q1. Given that our capital investment will depreciate at the rate of inflation, could BWCE pay interest at the rate of inflation? Anything less would mean we are actually losing value as a result of our investment.

A1. Capital in Community Benefit Societies does not appreciate or depreciate in value, one share will never be worth more than £1. It is true that the interest paid will not be worth so much during times of high inflation. The aspiration outlined within the original share offer documents for these shares was to achieve a return of between 3 to 4% above RPI over time. Though, the share offer documents clearly set a fixed target interest rate of 7%.

These are long term investments and whilst we see very high RPI now, we have seen periods of very low RPI as well, summarised in the table below. Between 2012 and 2022, including this year's proposed interest payments, we have paid interest at an average of 3.5% above RPI, or 6.2% if investors received EIS tax relief, which most of the pre 2019 investors will have done.

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
RPI (recorded in December of year in question)	3.1%	2.7%	1.6%	1.2%	2.5%	3.9%	2.7%	2.2%	1.2%	7.5%
Interest paid on shares purchased before Feb 2019	7.0%	7.0%	7.0%	7.0%	6.0%	6.0%	6.3%	5.7%	4.7%	7.0%
Interest paid on shares purchased before Feb 2019 with EIS tax relief	10%	10%	10%	10%	8.6%	8.6%	8.9%	8.1%	6.7%	10%

Q2. When I bought BWCE shares, I was hoping to diversify my investment portfolio and increase assets linked to inflation.

A2. When these shares were originally sold it was with a fixed 7% interest rate. The RPI link was first introduced for the 2019-20 financial year.

Q3. Are BWCE's costs also increasing?

A3. Yes, most of our operational costs, like land rent and operations and maintenance, are inflation linked. But these increases are relatively small compared to the RPI linked increase in income. Hence the FCA's concern that if we also increase interest payments, we are effectively distributing profits. Something that, as a Community Benefit Society, we are not able to do and is prevented in our rules.

Q4. Is the FCA's threat of de-registration a big deal?

A4. Yes, it is a big deal. It would mean that we could no longer operate as a Community Benefit Society. The FCA have ruled that new bona fide coops can no longer be set up to operate energy projects because in their view, the members of a coop are only investors and are not receiving a service from the coop. So, we would have to switch to a normal company. In doing so we would contravene our asset lock that prevents us from passing on our assets to a commercial company and as a result we would have to sell our assets to another Community Benefit Society or similar organisation, and there would be a risk that we would not get enough capital from that sale to reimburse all our member investments. So yes, a very big deal.

Q5. Can you summarise the mechanism for interest payments that was in the original share offer document?

A5. There were a number of share offer documents issued between 2011 and 2016 that made a commitment to offering a fixed target of 7% interest, subject to project performance, with no guarantee of achieving that figure. No new shares were issued between 2016 and 2019.

Share offer documents also outlined a range of risks, including operational issues, lower solar radiation levels, regulatory and policy changes. Most investors were eligible for 30% tax relief on their investment, significantly increasing their overall returns.

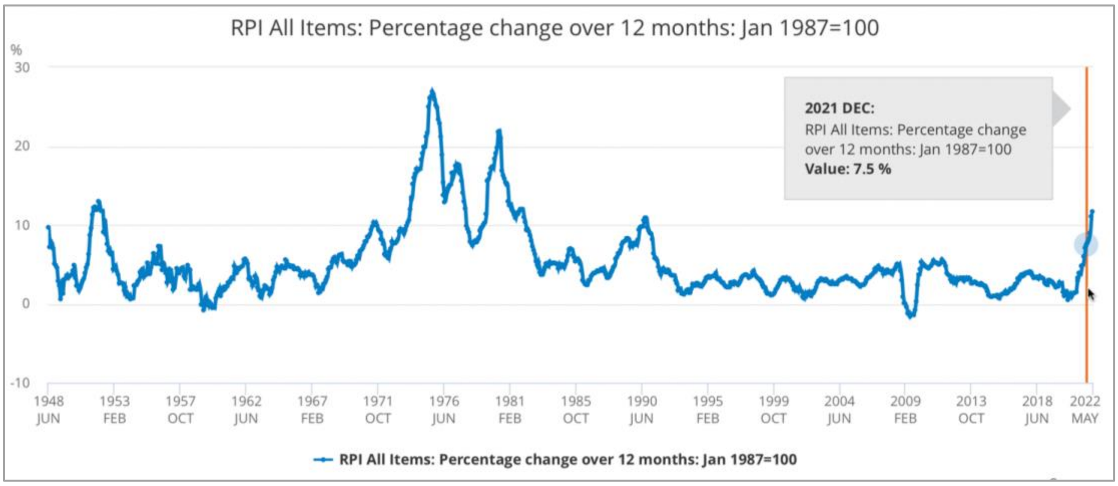
Share offer documents clearly outlined our status as a Community Benefit Society and said that interest would not be paid above the target figure or that excess profits would need to go to the community fund.

