

# WP2 Report on OxFutures Fund Development

## Introduction

1. Our aspiration with the OxFutures programme was to develop a special purpose vehicle. It would be created as a partnership between Oxford City Council and Oxfordshire County Council to invest in the development of large-scale enabling infrastructure for the low carbon economy. We hoped this fund would increase the pace and breadth of investment beyond public sector commitments at the time by attracting additional private sector finance.
2. The primary delivery option envisaged was to take advantage of a contract let to Carillion plc by Oxfordshire County Council for the full range of property services on the county council's estate and available to other public sector bodies in the county. It was hoped that energy performance contracts would become a vehicle to pay for the investment from guaranteed savings or income over the life of the contract.
3. During the first year of the OxFutures project the potential pipeline of projects was investigated however, in combination with strategic financial consultancy delivered by Grant Thornton, the conclusion was that this was no longer a viable route to secure investment.
4. The crucial difference at that stage, compared to the proposal and negotiation stages of designing the OxFutures programme, was the changing national policy environment following the recession: the UK's national austerity policy had a significant impact on our plans for the public sector energy efficiency pipeline. Under austerity the nature of councils' investments in their estate changed. Many local authorities started planning for a smaller estate and, whilst they intended to continue to invest in their estates, they wished to retain flexibility in asset management. Private sector borrowing and long-term contracts in the form of Energy Performance Contracts were less desirable.
5. Schools and academies, however, continued to be an area of the public estate with certainty over building life and were seen to have significant potential to engage with the community energy model, and energy efficiency pilots. So, given the proven model of community investment demonstrated by pathfinder projects such as Osney Lock Hydro and the Low Carbon Hub's solar pv project with Oxford Bus Company, it was agreed with our funders, EASME, that we would refocus on developing the financial infrastructure to support the community route.
6. This decision meant that work was needed to develop the Low Carbon Hub business model and produce a 5-year business plan that would deliver the necessary pipeline of investments. The Hub needed to go through an 'investment and contract readiness process' supported by an expert advisor body in order to ensure that its structure and processes were fit for purpose and that its investment strategy would attract the right kinds and amounts of investment.
7. The Hub went through a process of identifying and having conversations with possible support bodies, including Resonance CIC, UnLtd, and the Social Impact Business. Resonance CIC ([www.resonance.ltd.uk](http://www.resonance.ltd.uk)) was chosen because it was the provider with the best fit in terms of experience with renewable energy and community financing initiatives. For instance, Resonance had worked with H2OPE, a social enterprise developing community-owned hydro projects in the north of England.

8. **Resonance CIC** is a Community Interest Company (CIC) set up to assist community-led groups in developing and financing assets to achieve more sustainable and resilient communities. It is a member of Responsible Finance (previously the Community Development Finance Association) (website: [www.responsiblefinance.org.uk](http://www.responsiblefinance.org.uk)) and serves as a Responsible Finance Provider, currently operating two loan funds, which can provide finance for community-led, asset projects including:
- Affordable housing
  - Small scale renewables;
  - Workspaces and business hubs;
  - Community shops and farms.
9. Resonance offers two main services to start-up social enterprises, Investment Readiness and Deal Arranging. Having been through the Investment Readiness process, with the support of the OxFutures programme, the Hub has since worked with Resonance on deal-arranging. To date, this has yielded £800k in short-term construction finance, £2m in senior debt finance and a number of equity investments from social impact investors. Part of the investment readiness work has included the development of social impact metrics and tools, including the People's Power Station, which is now available to view at [www.peoplespowerstation.org](http://www.peoplespowerstation.org)
10. The total fund built up to support the development of Hub projects currently totals £8.56m including:
- £2.3m Revolving Construction Fund with Oxford City Council
  - £0.8m Share Offer Underwriting Fund from a combination of social funders: Community Land and Finance, Esmee Fairbairn and Big Society Capital
  - £2.0m senior debt finance from Charity Bank and
  - £3.46m of share equity raised from 647 individual shareholders
11. Resonance has also been introduced to community energy projects supported by the Hub as part of the OxFutures programme. It has helped to raise share-offer underwriting funding totalling £850k for the Osney Lock Hydro and Southhill Solar projects.

