Power for Good Co-operative Limited

Business Plan

May 2015

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Power for Good Co-operative Limited

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ORIGIN, VALUES AND AIMS

Power for Good Co-operative Limited (PfG) is a Community Benefit Society incorporated in 2012 by members of faith communities in the West Midlands, with the aim of taking local action on the global issue of climate change.

Concern about the effects of climate change is widespread and urgent. The Intergovernmental Panel on Climate Change (IPCC) has concluded that there is now unequivocal evidence of warming of the atmosphere and oceans, with a 95% probability that human influence is the dominant cause. In response, faith groups worldwide have called for joint action on emission reductions, the phasing-out of fossil fuel subsidies and access to renewable energy technologies for all.

PfG's Founder Members, who belong to a variety of worshipping groups, are committed to working to reduce the carbon emissions of religious communities in the West Midlands. Our local action is to finance the installation of solar photovoltaic (PV) panels on the roofs of places of worship across the region with funds raised through a Community Share Offer. These installations will not only increase the amount of renewable energy produced but also, through their location on prominent community buildings, increase awareness and promote discussion on responses to climate change. The current plan is a pilot project preparing the way for more ambitious developments.

In pursuit of these aims the Board of PfG have:

- selected two churches - St Richard's in Kitts Green, Birmingham and St Andrew's in West Bromwich - as pilot sites and negotiated rent-free leases for the use of roof space on which to install solar PV
- obtained quotations for solar PV systems with a total peak generating capacity of nearly 30 kilowatts (kWp) from New World Home Energy, a well-regarded, locally-based company with experience of community energy projects
- successfully applied to Ofgem for community tariff guarantees which will provide us with favourable Feed-in Tariff (FiT) rates provided that the installations are completed by 11 November 2015
- received start-up grants and other assistance from the Co-operative Enterprise Hub, including business consultancy support from Coventry & Warwickshire Co-operative Development Agency
- received mentoring from Community Energy Warwickshire under the auspices of the Energy Mentoring scheme
- established a good working relationship with a local mosque which we hope will pave the way for a future solar PV installation
- obtained approval from Western Power Distribution for grid connection for the St Andrew's system (this approval is not required for St Richard's)

Building on this progress we are confident that installation of PV panels on both sites will be completed by November 2015. We anticipate that a period of active marketing from April 2015 will not only secure investment for the pilot site installations but lead to the identification of further sites for development in the future.

PEOPLE AND STRUCTURES

Legal status

Power for Good Co-operative Limited was incorporated in September 2012 as a Community Benefit Society, a form of social enterprise which is similar in many respects to a co-operative. As a Community Benefit Society, PfG can carry on activities in much the same way as a limited company, in that:

- its members (shareholders) enjoy limited liability
- it has legal personality and can enter into contracts and sue or be sued in its own name
- it can own property, employ staff and borrow money

PfG's legal form entails some features which are significantly different from those of a commercial company:

- it is owned and democratically controlled by its members on the basis of one member, one vote, irrespective of the number of shares held
- it is permitted to offer shares for sale to the public outside the regulations normally applicable to financial promotions
- its shares are unlisted and cannot normally be transferred
- its members can apply to withdraw their capital, but the directors have absolute discretion to disallow requests for withdrawal
- the value of its shares may fall, but there is no prospect of an increase in share price or other capital gain
- rewards to members are primarily in the form of social, rather than financial, dividends
- returns can be paid on members' investments, but the rate of return must not exceed 5% per annum or 2% above the Co-operative Bank's base rate, whichever is the greater
- it is subject to a statutory asset lock which stipulates that, in the event of dissolution or winding-up, residual assets cannot be distributed to members but must instead be transferred to another asset-locked body, such as another asset-locked Community Benefit Society, a Community Interest Company (CIC) or a registered charity

Rules

PfG's governing document is its Rules. These are closely based on the Community Finance Model Rules developed by Co-operatives UK and can be found on our website at http://powerforgood.btck.co.uk/RulesofPowerforGood

Community benefit obligation

PfG is obliged by its Rules to carry on its business for the benefit of the community by installing renewable energy measures on places of worship, or on their associated or community buildings. We intend to meet this obligation by selecting host buildings which are in regular day-time use for community purposes, such as childrens' groups, drop-in centres and support activities for the young, the elderly and the excluded. By providing host buildings with free electricity, we hope to help make such services to the community more sustainable, both financially and environmentally.

