

Section 9: Funding and Financing your Project

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9. Funding and financing your project

This section outlines the basics of grant funding and some of the issues to watch out for. For many groups, the successful award of funding to a project is the culmination of a great deal of work. It is also the point at which the project becomes ‘real’ and when a focused and meticulous approach to project delivery is required.

1.1 Funding and finance – what’s the difference?

‘Funding’ is usually taken to mean grant, whereas ‘finance’ usually means loan or more advanced forms of investment such as a shareholding. Finance is usually only appropriate for a project if it likely to generate a significant financial surplus, which can then be used to pay off a loan plus interest or to pay dividends and interest on shareholdings.

9.1.1 Grant Funding

Funding is available to assist renewable installations heat or power buildings – finance will not be appropriate unless significant revenue savings are likely to result in an ongoing financial surplus to the group, which would allow a loan to be paid off. Grant providers rarely provide 100% of the costs of a project. This means groups may need to look at various grant programmes for match funding. In the first instance, groups should consider the sources which are likely to offer the highest contribution to costs. Currently, these are:

- The Scottish Community and Householder Renewables Initiative (SCHRI). This is a Scottish Government programme that has been delivered to communities by Community Energy Scotland in the Highlands & Islands area and the Energy Saving Trust in the Southern, Central and North East of Scotland. Up to 50% grant is usually available. However, from April 2009 the Scottish Government will introduce a new scheme which will focus solely on supporting community renewables - The Scottish Government’s Communities And Renewable Energy Scheme (CARES) For more details see
<http://www.scotland.gov.uk/Topics/Business-Industry/Energy/19185/Communities>
<http://www.communityenergyscotland.org.uk/schri.asp>;
<http://www.energysavingtrust.org.uk/scotland/Scotland/Scottish-Community-and-Householder-Renewables-Initiative-SCHRI>

- The Low Carbon Building Programme (LCBP). This is a UK Government programme managed by the Buildings Research Establishment. Up to 50% may be available, but this cannot be matched with SCHRI grant. This programme is currently due to close mid 2009. <http://www.lowcarbonbuildings.org.uk/home/>
- The Scottish Rural Development Programme (SRDP). This Scottish Government programme brings together a number of funding schemes, some of which are part-funded by Europe. The most likely sources of funding in the SRDP for renewable energy projects in community facilities are Rural Priorities and LEADER. For more information see <http://www.scotland.gov.uk/Topics/Rural/SRDP>
- The Climate Challenge Fund. This is a Scottish Government fund established to support community projects that aim to reduce greenhouse gas emissions. In relation to renewable energy projects, only grant for feasibility studies will be available. For more information see <http://www.keepsotlandbeautiful.org/ccf.asp>
- Private trusts and Utility grants. There are a large number of private charitable trusts that may provide grants for renewable energy installations. Utility companies also offer grants under certain circumstances. See annex 1
- Funding is available from Co-operative Development Scotland if a community should wish to develop a renewable energy co-op or adopt a co-op model as part of their project (see www.cdscotland.co.uk)

9.1.2 Key points about grant funding

The main points about grant funding from any source are:

- It is usually discretionary – there is rarely any right to a grant;
- Funders will normally make it clear what costs in a project are **eligible** for grant aid. Any non-eligible costs will have to be excluded – but make sure you know how these will be paid for.
- Grants are often conditional – ensure your group can meet these conditions.
- It is unusual to get a grant for 100% of the costs of a project from one source– 50% or less is the more common amount.
- You must never commit expenditure for a project if you have not had a formal, written offer from the funding body. This will expose your group to a high financial risk if a grant application fails.
- Most funding bodies (especially public bodies) will only provide grant if their funding has an additional impact – i.e. their funding means that the project will go ahead, or will be better, or achieve more. If you have already started a project prior to seeking grant aid, or it appears that the project could proceed without the grant, most grant giving bodies will conclude that grant was not required and therefore there is no ‘additionality’.
- It is essential to check and plan for funders’ deadlines (i.e. when they will make a decision on your application) across all your potential funders. Try to ensure these work for your project as differences in these dates can cause delays.
- If a community has a charitable organisation with a trading subsidiary it is not normally possible to fund the trading body through grant. Funds can be passed from charitable body to subsidiary at commercial loan rates in keeping with the Office of the Scottish Charity Register (OSCR) on charity regulations. Communities wishing to

action developments or improvements that require grant funding through a trading arm subsidiary are advised to discuss the matter with OSCR- www.oscr.org.uk

9.1.3 Contributions in kind

In approaching grant funding body, you should always check whether the funder allows 'contribution in kind'. A contribution in kind is a financial quantification of voluntary time undertaken by members of a project group. It can also be a donation such as a piece of equipment from a local firm.

The work on a project undertaken by community group members is likely to have a value because it is offsetting what would have been a larger cost (for example of employing consultants). It is important that the total cost of a project **includes** any contribution in kind as it is the total cost which determines the actual cash value of the grant. If you exclude the voluntary time necessary to develop a project from its total cost, you are undervaluing your voluntary contribution and may get less grant than would otherwise be the case. Indicative values to ascribe to contributions in kind are summarised below:

Type of volunteer help	£per hour	£per day
General unskilled labour	6.25	50
Specialist skilled trained labour	18.75	150
Professional services (e.g. lawyers, accountancy)	50	350

NB. These are provided for guidance purposes only – much will depend upon the policy of the funding body.