## Investment and Contract Readiness Process

12. The process the Hub went through with Resonance was tailored to producing an investable business plan able to attract social impact funding. It therefore went beyond the normal business planning processes to include the development of a social impact model and metrics. The process resulted in four things:
- a 5-year business plan for the Low Carbon Hub
  - a social impact model which is now being developed into metrics and processes
  - a presentation 'deck' for pitching the Hub as an investment to social impact investors
  - the first public share offer launched in September 2014
13. In order to achieve these things, the ICRF process covered the following 7 stages:
1. Strategic Review
  2. Impact Review
  3. Leadership and team development
  4. Corporate structure
  5. Business/financial modelling

6. Capacity and operational evaluation
7. Investment proposal

## 1. Strategic Review

14. The strategic review used the Business Model Canvas approach to identify the key aspects of the Hub model and to check for critical gaps and/or areas for development. The chart produced during this process is included as Annex 1. The main insights revealed by the exercise were:

- a. our business model required a much clearer and more tailored approach in communicating our value proposition to each of our key customer segments: community groups; investors; businesses; public bodies; and schools. There was a tendency to assume that everyone outside the Hub would automatically understand and endorse our community benefit approach;
- b. to be successful, we needed to focus a lot of attention on our networks and our people. Our main resource are the people involved with the Hub; our main route to market for both projects and investment is through our personal networks; and the main quality our business relationships need to have is trust-worthiness.

15. These insights have meant that we have devoted a lot of time and energy both to communications and to building our networks. We have been broadly successful in this as demonstrated by:

- i. metrics analysing where our equity investment has come from, eg 82% of our shareholders live in Oxfordshire
- ii. recruitment of community shareholders to the Low Carbon Hub CIC. To date 25 community groups have joined;
- iii. our ability to recruit help from Local Authorities, particularly Oxford City Council, Oxfordshire County Council and Cherwell District Council. This has been important both for fund-raising and for building our pipeline of projects. Cherwell District Council has been particularly helpful in identifying commercial partners in its area resulting in the two largest community-owned solar PV arrays in Banbury;
- iv. our ability to recruit schools to our pipeline, particularly with the help of Oxfordshire County Council.

16. Progress has been most challenging in terms of:

- i. using successful commercial building projects, such as Oxford Bus Company, to recruit large numbers of new partnerships. It has taken us time to understand purely commercial motivations well enough to make our value proposition clear and powerful enough. It has also taken us time fully to understand what segments of the commercial market are most likely to yield partnerships. From experience, this boils down to either:
  - a. businesses that are locally owned and managed and motivated by public relations locally (Norbar, Owen Mumford);
  - b. businesses that are part of a larger conglomerate where there is a strong drive from the top of the organisation to reduce carbon emissions as well as a locally-devolved management structure that has a strong degree of autonomy in how it meets the targets set (Oxford Bus Company, CTG);
- ii. persuading the Church of England to work with us in installing solar PV on its schools. We persisted with the exercise, and spent over £30k of abortive costs, in the belief that a religious organisation would ultimately demonstrate that it shared our values about

social and environmental benefit. Unfortunately, we have not so far been successful in this.

## 2. Impact Review

17. The Impact Review used the Transformational Index approach as set out in the report at Annex 2. The initial workshop results, as described in the report, was the starting point for a long-term development process that is still on-going. Discussions immediately following the workshop resulted in the Impact Model described in the graphic below and included both in our Business Plan and first public share offer document.

