

funding revolution

**a guide to establishing and
running low-carbon
community
revolving
funds**

**executive
summary**

summary

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Forum for the Future is the UK's leading sustainable development NGO. We work internationally with business, government and public service providers, helping them to develop strategies to achieve success through sustainability, to deliver products and services that enhance people's lives, are better for the environment, and to lead the way to a better world.

This is the executive summary of *Funding Revolution: A guide to establishing and running low-carbon community revolving funds*. The guide was written in collaboration with Bates Wells & Braithwaite solicitors and sponsored by the Department of Energy and Climate Change (DECC). We thank the people, communities and organisations that contributed to this and they are listed in the full guide.

Will Dawson, the main author of the guide, is a Senior Sustainability Advisor at Forum for the Future. The project team included Alice Chapple, Natalie McCallum, David Mason, Ulrike Stein and Ben Tuxworth from Forum for the Future and Emily Unwin, Stephen Lloyd and Luke Fletcher from Bates Wells & Braithwaite.

For more on our work on finance visit www.forumforthefuture.org/projects/finance

Building a low-carbon, sustainable economy is one of the biggest challenges of our time. Climate change, rising oil prices and energy security are all powerful reasons why this is fundamental to our future wellbeing.

We will need to generate renewable heat and power from the sun, earth, wind and rivers and retrofit our buildings to save energy. This guide is designed to show communities how they can use smart finance to kick-start carbon saving projects like these in their area and make their investments go further.

But this is about more than finance and technology. If local people run these projects and invest their own money it brings them closer together, enriches their lives and keeps the benefits in the community. Carbon saving projects can empower people and engage them in the promise of a sustainable future so they use less energy, shop locally and grow their own food.

We have learnt a great deal from the bold and determined pioneers who are already funding projects to tackle climate change in their area. We want to share this knowledge and give other communities the tools they need to seize the opportunities of a low-carbon future.

smart finance

Pioneering communities around the UK are already using revolving funds to finance community energy projects which cut carbon emissions and benefit local people.

Funding Revolution: A guide to establishing and running low-carbon community revolving funds is designed to help local authorities, housing associations and community groups follow in their footsteps and set up schemes such as making private homes more energy efficient or installing solar panels on factory roofs.

It gives step-by-step guidance on how to set up a revolving fund for groups getting community energy projects underway as well as detailed advice on how to make the most impact with a fund for those who are further ahead.

The essence of a revolving fund is that the initial investment in a local energy project is repaid by returns, freeing up cash to invest in further carbon reduction schemes. Revenues from reduced energy bills, selling energy, and feed-in tariffs can fund a community's activities for decades on a steady, predictable basis. By reinvesting returns, or spending them on other carbon saving projects, the community can multiply the impact of its investment and avoid the need for continual injections of grant funding.

But a revolving fund can be much more than an abstract financial tool. Many communities are selling shares to local homeowners and organisations. By allowing them to invest in projects and have a say in the running of the fund, they create a spirit of individual and collective ownership and pride in becoming a low-carbon community. This can lead to positive impacts beyond the immediate energy projects. These include households becoming

more energy conscious, people taking an interest in the environment and becoming a closer community, more resilient to economic and social pressures.

This is the executive summary of the full guide, produced by Forum for the Future in collaboration with Bates Wells & Braithwaite solicitors. It draws on workshops with community groups pioneering revolving funds, and with other experts in community energy and finance. It is sponsored by the Department of Energy and Climate Change, which has distributed it to the 300 communities that applied for the Low Carbon Communities Challenge.

Funding Revolution: A guide to establishing and running low-carbon community revolving funds provides sound guidance and advice on all aspects of setting up and running a revolving fund including: suitable legal forms; most appropriate ownership models and structures; governance

and fundraising issues; managing risks; financial aspects and tax considerations.

The guide shows how the right governance and legal form allows income generated from energy projects to stay within the local area and not be extracted by commercial investors. It is designed to give community groups, local authorities and housing associations confidence to be bold and lead their community to a low-carbon future. It will also be of interest to other organisations that provide advice to communities, companies interested in working with communities on carbon reductions, central government departments and academics.