Co-operative principles

PfG is a corporate member of Co-operatives UK. As such, it fully embraces the co-operative principles of self-help, self-responsibility, democracy, equality, equity and solidarity and strives to uphold the ethical values of honesty, openness, social responsibility and caring for others.

Governance

PfG is led by its board of directors. The current directors are:

Margaret Healey-Pollett (Chair) is a Founder-Member of PfG. She is a self-employed Domestic Energy Assessor and a Green Deal Advisor, and has been interested in renewable energy for as long as she can remember. She is greatly encouraged by the way it is now being developed and installed across the country, especially by local community groups. Solar panels were installed on Margaret's home in September 2010. She belongs to All Saints Church in Kings Heath, where she secured loans from the congregation for the installation of solar PV on their community building. She has previously worked as a teacher, an Oxfam shop manager, and an administrator at the University of Birmingham Chaplaincy. She is a graduate in Theology from the University of Bristol.

John Heywood (Secretary) is the Company Secretary and a Founder Director. Armed with a degree in classics, ancient history & philosophy from Oxford University, John spent his working life in the tough realities of child care social work. This reinforced his habits of caution and attention to detail, combined with patience and optimism. A life-long interest in the natural world and thrifty use of resources has led him to believe that climate change is the major threat to our world; and that it is worth tackling at all possible levels, winning hearts and minds on the way. John is a member of the environmental group at his church in Sutton Coldfield, and took the lead in securing the installation of 9kW of solar panels in 2014 with tangible benefits already evident to the congregation (and the treasurer). He also has solar pv panels on his house. He continues to work with the Deanery and Diocese on a range of matters relating to climate change.

Steve Lyne is a Founder Member of PfG. A retired quantity surveyor with 40 years' experience, Steve has a good understanding of building construction and civil engineering, and knows how the industry works. He also maintains great interest in all modes of renewable energy generation, while focusing on solar PV and keeping abreast of current developments. He is a member of a Transition Group in Sutton Coldfield, is involved in a hydro scheme in a Birmingham park and is currently renovating his house to a low-carbon standard.

Beryl Moppett is a graduate in Maths from London University and a retired Maths teacher. She is a Reader at St Helen's Anglican Church in Solihull. She first got involved in Green Theology after attending a day's seminar by A Rocha. Now she is the chair of the Solihull Big Green Group and for the last five years has organised the Solihull Go Green Fair on behalf of the Solihull Faiths Forum. Beryl has had solar PV panels on her house since 2010.

Rudy Smith (Treasurer) is a part certified accountant who gained early experience with KPMG and Kalamazoo. Passionate about sport, particularly rugby, he developed and directed a series of sports related businesses. For ten years he also ran Malvern Rugby Club. He is a member of SS Mary & Ambrose Anglican Church, Edgbaston.

John Wilkinson is a retired Anglican parish priest and former theological college tutor in Mission, Pastoral Studies and Black Theology. He is active in peace and justice issues and has a particular concern for combating climate change, the generation of energy from renewable sources and reducing the carbon footprint of church communities. Solar panels were installed on his home in 2010. He belongs to St Hilda's Church, Warley Woods, in Smethwick.

All of the directors serve in a voluntary capacity and are unpaid.

The board of directors is to be elected by and from the Society's members. As provided in PfG's Rules, the current directors are either Founder Members of the Society or have been appointed by the Founder Members. Once the membership of PfG is increased following the share issue, all of the current directors will stand down at the following Annual General Meeting (AGM), but may seek re-election if they so wish, alongside any new members who wish to offer themselves for election. At each subsequent AGM one-third of the serving directors will retire by rotation, but again may seek re-election if they so wish.

In addition to the elected directors, the board of directors may co-opt up to two external independent Directors who need not be Members and are selected for their particular skills or experience or both.
Ensuring the organisational sustainability of PfG is a key objective of the current board, who will actively encourage the participation of members in the activities of the Society in order to ensure a succession of committed and qualified candidates for election as directors.

Organisation

The work of PfG is undertaken primarily by the directors with specialist tasks being contracted to organisations or individuals as required. In addition to the formal roles of chair, secretary and treasurer, other responsibilities are undertaken by directors on an ad hoc basis and are currently focused primarily on project management and preparations for the Community Share Offer.

