CARES Toolkit: Shared Ownership

Module structure

The Community and Renewable Energy Scheme (CARES) Toolkit is intended to be used as a reference by community groups of all kinds. This module is one part of a series of documents forming the CARES Toolkit and is designed to cover all sizes of project, although the scale and complexity of multi-MW projects may require more detailed evaluation than smaller projects. Other modules that may also be of particular interest to those reading this module are as follows.

Establishing a community group

This module has been developed for Local Energy Scotland to provide support to community groups looking to invest in a renewable project that is being developed by a commercial developer. The module outlines the different factors that need to be considered when making an investment decision and how to obtain the relevant support when making these investment decisions.

What is in this module?

- Background
- What is shared ownership?
- What are the benefits of shared ownership?
- How can CARES help?
- Getting the right advice for your project
- How community projects are financed
- Community-led versus developer-led investment offerings
- Investment Memorandum/Heads of Terms document
- Case Studies
- Investment Risks
- Appendix 1: Three Stage Process of Shared Ownership (A flow chart)
- Appendix 2: Shared ownership models

Background

Starting with only a few projects in the 1990s and early 2000s in Scotland, community and locally owned renewable projects have grown exponentially[1]. The growth of community energy in Scotland has primarily focused in the Highlands and Islands, associated with the community empowerment movement, land reform legislation, and the communial decision-making preserved in the crofting system. However, it has spread across Scotland, reaching communities from the borders to Shetland.

More recently, increasing concerns regarding climate change coupled with rising energy demand led the Scottish Government to aim to generate 50% of Scotland's overall energy consumption from renewable sources by 2030, and to have decarbonised its energy system almost completely by 2050. In order to help communities afford to participate in their goals for net zero, the government established the Community and Renewable Energy Scheme (CARES). CARES is delivered by Local Energy Scotland and provides financial support and advice to community groups.

With the continued aim to empower communities, the Scottish Government believes that communities can contribute to this target by delivering at least 2 GW by 2030. The Scottish Government envisions that shared ownership of renewable energy projects will play an important role in achieving this aim (Good practice principles for Shared Ownership).

What is shared ownership?

Shared ownership provides community groups the chance to make an investment in a commercially owned renewable energy project. It is defined in the Scottish Government's Good Practice Principles as "any structure which involves a community group as a financial partner over the lifetime of a renewable energy project" (pg. 4). Shared Ownership is separate and additional to Community Benefits (i.e. the voluntary initiative to support communities – usually in the form of funds). For more information on communtiy benefits, see the section 'What are the benefits of shared ownership?'.

It is the Scottish Government's ambition "to encourage the renewables industry to consider, explore and offer shared ownership opportunities as standard on all new renewable energy projects including repowering and extensions to existing projects" (1.4.3. Onshore Wind Policy Statement 2022). Communities should ask developers to consider and explore opportunities where they have not yet been offered.

[1]Hogan, J. L., Warren, C. R., Simpson, M., & McCauley, D. (2022). What makes local energy projects acceptable? Probing the connection between ownership structures and community acceptance. *Energy Policy*, *171*, 113257.

Shared Ownership projects can take several different forms, but a legal advisor would help you decide what would be best for your project. The three most common structures are as follows:

- **Joint ventures** – where a commercial operator and legally-constituted community organisation work together to create a joint venture to develop, own and manage a project. The company may be referred to as a Special Purpose Vehicle[2].
- **Shared revenue** – in which a legally-constituted community organisation buys the rights to a future virtual revenue stream which will be calculated on the basis of a specified proportion of the output of an installation, less agreed operating costs and generally less virtual debt service. This is calculated as if the community had acquired the underlying infrastructure.
- **Split ownership** – in which a legally-constituted community organisation owns a proportion of a development's physical assets, for example, the community organisation owns one wind turbine in a development of 20 turbines being installed by a commercial developer.
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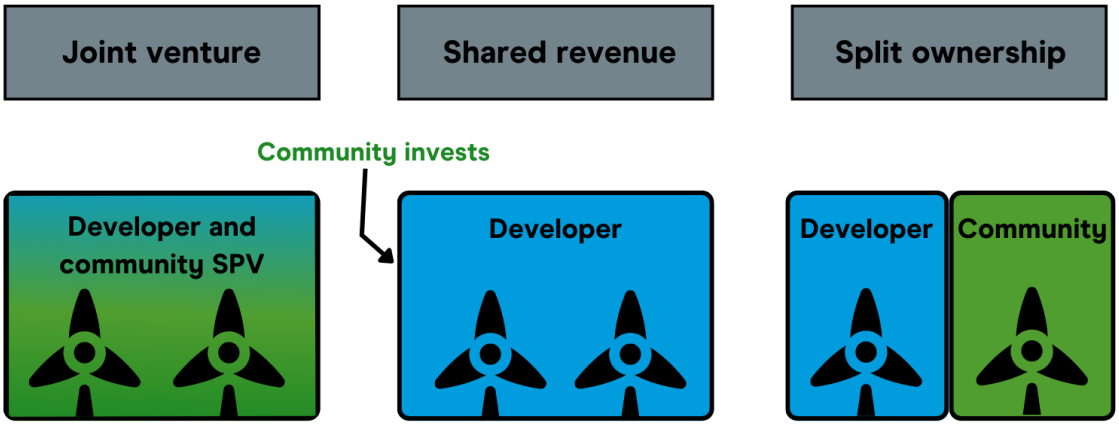

Figure 1 – Different structures for shared ownership

For examples of how these types of structures may work in practice, see the last few pages of this document.