The full guide is available as a free download on the Forum's website: <http://www.forumforthefuture.org/projects/funding-revolution>

pioneers

Across the UK a growing number of communities have set up revolving funds to achieve their goals. Here are three of these exciting pioneers, and there are more case studies in the full guide.

Kirklees Council launched their £2.7 million Re-Charge fund in 2008. It is now nearly completely lent out, with loans made to around 285 local households. Collectively, they have installed 300 renewable energy or low-carbon technologies, such as solar PV panels and biomass boilers. Under the scheme, the council offers homeowners an interest-free loan of up to £10,000, the loan is secured to the property and is repaid to the council when the property ownership changes. Around 20% of the funds have supported households in fuel poverty.



Alison Cotterill at her home in Dewsbury with her new biomass boiler that was paid for by a loan from Kirklees Council's Re-Charge fund. *Courtesy of Kirklees Council*

West Oxford Community Renewables (WOCR) is installing solar panels on roof space belonging to supermarkets, schools and other private and public sector organisations, and has plans for a hydro project and wind turbines. WOCR leases the sites and owns the installations, or develops them on behalf of other community-based organisations, and receives the feed-in tariffs. It sells the electricity to the site owner and the surplus to an energy supplier.

WOCR is a community-owned Industrial and Provident Society that has raised money with a local share issue and by winning public grants. It will donate a proportion of revenues from energy generation to the Low Carbon West Oxford (LCWO) charity. LCWO funds local low-carbon projects, such as providing household energy advice, with the aim of achieving an 80% reduction in emissions in West Oxford by 2050.



Installation of 100kWp of solar PV panels on the Matthew Arnold secondary school in West Oxford. *Courtesy of David Hammond*

Hook Norton Low Carbon in Oxfordshire is another Industrial and Provident Society which has been helping its 2500-strong community reduce its carbon footprint for a number of years. It is spending a £400,000 grant on several projects, all of which will feed their revenues back into a rolling low-carbon fund so that the community can continue to take action for decades to come.

Its first projects include many changes to the local primary school (solar PV and solar thermal, heat recovery and roof insulation upgrades). It provides interest-free loans for the whole-house retrofit of six homes and insulating and installing renewable technologies such as wood pellet boilers, air source heat pumps, solar PV and thermal panels on a further 20 homes. It is tackling transport too by installing a 5,000-litre biodiesel tank at the Hook Norton Brewery to supply waste oil derived biodiesel for 50 private cars and the 3 community pool cars. And it is installing a 40m meteorological mast to measure wind speed to explore the potential for a 330kW community turbine.



Multifoil insulation installed behind a reed mat to be lime plastered later as part of Hook Norton Low Carbon's energy efficiency improvements to Hare Cottage and Barn. *Courtesy of Hook Norton Low Carbon*

