

SCOTTISH GOVERNMENT COMMUNITY AND RENEWABLE ENERGY LOAN SCHEME: GUIDANCE



Version 8 – May 2015

Scheme Purpose

To support the development of locally-owned renewable energy projects which provide wider community benefit.

Loan finance will be available to cover the development (high risk) stage of the project which is widely seen as a barrier to community groups and smaller businesses who would otherwise wish to develop a project.

Community Benefit is central to the aims and objectives of this programme. Preference will be given to proposals that demonstrate the highest value of wider community benefit.

Our toolkit has been designed to take you from project inception to financial close for your renewable energy project. Please refer to this throughout your project as it will ensure you are an informed buyer of services and increase your chances of success www.localenergyscotland.org/toolkit

Key Features

- Loans of up to £150,000
- Cover up to 95% of agreed costs
- Security not required
- Fixed interest rate at 10% p.a.
- Community Benefit central premise of scheme
- Local advice and support available
- Competitive process
- Write-off facility if a project fails to gain planning consent or meets another insurmountable obstacle, subject to state aid rules.
- Finance provided in stages, according to agreed drawdown schedule

Basic Requirements

- The project must generate energy from renewable means
- Projects must be located in Scotland

- Applicants must be resident in Scotland
- Applications to panel must demonstrate wider community engagement and indicate how the money will be used within the beneficiary community.
- Applications may not be accepted where projects have not engaged appropriately with the wider community prior to application to panel. Projects should continue to consult with the local community as the project progresses.
- Applications to panel must demonstrate engagement with the local planning authority, specifically including discussion of options and proposals at a pre-application meeting.
- Application may not be accepted where no pre-application meeting has taken place with the local planning authority unless this form of engagement has been specifically declined by the planning authority. Written evidence should be referenced in such cases.
- Where the applicant is not a community organisation they are required to enter into legally binding agreement with community benefit recipient(s) during the course of the loan period governing the provision of an annual cash community benefit payment for twenty years, *enforceable on successors in title*. The community benefit payable must be a minimum of £10,000 per megawatt of installed capacity, per annum.
- Declaration required that project will not proceed without loan
- Viability, site and access options confirmed at beginning of loan term
- Repayment in full, with interest, on financial completion, i.e. when the finance for the capital construction stage is finalised.
- Funding for expenditure approved must be spent as per agreed schedule

Who can apply?

There are broadly four types of eligible applicants:

1. **Community organisations** Constituted non-profit distributing community groups established and operating across a geographically defined community ('local community groups') that have been operating for at least 12 months. (Community Organisations may be eligible for the **CARES Start Up Grant** in the first instance, please discuss with your local Development Officer)
2. **Industrial Providence Societies** please refer to Annex 2 for additional guidance on eligibility for co-operative and bencoms.

Please note the organisations below are required to demonstrate a wider community benefit to the community in the vicinity of the renewable project by pledging a minimum of £10,000 per megawatt of installed capacity, per annum.

3. **National or regional organisations** which are not profit distributing. These organisations are typically charitable bodies and include housing associations and educational institutions.
4. **Rural Businesses** Farmers, land managers and rural SMEs that have been trading for at least 12-months before the date of application. Please note CARES pre-planning loans will not be awarded to rural business Special Purpose Vehicles (SPV). To manage risks the business can choose to set an SPV to construct and operate the project post consent if they wish.
5. **Cooperatives** that do not include the rules listed in the [CARES cooperative support guidance document](#).
6. **Local Authorities**

Joint Ventures

Joint Ventures between eligible applicants

- Applications between eligible organisations are welcomed
- The Joint Venture vehicle should be the CARES Loan applicant where possible
- Where a Joint Venture vehicle has not been established, a joint submission from all from all project partners will be required. This should contain details of the roles and responsibilities of individual partners, the proposed organisational structure and terms of the joint venture vehicle, intentions for administering the CARES loan.
- If successful, project partners must provide evidence of the status of the agreement and progress will need to be demonstrated prior to any loan draw down

Joint Ventures where one or more partners are not eligible applicants

- Application from Joint Venture between eligible applicants and non-CARES supported partners are welcomed
- In these cases, the CARES Loan applicant must be the eligible applicant rather than the JV vehicle
- Only those costs attributable to the eligible applicant are eligible for the CARES Loan application

- The application process will require a joint submission from all project partners. This should contain details of the roles and responsibilities of individual partners, the proposed structure and terms of the joint venture vehicle, intentions for valuing and attributing the CARES loan proportion of work in the final Joint Venture.
- Interest from Scotland's agricultural cooperative sector and other groups of businesses, charities or community groups who have a clear idea on how they can unlock more of Scotland's renewable energy capacity by working together are welcomed.