[2] An SPV is a distinct company with its own assets/liabilities and legal status. Usually, an SPV is created for a specific purpose, eg to own one wind farm and to isolate risk.

What are the benefits of shared ownership?

By participating in shared ownership of a renewable energy project, communities can share in a range of benefits including developing a sustainable income stream of which they have control, creating strong partnerships, and building resilience in their local area.

Figure 2 shows the increased financial benefit that a community group might expect to realise from greater involvement in a community renewable project. Community benefits are a renewable industry led voluntary initiative to support communities, often in the form of funds. The standard set by the Scottish Government is £5,000 per MW installed capacity per annum.

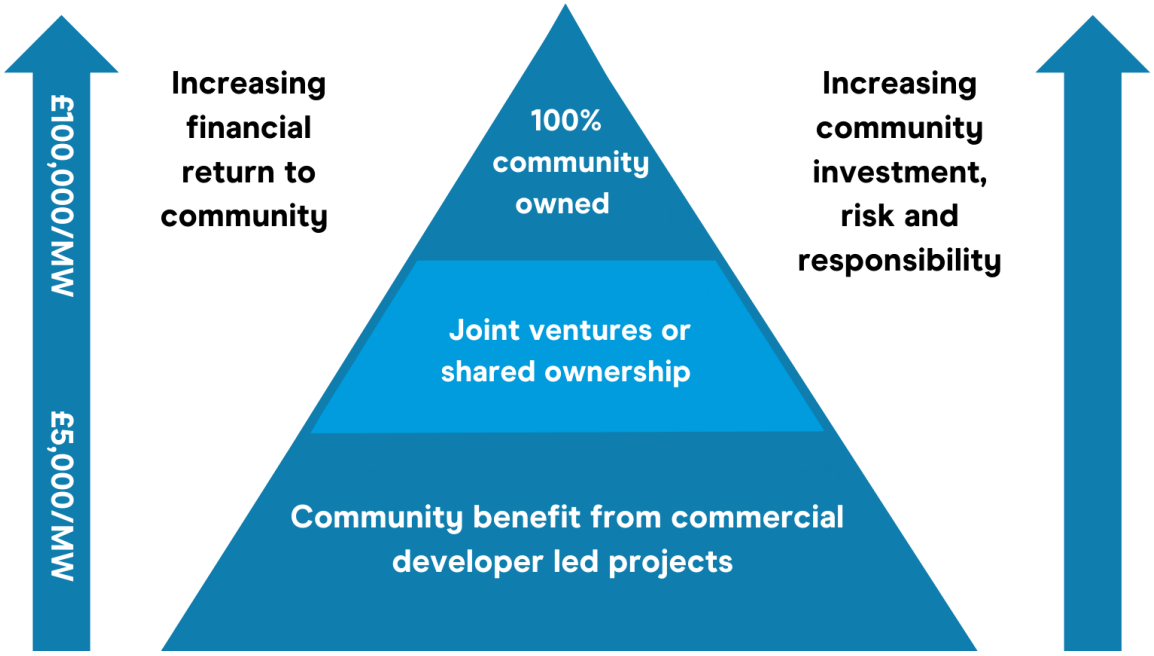

Figure 2 - Risk and effort verses reward chart

The Scottish Government's Register of Community Benefits provides an indication of the level of benefit payments other community groups have received. With limited involvement from the local community, there is limited risk to the community.

At the other end of the scale is a project that is community owned and developed. The financial benefits to the community are significantly greater, as are the risks and responsibilities. More benefit is achieved if investment in the project is early, however, this has more associated risk. It is also important to note that investments have to be committed for 20+ years for some technologies, regardless of whether it is a commercial developer or a community led project.

In shared ownership opportunities, there are many case studies of the commercial developer leading the project and taking the development risk. Subsequently, the community is offered an opportunity to invest. There are no set criteria for the terms of the investment or the relationship between community and developer, with each project being unique, so each project should be evaluated individually on its own merits.

If a community were to invest in a project before a planning application is submitted by a commercial developer, there is potential to increase benefits, but at the same time this approach has greater associated risks. Opportunities for potential investments can be identified by approaching local landowners or reviewing local authority planning applications. Professional advice is strongly recommended before making any investment decisions.