revolving funds

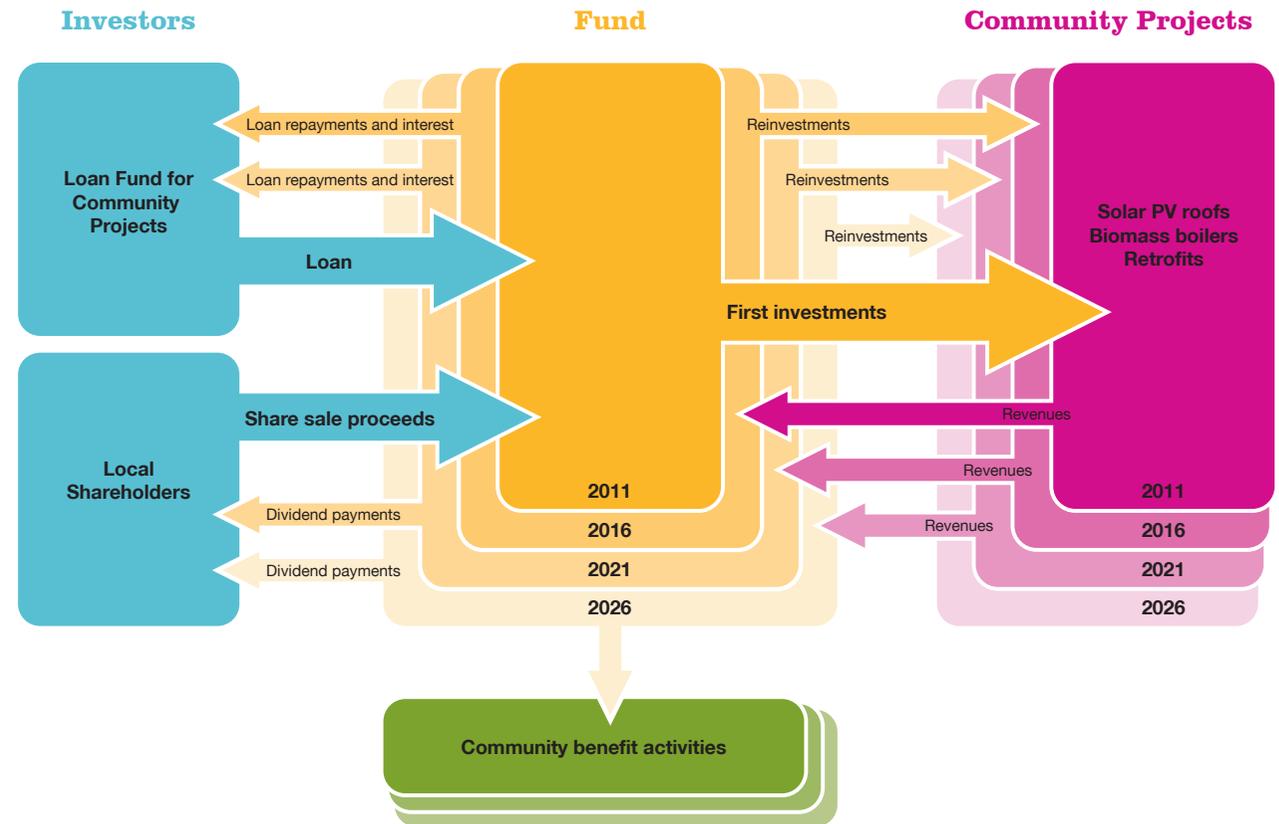
This diagram shows how a revolving fund works and how it can grow its activities over time by channelling money from investors into projects and reinvesting some of the revenues.

A revolving fund is a legal “vehicle”, and often set up as an Industrial and Provident Society for Community Benefit, governed by shareholders and members from the community. This means it can make agreements with investors and lenders, purchase assets such as energy generation equipment, lease places to install equipment and make loans to carbon saving projects.

In this example, the investors are a loan fund designed for community projects (e.g. Finance South East’s planned Community Generation Fund) and local shareholders. Like Hook Norton Low Carbon and other pioneer examples, the fund uses this money to install renewable energy technologies and make loans to households to pay the up-front costs of retrofitting.

These projects create financial revenues, including feed-in tariffs, sales of energy and loan interest and capital repayments, which go back to the fund. In a similar way to West Oxford Community Renewables and other revolving funds, the fund repays some of this money to its lender and pays dividends to shareholders.

The fund reinvests the surplus into more energy projects and donates to a sister charity that works with disadvantaged households to find ways to reduce their energy bills. The charity does not charge these households, so does not make money but its



work creates large carbon savings and reduces fuel poverty, increasing the revolving fund’s carbon and social impact.

Over time, the fund is able to reinvest money out of its surplus so the value of the fund grows as it increases the number of community projects. After 15 years, it has repaid the start-up loan entirely and so has

the choice of taking out a new loan to increase its scale, making greater payments to its shareholders or reinvesting the money it was repaying on the loan. It is able to continue to ‘revolve’ and grow indefinitely without public grant funding, acting as a hub in the community’s sustainability activities.

making your community's vision reality

The diagram on the facing page shows the five areas of activity that you will need to coordinate to set up a low-carbon community group and get the most out of it. You can use this as a tool to ensure you continue to work towards your vision and revise your goals as you learn and progress.

The first three activities set out how to engage your community and manage your group. The fourth shows typical projects at different stages of the development pipeline and the fifth looks at communication. The time horizon indicates the need to plan these activities for the present, medium and long-term.

