

## **Business Plan Guide for UK community renewable energy projects (May 2015)**

### **Introduction**

This document serves as a guide to creating a business plan for community renewable energy projects in England and Wales. It is designed to assist community groups in thinking through the content and layout of a business plan and help them reach out to potential members, investors, projects hosts and those who can provide specialist guidance.

### **Overview**

- Purpose:

A business plan aims to convince potential investors about the idea and act as a compass as the team develops, grows and manages the business project. It can also be used as an external communication tool to help engage the local community.

- It consists of:

In a business plan, a team should explain clearly its long-term goals, the motivation for the business and show evidence that there is a demand for the idea.

Then, with the aid of financial demonstrations, the team should show how it would source, manage and invest funds to develop the idea and achieve its long-term goal. For a community renewable energy project, initial projections for energy generation, carbon savings and other social impacts should be included alongside projections of investors' social and financial return.

A business plan usually consists of multiple sections that introduce a team's business idea to interested parties who would like to learn more about the plan. It should aim to inspire the reader and therefore it should not be too long, use complex language and should avoid repetitions.

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## **Section 1: Executive Summary (1-2 pages)**

An executive summary lays out the thinking behind a business plan and makes readers acquainted with the plan's core ideas. The summary states clearly what the business is, its product, the market it serves, its vision and objectives, and the approach needed to achieve them. The executive summary should be as explicit and concise as possible.

A well-conceived vision consists of two parts – core ideology and envisioned future. Core ideology refers to a team's core value and core purpose. Core value defines the essential and enduring character of the team and core purpose illustrates the team's fundamental reason for being. Envisioned future describes a broad, long-term aspiration the team wishes to achieve in the future. Objectives refer to more concrete, short-term goals the team is pursuing now. A renewable energy project's objectives include both its financial and social goals. Objectives should be understood in the context of vision, as they are means to achieve the vision.

If applicable, an executive summary could list some of the team's achievements to date, e.g. energy generations, carbon offsetting and major installations. The summary usually ends with a short description of the team's short-medium term goals for the next 5 to 10 years.

A brief overview of the financials could also be included, such as the forecast profit figures, how much capital is required and predicted return for investors.

## **Section 2: Formation and Structure (important section)**

This section gives readers a better idea about the background of the business and the team implementing it.

Firstly, the section briefly describes the history of the business, i.e. why the team came up with this business idea in the first place and how the business has evolved since then. The team could mention some of the major breakthroughs and milestones the business has achieved since establishment and a summary of past performance of projects.

Secondly, this section informs readers of the business' organizational structure. This includes its legal form of operation (sole proprietorship, partnership, corporation or Limited Liability Company). If the business corporates with or receives sponsorship from other organizations, the team should specify its partners and sponsors and the area they interact in. The team should also disclose any major legal contract it signed with outside parties.

A business' organizational structure also consists of its board and governance. The board comprises the principal owners and key personnel involved in the business. To give readers a better understanding of the key personnel, a list of board of directors, together with their expertise and experience should be attached. Governance refers to election process, governing rules and the business's operational structure (functions, divisions, hierarchy etc.) You could also address whether there are any obvious weaknesses in management, and if so, how are these dealt with?

### **Section 3: Areas of Operation**

This section aims to illustrate the business' area of operation in both geographical and technical terms. In this section, the team should specify the geographical location the business operates in and the type of the community the business serves. Since the project is a renewable energy project, the team should indicate the type of technology used and address the technical issues involved. For example, if a project wishes to install solar photovoltaic (PV) panels, the team should specify the panel size, the type of PV cells, the surface the panels are mounted on and the positioning of the panels.

The team should also make sure potential project hosts or investors are fully aware of the type of buildings the team intends to use. For example, is the project open to commercial, residential or public buildings? Does the project have any requirements for the ownership and tenancy arrangements of the buildings? Are the buildings' social usage and community visibility important for the project?

If it essential to use technical words in this section, then you should provide descriptions of the technical words in the appendix.

### **Section 4: Market Research**

This section aims to convince potential investors that there is a demand for this business idea. To this end, the team should show evidence of local and wider interest and support for the business project. Start-up projects could use pre-market research results or refer to previous studies to prove there is a demand for the upcoming project, such as showing trends in the market, past and future growth. It is also a good idea to say who your competitors are, their size and position in the market and their response to your existence.

For established projects, teams could produce a list of institutions, politicians and businesses supporting or showing interest in the project in both local and wider areas. Media coverage of the project could also be used to exhibit the project's visibility.

### **Section 5: Strategy**

- **5.1: Business Model**

The first thing to be addressed in a business model is where the financing is coming from. Forms of financing include government grants, community shares, and loans. After the financing has been addressed it is important to lay out in the societies bylaws as to how surpluses will be distributed. Since community energy organisations are charities, their primary objective must be the reinvestment of surpluses into the project or into other projects that would benefit the community at large. That being said, dividends can be paid. However they can only be distributed if there was a surplus during the year that the dividends are being paid. Thus, dividends cannot come out of historical reserves. Even if there are surpluses, it should be left to the managers to decide whether or not dividends are to be issued. This is in line with the fact that investment in community energy should be driven by the social impact it can provide rather than financial returns. Also, certain

charitable organizations (namely those with asset locks) will be eligible for SITR tax relief, which would presumably attract investors.

- **5.2: Marketing strategy**

In terms of marketing, the team should explain how it will set up marketing strategies targeting different interested parties including private individuals, corporations, banks and foundations etc. PR & publicity and the pricing of this is also a key part to talk about.

## **Section 6: Risk and Opportunities**

Risks that need to be addressed are most likely individual to each project. One that is universal to almost all projects is the deflation mechanism that is built into the current feed in tariff system. Thus, predicted incomes will not be as high if there are delays in a project coming online. Along with the risk are opportunities, namely surplus investment into the community and reduction in electricity costs to the community at large.

## **Section 7: Financial Model**

This needs to take into account the costs of the projects and the revenues that it will generate. These costs include items such as the overall estimated cost of the project, depreciation, interest payments, and operating costs. Revenues from the project will come from the sale of generated energy as well as money from feed in tariffs. Again it is important to recognize the depreciation mechanism that is built into the FIT model.

Short-term financial forecasts as well as long-term forecasts should also be supplied. Key assumptions underpinning the forecasts should also be mentioned.

## **Section 8: Appendices**