Developers have also benefited from shared ownership, such as through increased community engagement, accessing incentives such as rates relief and potentially adding value to their planning application. Research has shown that projects with greater community ownership have also led to greater acceptance, particularly if the communities feel that they were fairly and inclusively involved in the project and that the benefits were fairly distributed[3]. Moreover, if a project has greater acceptance, it is also more likely to obtain planning permission[4]. Further research into planning rejection rates has confirmed that the impact of community involvement is significant in certain local authorities, although not all local authorities[5].

There are more benefits to the community and the commercial developer to be realised from this shared ownership approach than simple financial benefits. The Scottish Government's Climate Change Plan suggests community involvement in generating electricity, whether fully community-owned projects or part community ownership of larger commercial projects, can help achieve our goals of decarbonising the power sector with 2GW of community and locally owned energy by 2030.

As of the end of 2021, an estimated 869 MW of community and locally owned renewable energy capacity was operational in Scotland from a mixture of solar PV, onshore wind, and hydro projects. This is a 5% increase on the operational capacity in 2020. The operating capacity resulted from a total of around 25,830 individual renewable energy installations.

[3] Hogan, J. L., Warren, C. R., Simpson, M., & McCauley, D. (2022). What makes local energy projects acceptable? Probing the connection between ownership structures and community acceptance. *Energy Policy*, *171*, 113257.
[4] Roddis, P., Carver, S., Dallimer, M., Norman, P., & Ziv, G. (2018). The role of community acceptance in planning outcomes for onshore wind and solar farms: An energy justice analysis. *Applied energy*, *226*, 353-364.
[5] ResPublica: The Community Renewables Economy - 2013

How can CARES help?

CARES has an important part to play both in supporting communities in the development of locally owned projects and in the opportunities that are available to invest in renewable projects being developed by others further afield.

CARES support

CARES provides assistance to support communities in the uptake of renewable energy projects, either as developers of their own projects or investors in projects led by commercial developers.

If you are considering investing in a renewable project, the following financial support is available to you through CARES:

- **CARES grants** – funding is available to fund non-capital aspects of a project and can help with start-up costs, professional advice, community consultations and other preparatory costs.
- **CARES development loans/grants** – this can be used for development costs in a shared ownership project.
- **Guidance from shared ownership team and local development officers** – Our team has a shared ownership manager and specialist on hand with expert advice during every stage of your journey. We also have local development officers and energy specialists who are based across Scotland.

Getting the right advice for your project

You can apply for CARES funding to help get access to professional advice. The next section highlights different forms of advice your community may want to take on your shared ownership journey.

Professional advice

There are many rules and regulations governing the financial market and how investment deals are managed. This includes what types of organisations are able to make commercial investments. As a result, it is important to seek professional guidance early when making commercial investment decisions.

Most projects are likely to require advice from specialists such as solicitors, financial advisors, and other technical specialists. The community must lead the project but assistance from others should be considered. This will reduce the project risks as specialists will bring experience and knowledge to the team. The Establishing a community group module provides further information on the skills required when developing a project. From this, it is possible to determine which skills are available within the group and which should be procured.

The following list describes the support that may be acquired from financial and legal specialists when considering an investment in a renewable project. CARES funding can be used to procure these services.

Before approaching a professional advisor it's important that you are clear about your aims and goals for the project you are exploring. This will be useful in the early exploratory discussions with the advisors. Ask yourself the following questions:

- What outcomes are you hoping to achieve? For example, is it financial security for the community? Is it energy security? Is it revenue generation?
- What is the nature of the undertaking in the project? For example, is it a joint venture? Is it a shared ownership investment opportunity?
- What are your key drivers? For example, is it to reduce carbon emissions? Community development? Long term community sustainability?
- What is your appetite for risk?
- What level of involvement do you want in the project? For example, as an investor, operator, or developer?
- What level of investment are you considering? Do you have equity to invest? Would you be raising debt finance?

Financial specialists

- **Financial Modelling** – This is required to determine the financial feasibility of the project. This service will also help to determine the potential financial returns for the community.
- **Transaction support** – The specialist provides advice or acts as facilitator on behalf of the community to attain their financial requirements. The services to consider here include:
    - Preparation of financial and business plans
    - Identification of potential sources of finance or developers
    - Lead debt and equity raising
    - Review funding structures, returns and ability to make the payments on debt
    - Lead negotiations with commercial developers
    - Permitted value gain study.
- **Strategic Advisory** – This service helps bridge the gap between the method to attain finance, attaining the finance and then paying the debt. The likely services provided under this would include:
    - Provision of an independent Financial Conduct Authority approved financial advisor
    - Advice on strategic options and ongoing review of business plans and financial forecasts
- **Social Impacts Services** – This is where economists ascertain the non-financial benefits of the project. The service can then determine how they could benefit the project. The services here can include:
    - Economic benefit analysis
    - Cost saving analysis
    - Alternative sourcing
    - Social impact bonds.

Legal specialists

- **Due diligence and review of the commercial offering** – This is where all the legal documents for the project are considered. The aim is to ensure that from a legal perspective the community receives the greatest benefit.
- **Structure community group for investment** – This is an important requirement as there is likely to be significant legal requirements linked to the financing option. The likely areas covered here would be:
    - Negotiating and agreeing the legal documents related to the finance package; and
    - Considering and dealing with the formalities of completion.

