

2024 AGM

LCG Future Strategy Options

As you will have seen from the Treasurer's reports, over the past year we have identified an error in our financial model which would mean that, if we continued to operate LCG in the way we have done over the last few years, as guided by this previous financial model, there would likely be a shortfall at the end of the current projects. In other words, having corrected our model, we now believe that without some action by the board we would likely not be in a position to repay all the share capital by the time the leases for our existing solar projects are due to end in 2042. This is not an outcome that we can accept under our principles of fiscal prudence and responsibility, so we have spent some time considering solutions.

We have identified a number of variables that we can alter and modelled the impacts of each of them, resulting in 36 different financial forecasts. Many of these were swiftly discounted, leaving us with 4 potential paths forward and we now ask you for your guidance in determining which one we should pursue.

Before we come to the decision points, we should explain that it rapidly became evident that we have no choice but to reduce the interest rate that we pay to members. We appreciate that this will come as a disappointment to many of you, but it was almost certain that we would have a shortfall of several hundred thousand pounds if we continued at the current rate or RPI+2% with a cap of 7%. As such, all four of the proposed scenarios are based on proceeding with an interest rate that tracks the RPI rate from the November two years previously (due to how the Feed in Tariff rate is calculated and when our payments are received) and has an upper cap of 5%. As an example, on that basis the interest rate payable in November 2025 would be 3.9%. As we will explain below, whilst we are clear that interest rates need to be reduced in this way, there is still a decision to be made about when this change in interest should take effect.

In terms of the guidance that we need from you, the members, there are two parts to it. The first is about our forward strategy and philosophy as an organisation, the second is about the scheduling of the interest rate cuts.

With regards to the **first part** (the strategy), we would be keen to understand whether you would prefer us to pursue what we would describe as being a

“passive” approach or one that we would describe as being a more “active” (and potentially more ambitious) one, each of which is described below:

The key aspects of the passive approach would be that we would effectively mothball the organisation, cutting our central costs dramatically. We would continue to manage the existing projects and make annual payments to members, buying back shares as funds permit but we would no longer have capacity to actively pursue new projects and would need to reduce the sums that are given to the Community Benefit Fund (CBF) that Quartet manage for us. Based on our latest modelling, we think this approach has a high likelihood of enabling us to repay all member investments within the lifetimes of the existing projects but means that we would need to abandon many of the reasons that we got involved in community energy in the first place. As such, it is not the board’s preferred approach.

The key aspects of the active, ambitious approach are that we redouble our efforts to secure two new large (1MW+) projects within the coming decade, probably in the form of wind schemes. We would continue to fund central development work and the CBF, though we may need greater flexibility in how the CBF is spent, as some of it may need to be repurposed to add innovative enhancements to such wind and solar schemes to ensure the innovations pass the threshold of viability. The recent change in government has resulted in some encouraging noises from both North Somerset Council and the MP for North Somerset, Sadik Al-Hassan so we are currently cautiously optimistic that there could be scope for the sort of schemes that we are aiming for. Wind schemes, or rooftop solar projects, however, are not especially ambitious nowadays so we would be on the lookout for any changes in legislation or markets that would allow us to try new and innovative models of particular benefit to the community. This will allow us to really focus the impact that the CBF, and LCG, can make. But the risks associated with this approach are necessarily higher. If we manage to secure the two proposed projects then we are confident that we can cover all of our financial obligations and make LCG into a company that will continue profitably well after the original projects have ended in 2042. However, if we do not manage to secure these projects then we will be in a worse financial position than our current situation and we could end up in the situation where a larger number of LCG members will be unlikely to receive some or all of their original investment back. Falling back to the passive model always remains an option though and, should we take a more active approach now, the LCG board will regularly review our status to

determine whether we have made sufficient progress to remain optimistic about our chances of success or whether we need to change our strategy to minimise the impact on member investments.

The **second** area of guidance that we ask from you is around the scheduling of the interest rate cuts. Currently, you are due to receive a payment of 7% this November as RPI was 9.3% in November 2022 but we have a 7% cap in place. If we introduce the proposed interest rate cut with immediate effect this would reduce your payment to 5% this November but has the benefit that it would slightly reduce the risk that we end up with a shortfall at the end of the current projects. Or, we can leave things as they are for this year and only introduce the proposed interest rate next year. Taking this latter approach would, however, reduce our margin for error if things don't go to plan in the coming years.

Ultimately, this all boils down to a balance of risk and reward. Would you like the LCG board to pursue what we would see as being a passive and lower risk approach, but one which is likely to result in a reduced amount of positive impact of the kind that community energy is capable of delivering? Or would you be willing to see us adopt a more active approach which carries a higher risk, but also has the potential to deliver greater, positive impacts?