CORE BUSINESS

Primary activity

The primary business activity of PfG is facilitating and financing the installation of solar panels on faith community buildings in the West Midland region.

Potential sites are identified through personal contacts, the website (www.pfg.coop) and supportive networks of those concerned to mitigate the effects of climate change. With support from professionals, PfG provides for each site, planning support and technical advice to take projects through to completed installation.

Pilot project

Two pilot sites have been identified:

- St Richard's Church, Ridpool Rd, Kitts Green, Birmingham B33 9RX, where we propose to install a solar PV system with a peak capacity of 9.88 kWp
- St Andrews Church, Dudley St, West Bromwich B70 9LR, where we propose to install a solar PV system with a peak capacity of 19.5 kWp.

Structural surveys have been carried out at both sites and formal consents for the installation of solar PV have been obtained from the relevant Church of England diocesan authorities. Rent-free leases have been agreed in principle for the use of roof space and will be signed before installation begins.

Financial resources required

The total capital cost of the two pilot projects, net of Value Added Tax (VAT), will be £42,000, which we will seek to finance from the proceeds of a Community Share Offer. An additional £8,304 will be needed to cover VAT, which will be charged at 20%, but PfG is registered for VAT and expects to be able to recover the VAT paid within about six months after the completion of the projects. Accordingly, the fund-raising target for the Community Share Offer does not include VAT, which will be financed from interest-free bridging loans from two directors which will be repaid as soon as the VAT is recovered.

Expected operating income

Almost all of PfG's operating income will be derived from the Feed-in Tariff (FIT). The directors have successfully applied to Ofgem for community tariff guarantees which lock in future FiT rates at an assured level provided that the conditions of the guarantee are met. Subject to the completion of the pilot projects by 11 November 2015, the starting rate of FiT generation payments for St Richard's will be 13.03p/kWh, while that for St Andrew's will be 12.13p/kWh. For further information on the FiT scheme and community tariff guarantees, see page 9 below.

PfG will retain ownership of the installations and the income streams they generate throughout the 20 year duration of their FiT contracts. This income will be used to fund returns to shareholders, repay capital, and meet operating expenses.

Rewards to investors

In accordance with PfG's obligations as a Community Benefit Society, rewards to investors will be primarily in the form of social, environmental and community benefits rather than of financial returns. These benefits will include free electricity for host buildings, a reduction in their carbon footprints and the promotion of renewable and sustainable energy through the visibility of the projects on prominent community buildings.

Potential financial returns to investors are limited by PfG's Rules, which stipulate that the rate of return paid on share capital must not exceed 5% per annum or 2% above the Co-operative Bank's base rate, whichever is the greater. Consistent with this cap and with PfG's status as a start-up enterprise, the directors' current expectation is that the return on share capital will be paid at the rate of 2% per annum from Year 4 onwards. In addition, we are optimistic that investors who are UK taxpayers will be able to benefit from income tax relief under either the Enterprise Investment Scheme (EIS) or the Social Investment Tax Relief (SITR) scheme. For more information on tax incentives for investors, see page 11 below.

Future development

Once the pilot projects have been completed, PfG aims to use this business model to develop a second, larger scheme which will benefit a wider range of faith communities. In seeking host sites for future developments, we will continue to target places of worship and associated buildings which are in regular day-time use for community purposes, thus maximising the financial and carbon-saving benefits of free electricity. We hope in this way to make PfG a truly multifaith institution, contributing in a small way to interfaith dialogue and social cohesion.

OPERATING CONTEXT

The following main factors have influenced the formation of PfG and are expected by the directors to impact on its future activities.

Climate change and the role of faith groups

In its Fifth Assessment Report published in 2014, the IPCC concluded that there is unequivocal evidence of warming of the atmosphere and oceans and that many of the associated impacts, such as rising sea levels, have occurred since 1950 at rates unprecedented in the historical record. There is a clear human influence on the climate, with a 95% probability that human activity has been the dominant cause of warming, leading to the conclusion that the longer we wait to reduce carbon emissions, the more difficult and expensive it will become.

In September 2014, 30 faith leaders representing nine world religions signed the Interfaith Declaration on Climate Change acknowledging the overwhelming scientific evidence that climate change is human-induced and that, without global and inclusive action towards mitigation, its impacts will continue to grow in intensity and frequency. Through the Declaration, faith groups worldwide have made commitments to curb their own energy consumption, reduce fossil fuel use and promote low-carbon development. At the same time, they have called on world political and economic leaders to commit to joint action on emission reductions, the phasing-out of fossil fuel subsidies, increased energy efficiency and access to renewable energy technologies for all.