Some of the community group structures that may be appropriate are outlined in the Establishing a Community Group module.

- **Finalise negotiations with commercial developer** – This is where the legal team will check the documentation to ensure that they are acceptable. The likely services here will include:
    - Negotiation and agreeing legal documents are acceptable for the funding package; and
    - Consider all the various stakeholders and parties involved in the project and ensure all contractual requirements are covered.

As each project is different, their project path to completion will be different. This means that a community should always keep decisions open for as long as feasible. This is particularly true of investment decisions as they are likely to impact the investment structure which in turn is likely to impact finance availability.

The timeline for a project can be complex, therefore it is important that communities approach specialists at the right time. Early preliminary investment advice can assist the community in two ways:

1. Gain an insight into the general investment opportunity before full & detailed analysis is carried out, and time and money is spent; and
2. Ascertain whether there is a general appetite for the investment.

If receiving support from CARES, a community group will be required to produce a community development plan. Further information on this is available in the Establishing a community group module.

How community projects are financed

Whether the project is community led with the community instigating and owning the project, or developer led with the community co-investing, there are only three sources of finance available for a community, notably:

- Equity.
- Debt Finance (e.g. a bank loan)
- Grants

These are explained below.

Equity

The community may already have money from other sources. This would be classed as equity and can be used to invest in the project. This might be a direct cash investment, or if the community owns a piece of land, they might take out a loan against the value of the land to invest in the project. That would tie up their equity as it has been invested elsewhere. This would not prevent the community from using the land, but it would prevent them from using the land to raise finance for other projects.

Equity may also be a share offer that a group uses to raise funds such as through crowdfunding. If a share offer is made through crowdfunding and the individuals who support the project expect a return of their investment, the return is limited to that which is sufficient to raise and retain the capital the community group is looking for. Thus, the community organisation is not in the business to make profits for investors, but to put these profits toward the objectives of the organisation. For example, a community group may wish to form a Community Benefit Society (BenCom), similar to co-operatives, but by design are run for the benefit of the community rather than to only benefit the members. Further information on Community Benefit Societies are available in the Establishing a community group module.

The Highland Community Energy Society (HCES)[6] raised £1.35 million across multiple shared offers. From this successful crowdfunding, HCES were able to secure community stakes in four hydro sites. The HCES are a BenCom, and thus, provide both a community benefit fund to the local communities and a financial return to its members. Alongside support from CARES, Energy4all was commissioned for this project to support with the administration. Energy4all have helped promote and facilitate several renewable projects that needed to raise equity and have a variety of case studies available to read on their website (see here for example of wind projects Wind Sites - Energy4All).

[6] Highland Community Energy Society (HCES)

Grants

Public sector grants are generally provided to projects to fund a particular service or activity. There will be a number of restrictions associated with the grant and how it is used. It is important to clearly understand the terms and conditions of the grant and under what conditions the funder may want the grant to be returned. If the project requires additional debt finance, lenders will want to fully understand the terms of the grant.

There are regulations that also govern the amount of grant funding and generation subsidy a project is able to receive. Guidance regarding subsidy control can be found here.

Debt finance

Commonly the community will have few assets it can use as security for a loan, so banks and other lenders will provide ***non-recourse finance*** where the debt will be secured against the actual physical assets and the future cash flow stream from the renewable energy project. This is also called project finance. Therefore, in the unfortunate case where the project doesn't do as well as anticipated and the debt cannot be repaid, the lender can step in and take ownership of the asset and try to reclaim some of its monies. It is nonrecourse debt as the lender cannot try to claim money from other projects the community may have. Different lenders include:

- **CARES** - A CARES development loan can be used where a community group is looking to invest at an early stage, pre-submission of a planning application.
- **Commercial banks** – There are many commercial banks available who are interested in investing in renewable projects. Generally commercial banks will be looking for larger scale investments but, this does not exclude them from smaller investments.
- **The Charity Bank** – The Charity Bank provides loans to social enterprises and other community organisations that benefit people and communities.
- **Social Investment Scotland (SIS)** – SIS is a registered charity and social enterprise that provides business loans to third-sector organisations.
- **Scottish National Investment Bank** (SNIB) – Community renewable energy projects that have successfully gained planning permission can apply for support from SNIB, on behalf of the Scottish Government.

Where there are a number of lenders to a project and the lenders are not co-lending on identical terms the lenders will have different rankings of seniority. For example, a commercial bank may assume the position of senior lender and the Scottish National Investment Bank may assume the position of a junior lender. This is the ranking of the security that a lender has in a project. In a worst-case scenario where the project fails, this is the order in which any outstanding value within the project is repaid to investors.