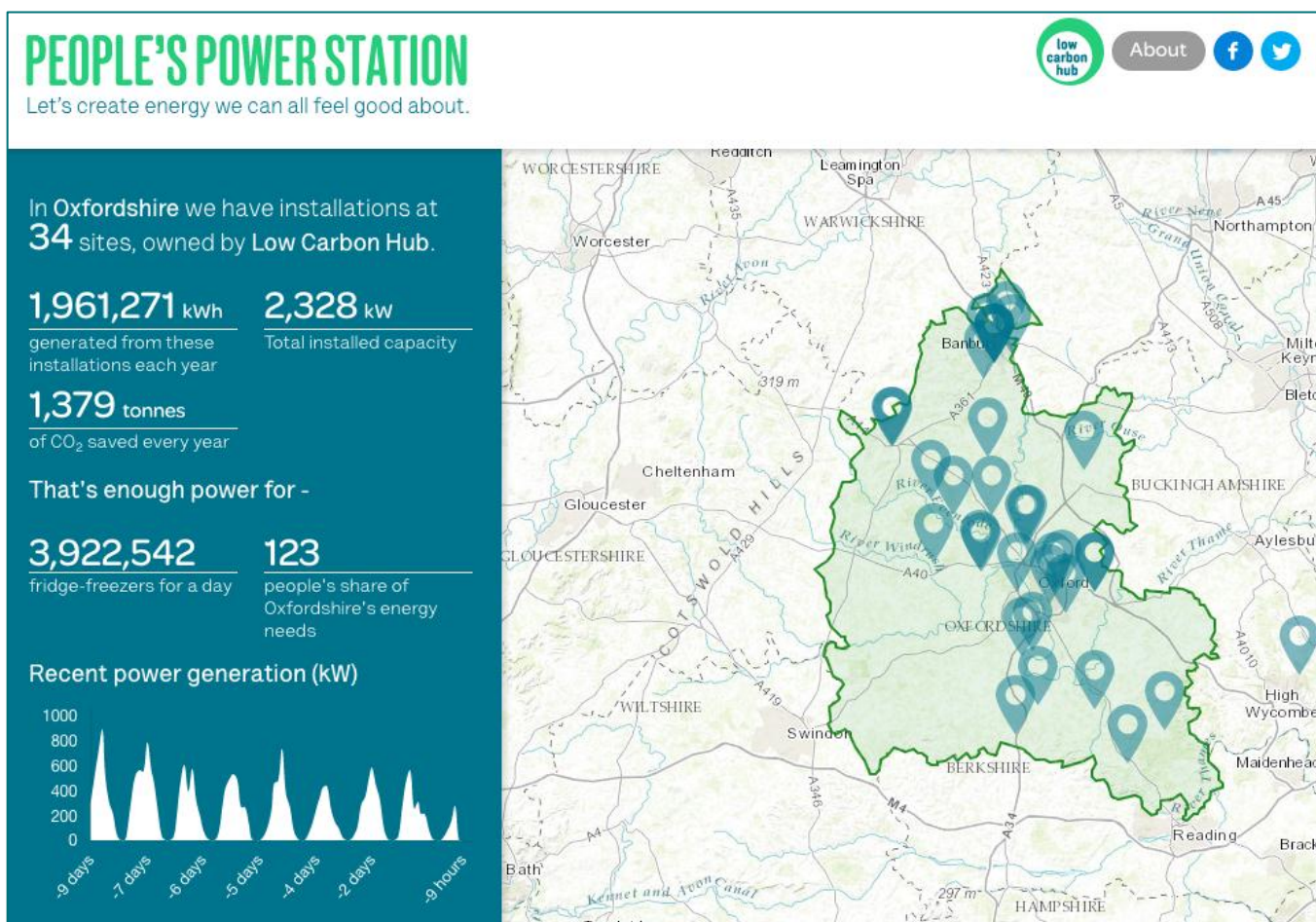


18. This model forms the basis of our Social Impact Framework attached at Annex 3. This is an evolving working document that both informs our day-to-day activities and is informed by them. Delivery of the framework is done through a number of social impact tools: the People's Power Station, the Local Energy Programme and the Community Benefit grant fund. These are described in more detail below.



## People's Power Station

This is a website that can be accessed at [www.peoplespowerstation.org](http://www.peoplespowerstation.org). The website can be searched for a particular site or filtered to show all the installations owned by a particular organisation. The screenshot below shows the installations owned by the Low Carbon Hub. A real time feed shows current generation in the chart at the bottom and the figures show the annual expected generation and the social impact data arising from that generation.



## Community Benefit Strategy

19. Part of our impact reporting is about the delivery of our community benefit. The summary description of this is attached at Annex 4. The strategy has two strands and funding is currently split between them 75% to the Local Energy Programme and 25% to the Community Benefit grant fund. To date the Low Carbon Hub has delivered over £125,000 of community benefit funding plus 135 hours of time helping 48 groups during the current financial year to date. We record time spent supporting community energy projects on our SuGAR database,

attached at Annex 5. The application process for our Community Grant Fund is attached at Annex 6.

### 3. Leadership and team development

20. The review of the CVs and roles of both the non-executive Board members and members of the Low Carbon Hub team resulted in the identification of a gap around financial management. This was dealt with by recruiting Luke Marion as the non-executive Treasurer of both the IPS and the CIC. Luke is the Commercial and Financial Director of the Oxford Bus Company, our first solar PV installation on a commercial roof, and so brought to the organisation a detailed understanding of our business model from the client perspective and a Board-level background in business development and financial management.