PfG's Founder Members and directors belong to a variety of worshipping communities and are committed to working to reduce the carbon emissions of faith communities in the West Midlands.

UK Government policies on renewable energy

Feed-in Tariff

The Feed-in Tariff (FiT) scheme was introduced by the UK Government on 1 April 2010 as a means of encouraging investment in renewable energy by providing guaranteed payments for electricity from renewable sources. FiT payments consist of two components:

- generation payments, in pence per kilowatt hour (kWh) for all electricity generated, including electricity used within the host building
- export payments, also in pence per kWh, for surplus electricity exported to the grid. In the case of domestic and smaller community projects such as St Richard's and St Andrew's, exports are unmetered and it is assumed ("deemed") that 50% of the electricity generated will flow automatically to the grid

The rate of FiT generation payment applicable to a particular project depends on its size and the renewable technology it uses, with separate tariffs for solar PV, wind, hydro and other technologies. Once a project has been registered for FiT, the rate of generation payments is fixed, subject only to adjustment for inflation, for the duration of the FiT contract: in the case of solar PV, the length of FiT contracts is 20 years.

In 2012, the Government introduced arrangements designed to make FiT rates for new solar PV projects more responsive to changes in the capital costs of installations. These arrangements centre on a mechanism known as quarterly degression whereby FiT rates for new solar PV projects are reviewed, and potentially reduced, each quarter by reference to the amount of new solar PV capacity installed in the preceding quarter. Degression can be skipped for up to two successive quarters if new solar PV capacity is less than expected, but the mechanism ensures that FiT rates for new solar PV projects will fall by at least 3.5% every nine months.

In recent quarters, FiT rates for new solar PV projects have fallen as a result of degression as follows:

- in the 4 - 10kWp tariff band applicable to St Richard's, starting rates of generation payment for new projects have been reduced by 3.5% in each of three successive quarters, representing a total reduction of 10.5% since 31 December 2014
- in the 10 - 50kWp tariff band applicable to St Andrew's, starting rates of generation payment for new projects have been reduced by 3.5% in each of two successive quarters, representing a total reduction of 7% since 31 December 2014

Community tariff guarantees

Alongside the degression mechanism, the Government introduced measures designed to assist community energy projects. These include a system of community tariff guarantees, whereby solar PV projects of up to 50kWp undertaken by recognised community enterprises can be pre-registered for FiT up to 12 months ahead of the expected date of completion, thus mitigating the risk of tariff degression and providing certainty of future income by locking-in the rate of future FiT generation payments.

PfG has taken advantage of this measure by pre-registering the proposed solar PV systems at St Richard's and St Andrew's at the applicable FiT rates in force in November 2014. The resulting community tariff guarantees are highly advantageous, in that they potentially give access to significantly higher rates of generation payment than would be available today. However, these benefits will only be realised if the projects are completed and registered for FiT by 11 November 2015 and will be lost entirely if for any reason completion is delayed beyond this date.

Government Community Energy Strategy 2014

Government support of community energy schemes may also be seen in the publication in January 2014 of the UK's first Community Energy Strategy. This estimated that, by 2020, projects owned wholly or partly by local communities could represent nearly 15% of all solar PV and onshore wind capacity in the UK. Amongst other policy initiatives intended to support community energy projects, the document announced a new £10 million Urban Communities Energy Fund. This is something for PfG to investigate for future projects.

Tax incentives for investors

Until recently, shares in community energy enterprises promoted by co-operatives and community benefit societies have been able to qualify as eligible investments under the Enterprise Investment Scheme (EIS). The EIS aims to encourage investment in small start-up businesses by providing tax incentives to investors, including income tax relief on the cost of shares in qualifying enterprises. Tax relief has been available under the EIS at the rate of 30% of the cost of shares, increasing to 50% under the Seed Enterprise Investment Scheme (SEIS) available to enterprises with share capital of less than £150,000.

In December 2014, the Government announced that it intends to withdraw EIS and SEIS for investments in renewable energy projects which benefit from FiT or other subsidised tariffs. However, projects promoted by community benefit societies with statutory asset locks will in future be able to qualify for Social Investment Tax Relief (SITR), under which income tax relief at the rate of 30% is potentially available to eligible investors.