Community-led versus developer-led investment offerings

A community-led investment is where the community owns the entire project, usually building between 1 and 3 turbines. A developer-led investment is where a community is offered an investment opportunity in a wind farm that a developer is applying to build. This might be shares in a proportion of the project, with an estimated return on the investment. Alternatively, it might be a share of the whole project, including a proportion of debt required to finance the project. Or it might be a proportion of the income stream in return for a proportion of the final cost.

For the Neilston Community Windfarm (see Case Studies Section, below), the local development trust, Neilson Development Trust, partnered with a developer, Carbon Free Development and raised investment which allowed a 28.3% ownership in the project. The terms of the investment that was offered to the community were the same as the terms offered to the developer. Similarly, in 2022, the community around developer Muirhall Energy's Crossdykes wind farm in Dumfries and Galloway purchased 5% of the shares in the 46MW project. Both projects received support from CARES and the predecessor to the Scottish National Investment Bank, the Energy Investment Fund.

For a community group to invest in a project, they will be required to set up an appropriate shared ownership structure, a Community Vehicle. It is important to understand exactly what the offer is, as it influences the legal framework under which the community group would incorporate itself and the opportunities for raising finance. There are an increasing number of opportunities for communities to take an ownership stake in a project, where they are partnered with one or more of the stakeholders involved in the project. As a result there is an increasing diversity of Community Vehicles that enable this partnership.

Where there are a number of stakeholders investing in the project, the size of the stake each will have will relate to the level of investment they will be required to make, and the level of control they will have over the development of the project. The offer to the community group may or may not allow voting rights in the project.

It is up to the investors to determine whether they are happy to invest in a project in which they may or may not have voting rights. For this reason, professional advice, either from within the community group or external sources is important. It is important to have as much information available as possible before making any investment decision and to be clear on the implications of the investment.

The implications of being able to borrow money from commercial banks if the developer does not offer ownership of some of the assets are illustrated in the following four scenarios.

Developer raises money with non-recourse bank loan and other sources

In this case the developer may raise 70% or more of the project costs with a bank loan secured on the project assets being developed and the future cash flows of the project.

If the developer only grants access to income streams then a commercial bank is very unlikely to lend to the community group unless the commercial bank is the same as the developer's own bank, in which case it may.

Developer raises money with recourse bank loan

Recourse finance are loans secured against some additional assets which are used as collateral. For example, if a developer owns a number of other renewable projects outright and does not have any outstanding finance against these projects, these could be used as additional collateral against which the developer can borrow money to finance other renewable energy projects.

If the developer only grants access to income streams then a commercial bank is very unlikely to lend to the community group, even if the same bank the developer is using is approached as the bank is lending on a recourse nature to the developer.

Developer uses existing money to finance the project

The developer may have a strong cash flow position and not even need to approach a bank. If the developer only grants access to income streams then a commercial bank is even more unlikely to lend to the community group as no other lender is involved.

Developer loans community finance

Developer can lend to the community group using the same resources as in the section "How community projects are financed".

Venture capitalist finance

Venture capitalist finance is another potential source of finance to a developer. In this case, the project developer is looking to raise finance from a venture capitalist investor. There are a number of venture capitalist companies that can raise finance for a renewable project. For example, there are Venture Capital Trusts (VCTs) that offer income tax relief.

It should be apparent that this is a complex area that again requires input from a professional financial advisor.

Like bank loans, venture capital finance also tends to be long-term, but often not as long as a bank loan. After a number of years (generally no more than 5) venture capitalist finance will look for a return on their investment and the developer will be expected to find an alternative source of finance to repay the original loan. At this stage the project will have a proven track record of annual energy production.

As with Section 'How community projects are financed', if the developer only grants access to income streams then a commercial bank is highly unlikely to lend to the community group as no other lender is involved.

Different legal structures for your group

To access any of these sources of finance it is a requirement that an incorporated structure is set up. This provides the Community Vehicle with the legal status required to enter into contracts, issue shares, receive grants and secure loans, as well as limited liability.

The following structures may be suitable for your organisation:

- Registered society[7], which can be
    - Community Benefit Societies (BenComs).
- Scottish Charitable Incorporated Organisations (SCIO).
- Private Companies Limited by shares (CLSs).
- Private Companies Limited by guarantee (CLGs)
- Charitable Status.

Additional information can be found in the Establishing a community group module.

[7] Which were previously known as Industrial and Provident Society (IPS)

Community-led developments

If a community has identified a potential site for a renewable project to be developed they have a number of options to consider for the development of the project.

1. Community led development – the project development section of the toolkit provides further guidance on developing a site and raising finance.
2. Community led development with third party support – organisations such as Energy4All exists to support communities in the financing and build of their consented projects, allowing the community to retain control over the development of the project
3. Community led development with commercial developer support – having identified the project, a commercial developer is approached to develop the project further

There are benefits to all of these options. Community led developments, and those with third party support, ensure that the control of the project is maintained locally through the construction phase and beyond. By engaging a commercial developer, the project is likely to be developed more quickly and could require less input from the community. It is possible that the commercial developer will expect to retain control of the project.