### 4. Corporate Structure

21. The review of the Low Carbon Hub corporate structure broadly endorsed the approach where the Low Carbon Hub IPS is the investment vehicle and the Low Carbon Hub CIC holds the staff and overheads, receives and manages the community benefit donations.

22. Two recommendations came out of the review:

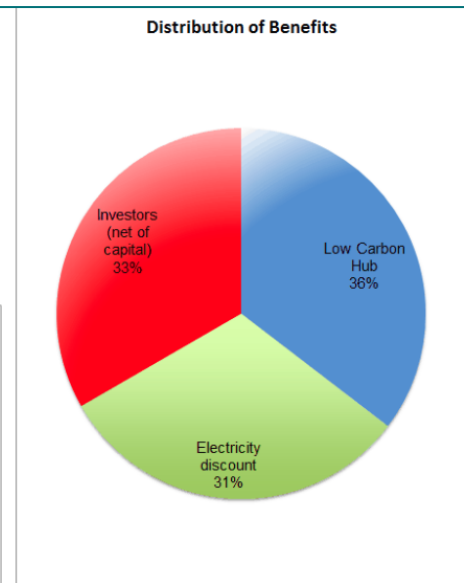
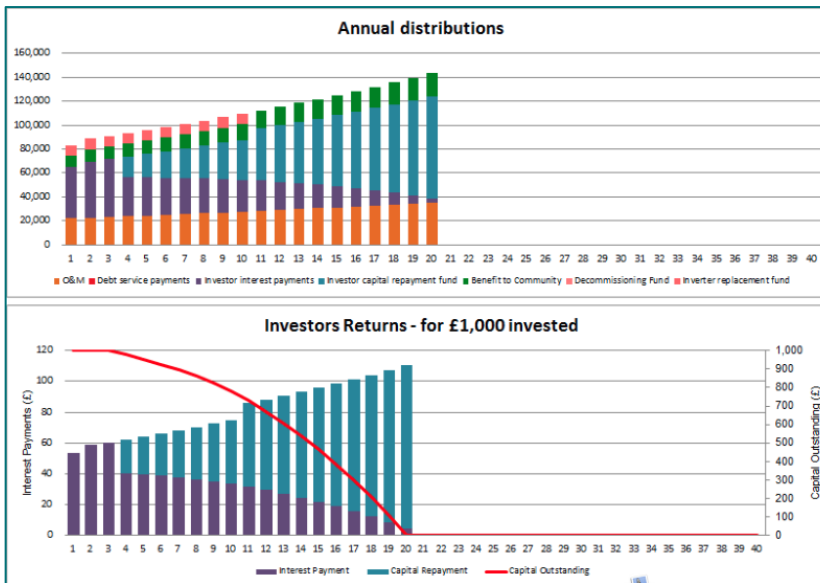
- i. projects with a different risk profile in terms of their size or technology should be held in wholly-owned subsidiaries of the Low Carbon Hub IPS;
- ii. a formal agreement was necessary to govern the relationship between the IPS and the CIC in terms of resource sharing and project development.

23. These two recommendations have been followed: Low Carbon Hub Sandford Hydro Ltd is a wholly-owned subsidiary of the IPS and houses the 440kW hydro project currently in development. A Resource-Sharing Agreement is in place between the IPS and CIC and is attached at Annex 7. An Investment Committee for the IPS, as a subcommittee of the Board, has also been set up to oversee this relationship, set the financial parameters for Hub development projects and recommend projects to the full Board for investment. This has been recently supplemented by a project-specific Project Management Contract to cover the development of Sandford Hydro Ltd and project-specific professional indemnity insurance has also been put in place for this project.

### 5. Business and financial modelling

24. Financial modelling has been undertaken mainly by Low Carbon Hub staff and non-exec directors. A sample is included at Annex 8. The snapshot below is of our schools pipeline of solar PV projects and shows how financial returns are made over the 20 years of the investment project and the split in benefit between the building owner in the form of cheaper electricity, shareholders in the form of interest net of capital and community benefit. Our aim is to achieve equal returns to the three beneficiaries.

25. Our ICRF work with Resonance built on the financial modelling we had done for each set of projects to help us develop a Funding Strategy. This is set out in the Route Map for Investment for Growth attached at Annex 9. The chart below is taken from the Route Map and sets out with some accuracy how our funding strategy and pipeline have actually developed.