The full guide is available as a free download on the Forum's website: <http://www.forumforthefuture.org/projects/funding-revolution>

1 Take stock – You need to regularly take stock of your current resources and assets. These include roofs and hill top sites. Ask what skills are available, like accounting and management and what can you do with these. Identify gaps that are holding you back.

2 Create vision – Think big and envision together what you want your community to be like in 15-20 years time. This shared vision is crucial to engaging and exciting your community and in getting agreement on the kinds of changes you want your group to make happen. For example, your priority might be to maximise carbon reductions or to help bring households out of poverty.

3 Set goals – You should set realistic goals for the next 1-5 years. It is important to get your first activities going early to create a sense of achievement, action and excitement so you should have some projects that are easy to get started. You should also review stage 1. To meet your goals you may need more resources, for example, an engineer or lawyer.

4 Create a project pipeline – Plan specific projects over the time when they will start. Communities typically start with activities which cost little or nothing. However, as their ambitions grow they develop projects which can benefit from revolving funds. Here is a typical project pipeline:

- a. No or low cost activities include working with households or businesses to reduce their environmental impacts by suggesting measures to save energy and water and sharing experience.
- b. Low cost energy saving measures might include installing loft insulation in a whole street. You might set up a revolving fund to make small loans or you might find an energy company that will work with you and do this for free under their obligations to cut demand.
- c. Renewable energy infrastructure projects such as hydro, wind, solar PV and anaerobic digestion have high up-front costs. Communities are increasingly using revolving funds to pay for this, drawing on revenue streams from feed-in tariffs and renewable heat incentives.
- d. Some communities, such as Hook Norton are planning to use a revolving fund to finance 'whole house' retrofits of homes including energy efficiency measures, which can create greater carbon savings than renewables. At present, these schemes tend to generate a lower return on investment than renewable energy but the government's Green Deal is likely to change this.

5 Communicate – Tell your community what you are doing to engage them in your vision, involve them in your activities, and encourage them to invest in your fund or borrow for projects. Once you have built up experience, other groups will want your advice. It is possible to turn this into a paid-for advisory service that generates additional income for your group.

1. take stock

Think big

What are your current assets and resources?

What **skills** do you have?
(Accounting, financial, engineering, management, marketing)

What **assets** do you already have?
(Brand, property/leases, contracts/orders, feasibility studies, planning permissions)

What **energy resources** do you have?
(Hill tops, rivers, large roofs, homes)

What **human resources** do you have?
(Volunteers, paid staff, pro bono professionals)

What **scale** is your community – what size and number of businesses and how many people?

2. create vision

Generate ideas then prioritise

What is your vision of your community in 15 or 20 years time? These should not be put in time order, that is for the goal-setting, but should be given an importance – do you have to do all of these?

Ask how important these are to you:

- Involving many people
- Saving carbon
- Making financial returns for the community
- Helping low income households
- Helping other communities to become low carbon

Ask what are the principles of your group: e.g. inclusive, democratic, cooperative

3. set goals

What's your immediate priority?
What could you do over the next 1 to 2 years?
What could that lead to?

Make sure each of your goals is **SMART**:

1. **Significant** to your vision and to your community
2. **Measurable**, so you know when you've met it and can set new objectives
3. **Agreed** – make sure your community agrees it is the right thing to do
4. **Realistic** – check against your resources and assets, can you do it with what you have or could get in time?
5. **Time-based** – set a date when you should have met it by

Change resources?

4. create and deliver a project pipeline

In general, objectives for communities will progress from a) to d) below.

a) Change household and business energy and water use by measuring carbon footprints and socialising to exchange ideas

b) Fund low cost energy reduction measures in households (e.g. loft insulation)

c) Set up renewable energy projects

d) Conduct 'whole house' energy efficiency retrofits

Use a revolving fund

5. communicate in your community and with others

Publicise what you are, what you are trying to change, create a recognisable identity

Communicate your activities and experience to other communities

Now

Short-term (1–2 years)

Mid-term (3–5 years)

Long-term (5–20 years)



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