For any project development, collating the information required within a business case is a useful first step. If taking a project further with support from a third party or a commercial developer, they will be interested in understanding the land ownership arrangements at the site and any similar projects that are in operation locally. The Securing a site module can provide further information on how to complete this. Before approaching the developer, if possible, an exclusivity agreement should be entered into with the landowner.

Business case

When taking a project to a potential lender or seeking support from a third party it is good practice to compile a business case which demonstrates and explains the benefits of completing the project. Investment in a community led renewable project needs to include a robust business case.

There is a lot of guidance available on the components of a business case. The following key components could form the structure of the business case.

The project description

This should discuss the current position of the project development, the future position and potential alternatives considered. Who are the key stakeholders involved in the project and what agreements are in place between the stakeholders.

The benefit of the project

This is where the details of the potential outcomes are highlighted. This would also include the community development plan. Other information that could be provided could be details on safety, financial impact, risk management, environmental concerns and other regulatory requirements.

The minimum information that you need to calculate the financial viability of the project includes:

- Indicative project capacity (MW)
- Estimated capacity factor for the development
    - The developers may have a ball-park capacity factor figure they are using (for wind somewhere between 35-45% and hydro between 45-55%)
- Estimated capital costs
- Maximum size of equity investment being made available to the community eg 35-40% of total equity investment
- Minimum size of equity investment being made available to the community, eg 1% of total equity investment
- How the development of the project is likely to be structured: indicative debt/ equity gearing ratios
- Timetable for development.

If you are investing in a project being developed by a commercial developer as a minimum they should provide you with this information to allow some early financial modelling.

These financial figures are an important part of the business case, but they are not the only considerations lenders or investors will make. The complete package of information provided in the business case will be considered.

The proposed project

This section should cover the quantitative technical details. This should detail the technology that is being proposed and its anticipated performance and costs. What is the proposed legal structure that the group is proposing to incorporate.

The CARES Investment Ready Tool is a good starting point for collating all the required technical, legal and financial information required. This should then be summarised within the business plan.

Implementation plan

This Section should outline the timetable for developing the project, including all the project tasks, who is responsible for completing them and what the key milestone dates are. If there is professional advice required, time should be allowed for procuring this support. The timetable for investing in a shared ownership project will be short. You may be required to make investment decisions in a matter of weeks, so it is important to be as prepared as possible for when the opportunity arises. The CARES Project Development Plan can be tailored for project.

Project finance evaluation

The value of the project is determined using a financial model.

There are two separate stages to evaluating the financial returns on a potential investment in a renewable project. The first is to determine the financial performance of the project as a whole. The second is to evaluate the financial return of the investment offering to the community group.

One way to determine the financial performance of the project is to ask the developer for the financial model they have developed for the project. This will give full access to the assumptions that the developer has made in assessing the project. This is likely to contain some commercially sensitive information and the developer would expect you to treat it as such. However, due to this, some of the information may not be possible to obtain such as third-party information, supplier bid, annual fees paid to landowner, etc.

Investment Memorandum/Heads of Terms document

Working out the potential financial return of the investment offering to the group requires careful analysis of the investment memorandum. An investment memorandum is a document that a developer presents to potential investors. It presents the investment case in the context of a detailed view of the Project Vehicle, its management team and how the project will be managed.

This will include the size of the equity investment, how long the equity invested will be held for and estimated financial returns. Professional advice from an independent financial advisor should be sought to review this and understand the level of risk involved.

The investment memorandum may give an indication of the project costs including operational costs, maintenance, insurance, and administration in addition to the finance costs. The project income will vary from year to year depending on the resource available (ie the amount of wind that blows or water than flows) and the price of electricity. Careful attention should be paid to administration costs included and different investors may be offered a different share of the profits.

There are a many different variations of the offer being made to a community. These include:

- Investment in the full development and construction phases of the project
- Investment solely in the construction phase
- Investment in the project after construction.

If a group is being offered a 10% investment stake in the project, they can expect to see a maximum 10% of the dividends. However, this is expected to cover debt repayments, etc. The Investment Memorandum will indicate the potential return that might be expected. This size of the return on the investment can be expressed in a number of different ways.

Annual return – the investment return is normally expressed as a % of the amount invested provided over a period of time. An annual return would indicate an anticipated return each year from the start of operations. It is unusual for renewable energy projects to be able to provide a fixed return each year as they have a large capital cost which needs to be paid off before any investors can expect a return.

Lifetime return – a wind project can have a lifetime of over 25 years and a hydro plant might operate for up to 40 years and over. This should be included in the investment memorandum. It is more realistic to consider the investment return over the lifetime of the project, with lower returns likely at the beginning of the project and higher returns later on in the project as evidenced in the case studies.

Percentage of profits – after all income and costs have been considered, the remaining profits (or dividends) will be distributed to investors. The community investor might be offered a percentage of these profits related to the size of investment made.

Case studies

For more information on the following case studies, visit the Local Energy Scotland website.

