

LCG Revisions to the financial projections – September 2024

Report by the Treasurer

The annual accounts show that performance is tracking the long-term plan.

Sales were £526,900. Excluding grants, this is up £75,000 on the previous year. Profit for the year was £152,277, up on the profit of £66,213 in the previous year, and was £16,700 better than we had set out in the projections. The balance sheet shows a net worth of £1,984,298 and cash in bank is £101,770 higher than projected at year end. The £801,102 cumulative loss to date on 31st March 2024 is financed by the £2,785,400 member shares.

However, in starting to look at some long-range forecasting, beyond 2042, it came to light that the Feed in Tariff (the Government-backed scheme that pays LCG for our generation of electricity) income had been scheduled across 25 years instead of 20 years. Correcting this error has led to a projected large shortfall in cash when projecting to the year 2042. The original financial modelling for each site, on which the share offers were based, did not contain this error. But, when sites were up and running and income and costs better known, the projections for each of the five sites (later to become eight sites) were combined into a meta set of projections. From these projections, we set a new policy on paying interest to members where the interest was set at an aspirational 2.5% above RPI (that is, payment of interest in November on shares held the previous year is based on RPI from November two years previously, as that rate is what determines the income in the year that the shares were held). At this point, the FiT income was incorrectly projected. Therefore, the interest policy should have set lower interest rates, based on the new meta projections. This requirement for lowering interest rates would have been based on, at that point, a lower energy sale price (this has been somewhat countered since then), higher site costs (asset management, operations and maintenance (O&M), security, land management, import of electricity and the list goes on) and the costs of running the core of the organization. Moving forward almost ten years, with the correction having been made in the meta projections, we realise that there is some catching up needed in terms of the policy regarding the interest rate on member shares.

In our new projections, we have looked at 3 different interest rates (our current policy of 2% above RPI, at RPI, and 2% below RPI). We have also looked at implementing the change for November 2025 and for November 2024, and we have looked at a “passive”, an “active” and a midway approach to future development. This assessment has created 36 different scenarios and a summary table of each of these scenarios and impacts has been presented to the Board for discussion. Out of these, the Board has decided to further consider the “at RPI” scenario for passive and active approaches, whilst also looking at the effect of starting the interest rate drop in 2024 versus 2025.

The “Passive” approach

The “Passive Scenario” assumes that the community benefit fund is halved, interest on shares matches RPI (from two years previously) starting in Nov 2025, the central administration costs of the organisation are cut, and the development budgets are removed. These projections show that, in 2042, all member shares will have been repaid, there will be a cumulative surplus of £136,000 and all sites will have closed.

The “Active” approach

The “Active” Scenario assumes that the community benefit fund is maintained at its current level with increases with inflation, the interest on shares matches RPI (from two years previously) starting

in Nov 2025, the central administration costs are continued at current level, the development budgets are continued, grants are actively sought for new projects, and two new £1m projects are developed over the next 15 years. These projections show that, in 2042, £1,067,000 member shares will be held, and there will be a cumulative surplus of £251,000; there will be installation assets and other investments worth £1,148,000 and the newer sites will continue to produce renewable energy which generates the income to develop new sites into the future. The current assets (i.e. money in the bank and trade debtors) will be £171,000.

Both of these scenarios do 'stack up' but the "Active Scenario" does require the new sites to be developed and income to be realised, so a keen monitoring of progress will be required to establish if a shift to a more "Passive Scenario" is required in the future.

2024 v 2025

Note that with both of the above approaches an approximate £65,000 increase in the cumulative surplus in 2042 can be achieved by capping the interest to be paid in November 2024, as opposed to starting the cap in November 2025.

Decision

The Board will be taking the above options to the AGM for member input. Making the decision about which route to take is a reflection of risk and reward, and what we would like to do with LCG. We need to decide whether we want our community energy organisation to maximise its positive impact which is associated with a higher risk, or if we are looking for a lower risk and lower impact approach.