Deployment		Quarter Dates					Totals	
		Apr14 - Jun14	Jul14 - Sep14	Oct14 - Dec 14	Jan15 - Mar15	Apr15 - Jun15		Jul15 - Sep15
Schools pv			£0.6m	£0.4m	£0.2m	£0.5m	£0.8m	£2.5m
Commercial pv				£0.4m <sup>1</sup>		£0.5m <sup>2</sup>	£0.5m <sup>3</sup>	£1.4m
Hydro					£0.4m <sup>4</sup>	£1.6m <sup>5</sup>	£1.0m <sup>6</sup>	£3.0m
Source								<b>£6.9m</b>
City Council			£0.6m	£0.8m (£1.4m)	£0.2m	£1.0m	£1.1m (£2.3m)	
Maximum ratio:	50%	Shares		£1.4m	£0.2m	£0.8m	£0.7m (+£2.3m <sup>7</sup> )	£5.4m
	50%	Bond						
		Junior debt						
		Senior debt				£0.2m	£0.8m	£0.5m
Net		£0	£0	£0	£0	£0	£0	<b>£6.9m</b>

<sup>1</sup> Wesley Barrell, & Brita  
<sup>2</sup> Norbar  
<sup>3</sup> Norbar  
<sup>4</sup> Sandford Lock  
<sup>5</sup> Sandford Lock  
<sup>6</sup> Sandford Lock  
<sup>7</sup> Revolving Capital returned to City Council

26. Main changes have been:

- It has take us a year longer to achieve financial close on the full pipeline of projects set out here
- The balance of investment between schools PV, commercial PV and hydro is slightly different and the total is larger at £7.5m
- We have raised less equity than envisaged to date because of changes to tax reliefs in October 2015. Our current ratio is 46% equity to 54% debt.

27. The exercise was hugely helpful in setting out the potential sources of funding and what the proportion should be between forms of debt and equity. Our focus over the next 12 months will be on increasing our proportion of equity in the business and developing a new pipeline of projects. We will also be taking forward the recommendation to model the impact of possible Bond finance.

## 6. Capacity and operational evaluation

28. Relatively little work was done on this through the ICRF process though much has been done since by the Hub team. Our main focus has been on developing a full Project Management system on the cloud-system Quickbase that is linked to our accounting system on Quickbooks. This allows us to manage the project development, capital requirement and monitoring of all projects from a single, integrated system and so allows us to maximise the capacity of a small team.

## 7. Investment Proposition

29. The ICRF process culminated in:

- an initial invitation to invest (included at Annex 10) that yielded £200k of equity that was 'pre-placed' before our first public offer went out, thereby giving confidence in a new business by showing that it had already attracted serious investment. This pre-placement supplemented the £150k private placement that funded our first installation at the Oxford Bus Company where 10 High Net Worth individuals invested with the benefit of the Seed Enterprise Investment Scheme tax relief;
- the first Low Carbon Hub share offer launched in September 2014, included at Annex 11; and
- a second Low Carbon Hub share offer launched in April 2016, included at Annex 12.

30. These offers have been underpinned by the Low Carbon Hub 5-year Business Plan of September 2014 that brought together the strands of work done through the ICRF process into a single document. This is attached at Annex 13.

## OxFutures Fund: progress to date

31. The funding secured by the Low Carbon Hub to date totals £8.56m so far:

- Oxford City Council Revolving Construction Fund: £2.3m
- Private Placement 2013: £0.15m
- Community Share Offer 2014: £1.694m
- Community Share Offer 2016: £1.615m
- Share offer underwriting facility: £0.8m
- Charity Bank debt finance: £2.0m

32. The target in our Business Plan was for a total of £15m over 5 years, so we have managed to get 57% of the way there in the two years since the plan was published in September 2014. Given the major changes in UK policy since July 2015, we are having to re-think our Business



Plan two years into the delivery of a 5-year plan. We expect to use the same processes, tools and models for that that we worked with Resonance to develop through this ICRF process.

## Annexes

- Annex A: Business Model Canvas
- Annex B: Transformational Index Report
- Annex C: Social Impact Framework
- Annex D: Community Benefit Strategy: summary
- Annex E: Local Energy Programme: SuGAR database
- Annex F: Community Grant Fund
- Annex G: CIC/IPS Resource Sharing Agreement
- Annex H: Sample financial model
- Annex I: Routemap for Investment for Growth
- Annex J: Initial Invitation to Invest
- Annex K: Share Offer 2014
- Annex L: Share Offer 2016
- Annex M: Low Carbon Hub Business Plan, September 2014