Neilston Community Wind Farm

Location: East Renfrewshire

Project: 10MW Wind farm scheme (4 turbines)

Type of venture: Joint Venture between Carbon Free Developments Limited and the Neilston Trust

Community Stake: East Renfrewshire residents hold 28% stake, costing £950,000

Opened: May 2013

Details: This was the first joint ownership venture (JV) between a wind farm developer and a community. The Neilston Trust raised £950,000 to purchase their stake. This was partly funded by the Scottish Government and other organisations including Social Investment Scotland. It was estimated that money would start to become available for Neilston Development Trust after 2018-2019. This is common for a renewable project development where the income from energy generation will initially go to service the debt. Once the debt has been reduced and the interest payments are less, then there is excess income which is available to the owners of the project.

Allt Dearg Wind Farmers LLP

Location: Ardrishaig Project: 10MW Wind farm scheme (12 Vestas V52 turbines)
Type of venture: Joint venture between various partners and the community

Stake: The Allt Dearg Wind Farmers LLP (ADWF) owns the venture but is supported by 6 partners including the Ardishaig Community Trust which has a 1/12th stake (£300,000).

Opened: 2011

Details: There are 6 owners of the Allt Dearg Wind Farm, including Ardrishaig Renewable Energies Limited (ARE Ltd) who are a company limited by shares that is wholly owned by The Ardishaig Community Trust. The investment of £300,000 by ARE Ltd was funded by a loan from ADWF. This now provides ARE Ltd with a share of the cash surplus generated by the wind farm, which is gift aided to the Ardishaig Community Trust.

The project capital was funded by the partners (20%) and a 15-year loan from the Co-operative Bank. The loan was secured against the assets and future cash flow of the partnership. The bank provided favourable terms for the project on the basis of a few conditions and because of the end use of the revenues. These conditions related to transparency and good governance.

Two of the wind farm owners are defined as “equity investors”. Once the project has paid for the operational costs of service, maintenance, insurance and administration, the cash that remains is first used to make bank loan repayments and interest payments, and thereafter a fixed profit share payment to the two ‘equity investors’. The cash surplus that remains will then be divided between the ‘non-equity partners’, including the Trust, via ARE Ltd.

Investment risks

The following list of risk factors is not exhaustive and there may be other risks which relate to an investment in a renewable development. It is essential that a group takes its own independent financial and other advice before making any decisions about the options available.

- The return derived from investment in the Project Vehicle can go down as well as up. Additionally, the entire investment made by the community vehicle could be lost.
- The value of any interest in the Project Vehicle held by the Community Vehicle could be lost.
- The financial operations of the Community Vehicle may be adversely affected by the impact of general economic conditions.
- The Community Vehicle might have no voting rights in the Project Vehicle, therefore will have no control over the direction or decisions of the Project Vehicle.
- Any investment in the Community Vehicle will be difficult to value.
- Any investment in the Community Vehicle should not be regarded as short term in nature and community groups must be prepared to take a long-term view of their investment.
- Changes in economic conditions and legislation can substantially adversely affect investments.
- The Project Vehicle may be adversely affected by external events such as fires, floods, etc.
- No representation or warranty is or can be made as to the future performance of the Community Vehicle which becomes a member of the Project Vehicle.
- The Project Vehicle may require further funding post Financial Close and if the Community Vehicle does not participate its stake may be correspondingly reduced.
- By their nature, energy generation projects have significant construction risks arising from delayed operation and commissioning, costs escalation during the construction period, environmental.

Typical Risks in shared ownership

High Likelihood Risk

#	Risk Title	Risk	Mitigation
1	Investment price is too high.	There is a risk that the price is too high for the investment which could mean that communities can't afford the money at a low interest rate to cover their return and make a profit.	CARES grant can help mitigate risk by allowing community groups to get the right financial and legal professionals on board. CARES support and advice, including this module to help communities make the right choice.
2	No quick wins.	There is a risk that the length of time it takes to conclude an investment may outweigh community expectations, resulting in the community becoming frustrated and giving up the shared ownership project. For example, negotiations can take 2 to 6 years – or longer - before there is an investment opportunity, however, this does not require input all the time from the community side.	Communities to be aware and manage expectations with the CARES shared ownership team. Community groups to look at previous CARES case studies. Communications to be clear on long terms investment of time and money.

Medium Likelihood Risk

#	Risk Title	Risk	Mitigation
3	Project dropped by developer pre-planning	There is a risk that the project is dropped by developer before planning, resulting in the community feeling they have wasted the time and resources invested.	Building a good relationship and strong communication with developer should mean the community are aware of any major issues before they become showstoppers. If in the end the project doesn't work out, the investment of the time the community put into learning about shared ownership could help them in future projects. For example, the community group may be offered shared ownership another project or different types of community investments.
4	Project dropped by developer post-planning	There is a risk at post-planning that there is no route to market and the developer may drop the project, resulting in the community group feeling they have wasted time, resources and possibly finance.	Building a good relationship and strong communication with developer should mean the community are aware of any major issues before they become showstoppers. If in the end the project doesn't work out, the investment of the time the community put in to learning about shared ownership could help them in future projects. For example, the community group may be offered shared ownership another project or different types of community investments.
5	Not enough financial return to interest bank investors.	There is a risk that although key investors are keen to support communities, there isn't enough financial return for them to invest.	Communities to engage with funders, eg SNIB, as soon as possible, through CARES. They can offer support and commercial financing guidance, as well as investment potential and analysis.

