



Next Generation case study: Chester Community Energy – FCA authorisation June 2020



About us:

Chester Community Energy Ltd was set up to create revenue from renewable energy generation and this remains our principle aim. However, we recognise the need for energy reduction as a means of reducing carbon emissions and have explored the possibility of us playing a role in replacing inefficient lighting with LED lighting. The Next Generation Innovation support is providing us with an opportunity to take the next steps in seeking to implement a 'pay as you save' business model for community buildings in Chester and the surrounding area including the borough of West Cheshire.

In implementing such a model, we effectively become a lender, i.e. we will be providing credit to the community groups which own the buildings in which the lighting is installed. In order to do so, we need a standard form of agreement published by the Consumer Credit Trade Association, which in turn requires us to be authorised to provide credit by the Financial Conduct Authority (FCA).

Key points for Community Energy groups:

Subject to obtaining FCA authorisation to offer credit facilities, we hope that this model can be replicated by other Community Energy groups. Based on our current costings, for buildings that are well used, has outdated lighting and consumes over 8,000 kWh per year, it is hoped that the business model will repay investments within around 5 years, providing a sound basis for investment of funds raised in our 2019 'solar and LED' community share offer. We will share further findings that emerge in a future case study. For the time being, key messages are:

- Gaining FCA authorisation is a demanding and time-consuming process for a community energy company.
- By going through the process with the FCA we hope that our experience and the documentation and processes that we develop can act as a guide and resource to other community energy groups which choose to pursue a similar route in future.
- Our FCA authorisation has not yet been achieved and remains uncertain so we would encourage other groups to await the outcome of our application and we would also welcome any advice, suggestions and sign-posting of resources that you might have.

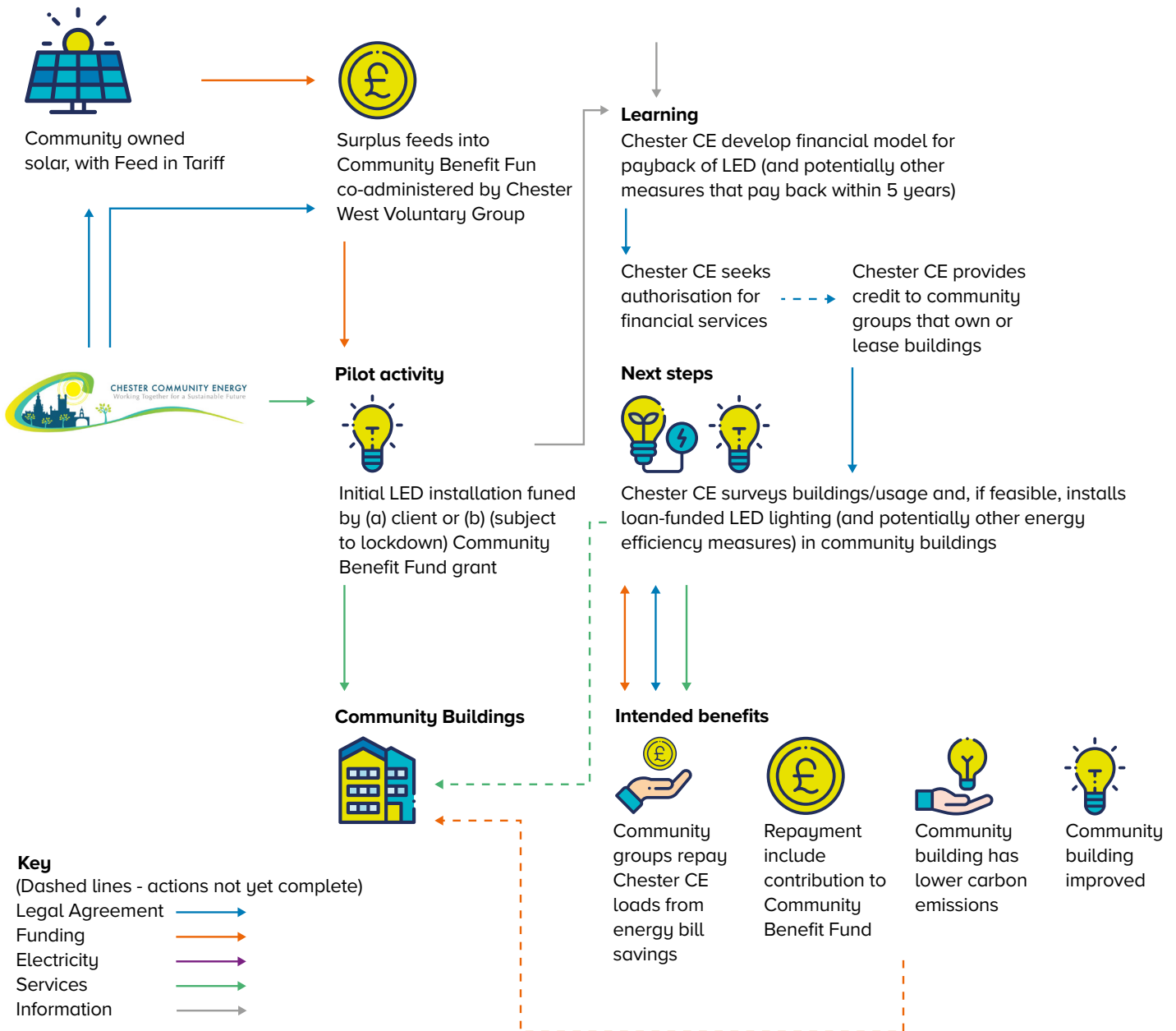


Overview of our project:

We are aiming to set up a 'pay as you save' energy efficiency scheme for community buildings in Chester and the surrounding area including West Cheshire. A pilot installation of LED lighting has been installed on a lump sum contract. A further project has been agreed using a grant from Chester CE's Community Benefit Fund. Subject to setting up the loan fund, with FCA authorisation, we

hope to install further measures on community buildings on a 'pay as you save' basis, with top-up from small grant funds where needed to meet the 5-year payback target. LED lighting will benefit the members of the community that use the buildings as well as contributing to other community initiatives via future grants made by our Community Benefit Fund. An overview of the project is shown schematically in the diagram below.

Chester Community Energy: 'Pay as you save' energy efficiency scheme





Our learning so far:

Gaining FCA authorisation is extremely challenging

The FCA treat community energy companies no differently to large companies seeking to become lenders so the process of gaining FCA authorisation¹ is time-consuming, complex and incurs significant cost.

For us, the process of seeking FCA authorisation started in August 2019 and is ongoing. A significant amount of time was spent simply seeking to establish whether we needed FCA authorisation. Since then, we have submitted a lengthy application and responded to two requests for further clarification/information – one containing 8 requests and another containing 36 requests.

The application form itself is approximately 40 pages in length and requires the preparation of at least 13 separate pieces of documentation (policies, procedures etc).

This is a very specialist area within the field of finance so although we have been able to draw heavily on the expertise of a chartered accountant, the process has still proven to be hugely complex. Although a telephone helpline is made available by the FCA, the advice and support available from them tends to be limited to signposting to relevant sections of their handbook. The handbook is complex and, since it is written mostly from the perspective of a large company lending to individual consumers, requires a significant level of interpretation in the case of a community energy company providing credit to community groups.

Use all of the resources available

The documentation we have been required to produce as part of our application has included: anti bribery & anti-corruption policy; arrears & default policy; conflict of interest policy; privacy policy; compliance monitoring document; disaster recovery plan; disclosure document; lending and credit policy; compliance statement; complaints policy and procedure; long form A; client information form; market abuse statement; financial crime policy; and treating customers fairly statement.

For most of the documentation required for our application, we have been able to utilise templates from various websites and adapt them to our circumstances. In future, we hope to make all of our documentation freely available as a resource for other community energy companies.

Try to make the process as useful as possible

Some of the documentation required is not particularly relevant to us and our plans but others have proven useful in helping us to think through important issues for the management of the project. What would we do in the case of a complaint? What would we do in the event that a community group or a community centre ceases to exist? What would we do if a group defaulted on their payments? Having policies and procedures in place for such eventualities represents good business practice so it has been helpful to use the FCA application process to think all of these things through.

Learn from the experience of others

We have used Community Energy England's Loomio message board, which is open to the organisation's members, to seek advice and support from other groups. This highlighted the existence of another group (Hook Norton Low Carbon) which has been authorised by the FCA and has been able to provide loans for domestic energy efficiency improvements. It was also suggested to us via the message board that instead of providing credit to community groups, we may be able to retain ownership of the lighting and provide lighting services to the groups instead, with payment for those services made over time.

We continue to explore all of the options open to us, including the possibility of joining the FCA's Innovation programme. This was a recent suggestion from the FCA and is a programme which is specifically designed to support those with innovative business models in achieving FCA authorisation. In going through this process, we may be able to identify ways in which the FCA can better tailor their requirements to community energy companies in future.

¹ FCA authorisation for financial services is a step beyond the FCA registration required for community share offers.



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What we're doing next:

Disappointingly given the amount of work we have invested in the process, the FCA have indicated to us that we still do not currently meet their threshold conditions for authorisation. We have now withdrawn our application and are exploring the option of joining the FCA's Innovation programme. In parallel, we will continue to explore other options and to learn from the experience of other groups.

In the post-FiTs policy landscape, the pay-as-you-save model is likely to become increasingly important to community energy companies. Through going through the Innovation programme, building the FCA's understanding of community energy companies and through sharing the learning we have gained and the resources we have developed, we hope that gaining approval for providing credit will be made easier for all community energy companies in future.

If you want to know more:

Graham Booth - bootyg1457@googlemail.com

Stephen Savory - stephen.savory@gmail.com

Jo Sparke - josparke@hotmail.com