Share offer documents referred to the aspiration of achieving a net return in the range of between 3 – 4% above RPI over time. But during the first years the target interest remained fixed, and investors benefited with 7% returns against very low inflation.

This was not considered sustainable by the board, and together with government policy changes that reduced income from electricity sales and increased operating costs, the board took the decision of linking interest to RPI for the first time in the 2019-20 financial year to protect the organisation and members' investments. This followed an extensive consultation and AGM vote. Please see **here** and **here** for the briefing and FAQ documents circulated at the time.

Q6. When policy was changed to link with RPI we were assured that BWCE would be able to pay interest if RPI went high. Why are you not doing this?

A6. At the time of changing the policy, we took legal advice and were reassured that this approach would be acceptable. We (and no doubt the FCA) did not expect such a rapid increase in RPI, to levels that haven't been seen since the 1970s, see the graph below. Whilst we did scope out our ability to pay interest at this sort of level and did say at the time when questioned that we can afford to do this, we did not expect to see the push back from the FCA in the way that we have.



Source: Office of National Statistics, see link here

Q7. As well as capping interest at 7%, would guaranteeing that interest would always be greater or equal to the 4% paid to post 2019 investors, make for a fairer risk return combination?

A7. The board did consider this previously and will now discuss whether this can be made a firm commitment.

Q8. Did you make the case to the FCA that it's fair to link interest paid to inflation?

A8. Yes, we did, and they accepted in principle the idea that a link to inflation was appropriate. However, their benchmark was that if we ended up paying interest at a rate close to what might on average be seen for comparable commercial investments, then it could be inferred we were distributing profits, something that we are prevented by our rules from doing.

The implication of this is that if inflation stayed high for a long time and so brought up the whole investment market average, then we might have some flexibility to increase the target rate above 7%, if the gap became significant and could be clearly demonstrated.

It should be remembered that these offers were presented as long term investments that carried risk, including movements in the price of electricity and regulatory and policy changes. This is why interest rates were set at a level so much higher than what can be achieved in a bank or building society.

~~Q9.~~ It is great that BWCE is making greater returns than anticipated. Would BWCE be allowed to offer other benefits to members e.g. discounted retrofit surveys if we started doing these?

A9. This is an interesting idea. The board is looking at how BWCE can support energy efficiency more extensively and this is an interesting suggestion that the board will consider as part of this.

Q10. Other Community Benefit Societies pay interest linked to inflation. Why can't BWCE continue to do so?

A10. We only know of one other that takes this approach and we understand that they will also be capping their interest payments.

Q11. Given BWCE's aspiration to raise significant capital for new projects, what is your strategy for fundraising when inflation is so high and interest for new shares is relatively low at 4%?

A11. We are still raising capital through the new share offer at 4%, but the level of funds raised has been going down, although we have not been marketing the share offer very much in recent months. The board is considering raising the target rate of interest on these shares to 5% (subject to performance) and will be increasing the marketing behind it later this year. We are also planning on issuing a nationally promoted bond offer at an interest rate a bit lower than the 5% shares and raising debt capital from Triodos.