Appendix 1: Three Stage Process for Shared Ownership

Appendix 2: Shared ownership models

The following are examples of how some shared ownership models may work in practice.

Shared Ownership structures: JV 1 where each party contributes a percentage of the investment costs and owns part of the assets

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Legal ownership	Joint venture company				
Shareholders	Community	Community	Private developer	Private developer	Private developer
Development phase risk	Normally with the private developer who may charge the JV a development fee, which the community will need to negotiate to ensure it is still making suitable returns. The question is when does the community start engaging				
Equity funding	Community	Community	Private developer	Private developer	Private developer
Debt funding	Community finds *	Community finds *	Private developer finds or could finance from own resources (on balance sheet)	Private developer finds or could finance from own resources (on balance sheet)	Private developer finds or could finance from own resources (on balance sheet)
Maintenance and operations	With the JV (normally arranged by private developer), which the community will need to negotiate to ensure the costs are reasonable				
Profits to each party	20% of wind from 1, 2, 3, 4 & 5 to community	20% of wind from 1, 2, 3, 4 & 5 to community	20% of wind from 1, 2, 3, 4 & 5 to private developer	20% of wind from 1, 2, 3, 4 & 5 to private developer	20% of wind from 1, 2, 3, 4 & 5 to private developer

* Problem is unless the private developers and the community have the same bank then no commercial bank is likely to lend to the community as loan cannot be secured against assets. This means the community may need to find softer debt finance (e.g. REIF or a Crowd Funder) that may be prepared to lend

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Shared Ownership structures: JV2 where each party contributes a percentage of the equity and owns part of asset, but JV secures debt

RICARDO-AEA

Legal ownership	Joint venture company				
Shareholders	Community	Community	Private developer	Private developer	Private developer
Development phase risk	Normally with the private developer who may charge the JV a development fee, which the community will need to negotiate to ensure it is still making suitable returns. The question is when does the community start engaging				
Equity funding	Community	Community	Private developer	Private developer	Private developer
Debt funding	JV finds one debt financier				
Maintenance and operations	With the JV (normally arranged by private developer), which the community will need to negotiate to ensure the costs are reasonable				
Profits to each party	20% of wind from 1, 2, 3, 4 & 5 to community	20% of wind from 1, 2, 3, 4 & 5 to community	20% of wind from 1, 2, 3, 4 & 5 to private developer	20% of wind from 1, 2, 3, 4 & 5 to private developer	20% of wind from 1, 2, 3, 4 & 5 to private developer

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Shared Revenue: Basically the same as JV 1 except even harder to secure debt as community owns no assets

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	1 	2 	3 	4 	5 
Legal ownership	Private SPV company (Special Purpose Vehicle)				
Shareholders	Community	Community	Private developer	Private developer	Private developer
Development phase risk	Normally with the private developer who may charge the SPV a development fee, which the community will need to negotiate to ensure it is still making suitable returns				
Equity funding	Community	Community	Private developer	Private developer	Private developer
Debt funding	Community finds *	Community finds *	Private developer finds or could finance from own resources (on balance sheet)	Private developer finds or could finance from own resources (on balance sheet)	Private developer finds or could finance from own resources (on balance sheet)
Maintenance and operations	With the SPV (normally arranged by private developer), which the community will need to negotiate to ensure the costs are reasonable				
Profits to each party	20% of wind from 1, 2, 3, 4 & 5 to community	20% of wind from 1, 2, 3, 4 & 5 to community	20% of wind from 1, 2, 3, 4 & 5 to private developer	20% of wind from 1, 2, 3, 4 & 5 to private developer	20% of wind from 1, 2, 3, 4 &5 to private developer

* As the community do not own any of the assets it is unlikely a bank will be prepared to lend money to the community. This means the community may need to find softer debt finance (e.g. REIF or a Crowd Funder) that may be prepared to lend

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Split ownership

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	1 	2 	3 	4 	5 
Legal ownership	Community ownership		Private company		
Shareholders	Community	Community	Private developer	Private developer	Private developer
Development phase risk	Either on own, or private developer who may charge the community a development fee, which the community will need to negotiate to ensure it is still making suitable returns. The question is when does the community start engaging		Either on own, or private developer who may charge the private company a development fee.		
Equity funding	Community	Community	Private developer	Private developer	Private developer
Debt funding	Community		Private developer		
Maintenance and operations	On own or deal with private company		Private company		
Profits to each party	50% wind from 1 & 2 community	50% wind from 1 & 2 community	33.33% of wind from 3, 4 & 5 to private developer	33.33% of wind from 3, 4 & 5 to private developer	33.33% of wind from 3, 4 &5 to private developer

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