The timing of the transition from EIS/SEIS to SITR is uncertain, but the Government has given assurances that EIS will continue to be available to qualifying community energy enterprises until further notice. PfG therefore intends to apply as soon as possible to HM Revenue & Customs for advance assurance that shares issued under the Community Share Offer will be qualifying investments for EIS and SEIS. PfG believes that it meets the conditions of EIS/SEIS and is therefore hopeful that UK taxpayers who purchase its shares and retain them for at least three years will be eligible for income tax relief on their investments.

For future share offers, the directors expect that PfG, as a community benefit society with a statutory asset lock, will be eligible for SITR.

Regulation of co-operative and community benefit societies

As a condition of incorporation, PfG is registered as a Community Benefit Society with the Financial Conduct Authority (FCA), the registration authority for co-operative and community benefit societies, to which it submits its accounts and reports annually on its activities. The FCA has extensive powers to ensure that societies operate in accordance with their Rules, including the ability to appoint inspectors and to suspend or cancel the registration of any society which in its view is failing to meet the conditions of its registration.

In October 2014, the FCA issued for consultation, draft guidance on how it intends in future to discharge its responsibilities. Consultation on the draft guidance is continuing, but an expected outcome is that community groups wishing to undertake renewable energy projects will no longer be able to register as co-operative societies. As a Community Benefit Society, PfG is not affected by this development, but the directors are mindful of the need to demonstrate to the FCA that the conditions of incorporation are being met, particularly in relation to PfG's community benefit obligation.

COMMUNITY SHARES AND POTENTIAL INVESTORS

Attracting and retaining share capital

The Community Benefit Society model has features which may be unfamiliar to shareholders who have previously invested in listed companies or in products such as Individual Savings Accounts (ISAs):

- community shares are unlisted and cannot normally be traded or transferred – although members may apply to withdraw their share capital
- shares may decrease in value with no corresponding prospect of capital gain
- Community Benefit Societies are required to operate for the benefit of the community rather than for the financial gain of their investors
- rewards to members are chiefly social rather than financial but returns to investors are paid at a rate sufficient to attract and retain working capital

These features, particularly limited returns and the absence of a share market, create risks so that investors may mistakenly expect a rate of return commensurate with investment in a commercial company, and they may seek to withdraw their share capital when this expectation is not fulfilled.

PfG's strategy to overcome such attitudes will be, firstly, to foster enthusiasm for, and ownership of the project among investors who belong to the churches where panels are to be installed by

- encouraging investment from within these churches
- making sure that all understand the benefits to all users of their building
- emphasising that reduction of their church's carbon footprint demonstrates commitment to the agreed values and aims of the religious community to which they belong

Secondly, PfG's strategy will be to foster the same enthusiasm and ownership among investors from other faith communities by

- encouraging investment from within these communities
- explaining the aim to develop its identity as a truly ecumenical and inter-faith Community Benefit Society
- emphasising the wider community benefit of PfG as an expression of interfaith dialogue and social cohesion.

This strategic approach will be reinforced by:

- providing clear information to potential investors about Community Benefit Societies and their share capital
- applying to HMRC for advance assurance that its shares will be qualifying investments for EIS and SEIS purposes
- including in the share offer document an explicit statement of expectations on the timing and level of returns on investment
- exercising the discretionary powers of the board to prevent withdrawal of share capital other than in exceptional circumstances (eg the death or bankruptcy of a member)

Competition for ethical share capital

The people whom we will approach to be investors in PfG will have choices in the use of their money, including alternative ethical investments or charitable donations. PfG will seek to convince them that investment in our project will put their money to good use, with identifiable benefits to communities in their area, while they earn modest returns and are repaid their capital at the end of the project. However we will emphasise that their returns will be more in community benefit than financial profit.

Potential returns on investment

In making their financial projections, the PfG directors have considered what might be an affordable return to investors over the twenty-year period of FiT payments, and whether this will be sufficient to attract the necessary level of investment. Given the profile of the people we will approach for investment and their likely commitment to social causes, we believe that a return of 2% per annum, with the potential for income tax relief for eligible investors, should be sufficient to attract and retain the capital necessary for the project.