9.2 Financing larger-scale projects

A group taking forward a project should always seek independent financial advice to ensure the proposed structure is fit for purpose and flexible enough to meet a number of different potential funding scenarios. This section of the Toolkit provides general introductory guidance only and should not be taken as investment guidance.

Background

Section 6 on generating and selling electricity provides an introduction to larger-scale projects designed to generate long-term source of funds for a community organisation. At the moment wind and hydro power are the main options, although the sale of heat and / or power through district heating and combined heat and power may become more viable in the future.

Financing a project is a complex process, and unless a community can finance a project 100% from their own resources then it is likely that some investment and/or loans from a bank will be required.

9.2.1 Financing Scenarios

There are three broad financing scenarios:

- The community has significant reserves that it is willing to invest, or has been successful in securing significant grant for the project. In this scenario, a loan may still be required. If the project is likely to be highly profitable mainstream banks are likely to be interested in providing loan finance. In this situation, a number of potential providers should be invited to review your project and propose their terms for a loan. Communities should look carefully at the full range of services a bank may provide – not just the headline interest rate. A bank that understands community organisations may prove a better choice than a bank more used to dealing with commercial companies if the financing offers are somewhat similar.

If it is proving difficult to secure a loan from a mainstream bank, or the terms are too onerous, it may be possible to source finance from certain financial institution specifically established to support social enterprise development. Social Investment Scotland was established with this purpose and have produced a clear guide on taking out a loan 'Taking a Loan of Finance', www.socialinvestmentscotland.com. Triodos, Charity Bank and Unity Bank also offer loans /equity capital.

- The community has limited funding of its own which is not enough to provide security for a loan provider. In this scenario, it will need to find other potential investors who would be interested in the project. In all cases this will entail giving up some ownership and probably some control over the project. There are several ways of doing this:
 - Identify a like-minded organisation who would be interested in undertaking a 'joint venture' and is able to bring cash to the project;
 - Issue a share offer to attract shareholders. see section 9.3 – The Co-operative Model;
 - Identify social investors who would be willing to invest in a project in a way which does not involve taking control of it as a means of helping the project construct a viable financial structure. For established social enterprises, the Scottish Investment Fund managed by Social Investment Scotland may be an appropriate way forward.

The Highlands and Islands Community Energy Company (now Community Energy Scotland) has developed a general 'step by step' guide to financing which aims to help community groups understand the financing process. A copy of the guide is available from Community Energy Scotland's website www.communityenergyscotland.org.uk. An interactive CD ROM is also available from Community Energy Scotland, which enables the user to consider the implications of different equity and loan mixes under differing site conditions.

9.3 The Co-operative Model

The Co-operative model is the accepted form of community ownership in most of mainland Europe. 23% of Denmark's wind energy is co-operatively owned and the City of Copenhagen co-operative is currently constructing an offshore wind farm. However the model is generally less well used in the UK.

The Co-operative model allows large sums of money to be raised from individuals through a share offer approved by the FSA. Combined with bank borrowing, this has permitted projects to proceed on a larger scale than may be possible using grant funding only.

Co-operatives are governed by Industrial and Provident Society legislation, and each Co-operative is registered with the FSA. Each Co-op has rules which ensure that it is governed in an ethical and democratic manner. Each individual Member has a vote no matter what the level of individual investment.

There are several different examples in the UK of how co-operatives can work in the renewable energy field.

The largest co-operative owned wind farm in the UK is the Westmill Wind Farm Co-operative, which developed and now owns and operates five 1.3MW turbines. The Co-operative has over 2,000 Members and raised over £4 million (plus a similar amount of bank finance) for the project. Returns are expected to range between 7% and 11%. More information is available at www.westmill.coop.

The Baywind Wind Farm Co-operative has the oldest community owned wind farm in the UK, and has been generating energy from it for over 12 years. Baywind also owns a number of turbines on a shared ownership commercial wind farm. Returns have averaged 8% over the life of the projects to date. See www.baywind.coop

The Fens Green Power Co-operative owns two 2 MW turbines on a shared site. Returns are expected to range between 8% and 12% per annum over the life of the project. See www.fens.coop

There are also to date four community co-ops in Scotland which own an interest in the income stream from their local wind farm, for example www.greatglen.coop. Income to Members from these co-ops is expected to be of the order of 10% per annum for the life of the project.

Findhorn's wind turbines have been partly financed by a loan from a community wind farm co-operative.

Each of the co-ops expects to repay Members their original capital at the end of the project's life. Each Co-op has a fund for local community projects.

The Co-operative model delivers economic and social benefits to the local community, ethical investment opportunities, and permits larger developments to be undertaken, which are usually more efficient.

For more information and assistance with the Co-operative model for renewable energy, contact Co-operative Development Scotland www.cdscotland.co.uk or www.energy4all.co.uk.

9.4 A note on 'State Aid'

Funding of income generating projects from public grant money must be compliant with EU State Aid regulations. State Aid is funding from a public body, or publicly-funded body, to undertakings (organisations involved in economic activity). State Aid must not distort competition and affect trade between Member States of the European Union, and may have to be approved by the European Commission. State aid is illegal under EU rules except under designated exemptions and within certain limits. Public bodies awarding grants must ensure any award is compliant with state aid rules.