Identifying and communicating with investors

The minimum subscription under the Community Share Offer will be £250. The maximum allowed in law is £100,000, but this exceeds the total we are seeking to raise. In order to achieve a wide spread of membership, the directors will be reluctant to accept a subscription in excess of £10,000. Based on the experience of previous community energy share offers, in actual fact, we will need to attract about 150 investors to raise the £42,000 necessary to finance this project. It is therefore vital that we identify and locate people who are likely to be interested in purchasing shares in this kind of enterprise.

In its Community Energy Strategy the Government estimated that, up to January 2014, community share offers had raised nearly £14 million for investment in renewable energy. Since that date, there have been many more successful community share offers: in the West Midlands alone, community share offers promoted by two community benefit societies - Chase Community Solar and Community Energy Warwickshire - raised over £800,000 for solar PV projects in 2014 and early 2015.

There is therefore clear evidence that local people are willing to give financial support for community-based renewable energy projects. However, there is relatively little up-to-date information on the kinds of people who are willing to consider such investments. Research carried out on behalf of the Community Shares Unit in 2010 suggested that such investors fall into four main categories:

- *Local community investors* who are connected to the building or who live nearby and are motivated by social benefits
- *Community of interest investors* who are attracted by technical aspects of the project, are motivated by community benefit but do not live locally
- *Social investors* – who may be institutions or individual investors – who are looking for a balance between financial and community benefit
- *Ethical investors* who are not indifferent to financial rewards but also look for community benefit

The research also found that community share investors tend to be of higher or intermediate managerial level, professional or retired. This fits the profile of many Christian church members, who tend to be well-disposed to using their money to help the less fortunate, or for general social benefit. We are certain that similar people may be found in other faiths, where there is both a charitable tradition and shared concern about climate change.

PfG will develop further contacts already made within faith communities, and with others whom we know to combine environmental concern with a willingness to promote social benefit.

PfG will also involve bodies within the Co-operative movement that are supportive of community benefit and community energy projects, and will also approach local Transition Groups in the West Midlands.

SUMMARY OF RISKS

The PfG directors have carried out an assessment of the main risks to the share offer and the pilot projects. The table below summarises their analysis and the steps PfG is taking in response.

RISK	**RESPONSE**
Feed-in Tariff	
The Government may change the FiT arrangements for solar PV, for example by reducing FiT levels or removing indexation for inflation.	Under Ofgem's arrangements for community groups, the PV systems on our buildings have been pre-registered for FiT, at the level applicable for their size, at the Oct – Dec 2014 rates, subject to completion before 11 November 2015. Our strategy is therefore to proceed as quickly as possible in order to lock in to FiT at the pre-registered rates, in the knowledge that these will then

	be guaranteed, index-linked to inflation, for 20 years.
Community share offer	
This share offer may fail to raise enough capital to enable the projects to go ahead.	We are confident that sufficient finance will become available: • We are marketing the scheme widely among our networks and are finding an encouraging amount of interest and support. • There is a wide base of participation across the different faith groups, many of which have corporate commitments to safeguarding the environment
Proceeds from the share offer may not be available in time to enable you to complete one or both of the installations before 11 November 2015, meaning that the benefit of the community tariff guarantees would be lost.	We are aware that FiT rates for new solar PV projects have fallen significantly since December 2014 as a result of the Ofgem degression mechanism and that, at today's FiT rates, neither of the pilot projects would be financially viable. Our strategy is therefore to launch the share offer as quickly as possible and to undertake an active marketing campaign to ensure that sufficient capital is raised to enable both projects to be completed and registered for FiT by 11 November 2015. If it appears that sufficient share capital will not be available in time to permit the completion of one or both of the installations by the deadline, we have the following options: • arrange short-term borrowing to enable both projects to proceed • proceed with one project and cancel the other • cancel both projects
Technical	
The PV systems may fail to perform to specification or degrade more rapidly than expected.	Winaico panels are covered by a 12 year manufacturer's warranty and a 25 year performance warranty. Our financial projections assume degradation at the rate of 0.7% per annum, in accordance with the manufacturer's data.
The inverters may fail sooner than expected	The inverters come with a manufacturer's warranty of five years. In addition, we maintain specialist PV insurance against

	financial losses arising from failure of or damage to our plant and equipment. Our financial model assumes that, in normal operation, each inverter will need to be replaced once during the 20-year FiT contract term. We therefore intend to depreciate inverters over 10 years to create a reserve to funds the replacement of inverters at the end of their expected operating lives.
The PV systems may become technically obsolete within a few years of installation.	Irrespective of developments in PV technology, once the systems are registered for FiT, payments are guaranteed for 20 years (and the panels will probably generate electricity for longer).
The condition of the roofs may deteriorate faster than expected.	Structural surveys of the roofs of the buildings have confirmed that the strength of the structures is sufficient for the panels. The surveyors carry full professional indemnity insurance.
Legal	
Church property may be damaged during installation, leading to legal claims against PfG	Our installers are insured against claims for damage to buildings. In addition, we maintain public liability insurance against claims from third parties arising from damage or injury caused by our operations.
The building managers may require the PV systems to be removed temporarily or permanently, resulting in lost income from generation	The lease includes provision for compensation for lost revenue if any of our building managers terminate the lease early or otherwise require the electricity generation to be interrupted.
Financial	
PfG may face a higher than expected level of applications from members for repayment of share capital.	Except in the case of the death or bankruptcy of a member, the directors have absolute discretion to suspend members' rights to withdraw share capital. They expect to use this discretion in the early years of PfG's operations to ensure that the return of share capital does not undermine PfG's financial stability. Once PfG is fully operational, the experience of other

	societies suggests that it would be prudent to assume an annual withdrawal rate of about 10%. The directors intend to depreciate the solar PV panels over the 20-year term of the FiT contracts, but do not expect to replace the panels at the end of their operating lives: the reserves thus created are expected to enable PfG to meet future withdrawal requests, so long as they are not all simultaneous. The longer shares are left with PfG the more likely it will be that they can be withdrawn in full when requested.
Organisational	
Dependence on volunteers may mean that PfG is unable to secure succession to its board of directors or otherwise develop its activities.	We are committed to creating an open and participative organisation which will encourage all members to get actively involved. As well as raising money, this share offer is an opportunity to bring in new members to carry the organisation forward.

FINANCIAL PROJECTIONS

The table on page 22 sets out the directors' forecasts of income and expenditure over the 20-year term of assured income from FiT and takes into account the following key factors.

Capital costs

The total estimated capital cost of the two pilot projects, net of VAT, is £41,519 made up of:

- St Andrew's (19.5kWp): £26,225
- St Richard's (9.88kWp): £15,294

We will therefore seek to raise £42,000 through the community share offer. This target does not include VAT, which will be charged at 20% on the installations, for which an additional £8,304 will be needed. As explained above, this will be financed from interest-free bridging loans from two directors which will be repaid as soon as the VAT is recovered from HMRC.

Estimated annual output

The estimated annual output from the two pilot projects, taking into account the orientation and inclination of the panels, the effect of shading and average sunlight hours in Birmingham, is as follows:

- St Andrew's: 15,561 kWh
- St Richard's: 8,074 kWh

Based on data from the panel manufacturers Winaico, we have assumed that output from the panels will decline at the rate of 0.7% per annum.

Feed-in Tariff revenue

Generation payments

As explained above, we have successfully applied to Ofgem for community tariff guarantees which lock-in the future starting rates of FiT generation payments for the pilot projects at the applicable FiT rates in force in November 2014 provided that the projects are completed and registered for FiT by 11 November 2015.

Assuming that this deadline is met at both sites, the starting rates of FiT generation payments will be as follows:

- St Richard's: 13.03 p/kWh
- St Andrew's: 12.13 p/kWh

Export payments

The directors' expectation is that FiT export payments will be received for 50% of all electricity generated at St Richard's and St Andrew's. The starting rate of FiT export payment is not covered by the community guarantees and is set by Ofgem at a flat rate applicable to all solar PV projects, irrespective of capacity. For the purposes of the financial projections, the directors have therefore assumed that FiT export payments will be received at the rate prevailing in November 2014, i.e. 4.77p/kWh.

Sales of electricity

All electricity generated at St Andrew's and St Richard's will be made available for use within the host building, free of charge, throughout the 20 years of the underlying FiT contracts. Accordingly, the financial projections do not include any income from sales of electricity.

Year One income

	Estimated Year 1 output kWh	*FiT Generation rate p/kWh*	*FiT generation payment £*	*FiT export (50% x 4.77p/kWh) £*	*Total FiT payments in Year 1 £*
St Andrew's	15,561	12.13	1,888	371	2,259
St Richard's	8,074	13.03	1,052	193	1,245
Total estimated FiT income for Year 1					3,504

Inflation

The FiT generation rate is adjusted annually by Ofgem to take account of increases or decreases in the Retail Price Index RPI over the preceding 12 months. For the purpose of the financial projections, we have assumed a 2.5% annual increase in the FiT over the 20 years of the project to take account of inflation.

Depreciation policy

The directors intend to depreciate PfG's assets so as to write off the cost of each category of asset, less its estimated residual value, over its useful economic life as follows:

- solar PV panels: 20 years straight line
- inverters: 10 years straight line

The solar PV panels are expected to have an operating lifetime in excess of 25 years, but will be depreciated over 20 years to reflect the duration of the underlying FiT contracts. The depreciation reserve thus created will not be used to replace the panels at the end of their actual operating lives, but will instead create a general financial reserve for the continuation and future development of PfG in accordance with its Rules and for the repayment of members' share capital.

Inverters typically have an operating lifetime of 10 -15 years, and the financial model therefore assumes that each inverter will need to be replaced once during the 20-year term of the underlying FiT contracts for the projects. The depreciation of the inverters over 10 years on a straight-line basis will create a reserve which will be used to replace the inverters at the end of their useful operating lives.

Insurance and other project costs

The PV panels carry a manufacturer's warranty of twelve years, and a performance warranty of twenty-five; Winaico also includes two year's insurance for the complete system in the price of the panels, covering material damage, interruption of service, and reduction in yield. Winaico give an option to extend this cover for further 8 years, at a one-off cost of £500 and we have budgeted for this from Year 2. It is difficult to obtain quotations for insurance for the second decade of operation, but £700 has been allowed for this at Year 11. A further general contingency sum of £100 per annum has also been included in the projections.

Corporation Tax

PfG is obliged to pay Corporation Tax on its profits: this may be mitigated by capital allowances based on the value of our assets (PV panels & inverters). The value of the assets diminishes annually while the profit generated by the panels is sustained. We estimate that capital allowances will be depleted by Year 15, after which Corporation Tax will be due, totalling approximately £5,000 over the final years of the project.

Return on share capital

Return on share capital is planned at 2% payable annually after Year 3. The financial projections therefore assume this payment from Year 4 to Year 20, but the actual timing and amount of payment will remain at the discretion of the Board. There is a level of risk that is shared by all the members that the actual performance might not, despite our best efforts, be as good as the projections suggest. Because of this we believe that our offer will be Sharia –compliant.

Start-up loans

Directors and supporters have contributed a total of £5,750 in the form of interest-free loans towards PfG's start-up costs. £2,000 of this will be converted into ordinary shares at the beginning of the Community Share Offer. The shares thus converted will not qualify for EIS/SEIS income tax relief, but will be eligible for payment of return and share capital repayment on an equal basis with all other ordinary shares.

The remaining outstanding loans, totalling £3,750, will continue on an interest-free basis for an indefinite term and will be repaid by instalments as PfG's financial resources allow. No loan repayments will be made until the obligations of the Society in terms of community benefit, return on share capital and the maintenance of prudent reserves have been met.

Corporate overheads

These include all costs not directly attributable to the pilot projects, including FCA annual fees, Co-operatives UK membership subscriptions, public liability and employers' liability insurance, the repayment of the loans, and other incidental expenditure. As the projected return to investors of 2% per annum from Year 4 will leave less than £1,000 per annum to cover these overheads, the directors are fully mindful that very careful management will be needed to ensure that PfG is able to operate within the financial resources available to it.

Financial projections

Year	**1**	**2**	**3**	**4-10**	**11-20**	**1-20**
Total FiT income (£)	3,504	3,566	3,629	27,283	45,322	83,304
Total depreciation (£)	(2,340)	(2,340)	(2,340)	(16,378)	(23,398)	(46,795)
Panel insurance and other project costs (£)	(100)	(600)	(100)	(700)	(1,700)	(3,200)
Cost of return on share capital (£)				(6,160)	(8,800)	(14,960)
	______	______	______	______	______	______
Surplus before tax (£)	1,064	626	1,189	4,045	11,424	18,349
Corporation tax (£)	-	-	-	-	(5,000)	(5,000)
	______	______	______	______	______	______
Closing cash (for corporate overheads) (£)	1,064	626	1,189	4,045	6,424	13,349