Ineligible Applicants:

- The CARES scheme is not open to individuals.
- The CARES Scheme will not generally accept multiple applications per entity; however, if an applicant wishes for a loan to cover multiple projects, the CARES Panel may, at their discretion, offer separate loans for each. In such cases, the combined write-off value must not exceed the de-minimis level. Write off applications must be dealt with separately.
- Local ownership and community engagement needs to be clearly demonstrated.
- Sole traders or partnerships requesting a loan of less than £25,000 are out with the scope of the scheme due to Consumer Credit Act legislation.

Where project eligibility is not clear please liaise with your Development Officer to allow your application to be reviewed early in the development process.

Community Benefit

Community Benefit is central to the aims and objectives of this programme and must be satisfactorily addressed in all applications. For information on requirements please refer to the [Community Benefit Guidance for CARES Applicants](#)

What sort of projects and costs can be considered?

- Any potential renewable energy project, joint venture or cluster proposal will be considered and must demonstrate that the local community benefit is maximised.
- Projects must have a reasonable chance of success. The loans are not available to consider speculative sites
- New projects not yet initiated
- Existing projects under development if it can be demonstrated that the project will not otherwise proceed

- Where an existing project has been refused planning consent, applicants may apply for the CARES Loan facility to cover the costs of redesign of the scheme in light of issues for refusal. However they will be required to demonstrate, through the provision of evidence, that the issues for refusal have been mitigated in the redesign, specifically where the planning refusal related clearly to visual/noise and other residential amenity impacts, or planning constraints such as aviation. Any loan would however be offered without the write-off facility. These will be assessed on a case by case basis by the CARES Panel.
- Where an existing project has already received planning consent CARES Loan applications may be accepted, however the Scottish Government reserve the right to issue the loan without the write-off facility. Please discuss with your local Development Officer.
- Pre-consent costs must exceed £1,000
- All reasonable costs associated with developing a project to financial completion, i.e. when the finance for the capital construction stage is finalised. Costs can include: Environmental Impact Assessment costs, legal fees, project management fees, grid connection deposits, planning fees, community engagement, financial services, and land agent fees.
- Ineligible costs include planning appeal costs and Directors of the applicant entity cannot claim fees for themselves, or for any other companies they are directors of.
- Value Added Tax (VAT) is NOT an eligible cost if the applicant is VAT registered. If the applicant is not VAT registered and thus unable to claim back input VAT from Her Majesty's Revenue and Customs, they may include the VAT element, at the rate invoiced, in all draw-downs.

How to apply?

- In the first instance please contact the managing body, Local Energy Scotland to discuss your project and guide you through the process. [Contact details can be found here](#)
- Applications are generally made in two stages (outlined below). A competitive process will operate. 4 application rounds will operate throughout the year subject to demand. Details of future panel dates are available via www.localenergyscotland.org/cares
- On application you will be assigned a Local Development Officer to guide you through the process. Applicants must engage with the Local Development Officer in advance of submitting an application. Applications may be refused if

there has been insufficient contact with Local Energy Scotland prior to applying.

Stage 1

- The aim of the Stage 1 application is to provide an eligibility and initial viability check before going through the more rigorous stage 2 application.
- An initial assessment will be carried out to identify project risks and their significance.
- We reserve the right to reject applications at this stage if we consider that the application is unlikely to proceed.
- If eligibility and initial viability checks are successful, applicants should complete a Stage 2 application form

Stage 2

- Applicant submits a detailed project application.
- Where applicable, a site visit will be carried out by your assigned Development Officer
- Initial project due diligence will be undertaken by Local Energy Scotland.
- Applications will be assessed, by the independent CARES Panel, on the following criteria.
 - Viability (Technical and Financial)
 - Demonstration of need
 - Evidence of progress towards legally binding site and access options agreement
 - Community Engagement
 - Community Benefit proposal
 - Community Investment Plan
 - Local ownership
 - Capacity to deliver project
 - Risk management and mitigation proposals
 - Realistic timescales for development

- Likelihood of gaining planning consent and grid connection
- Cost effectiveness – development costs are realistic
- Quality of local consultation
- Viability of capital finance plan for construction and operation phase
- Neighbourhood notification - applicants should provide evidence that they have engaged with any dwellings within 1km of their development.
- For solar projects, neighbour notification is only required to be sent in line with current planning guidelines.

Final approval will rest with the Scottish Government. There is no guarantee that your application will be successful. We reserve the right to reject applications. Unsuccessful applicants will be provided with feedback.

Project Location

- The project location should be expressed as Eastings and Northings, which are written as two six-digit numbers (e.g. The Energy Saving Trust building in Edinburgh has the Eastings, Northings reference 326742 677081). This should not be confused with a grid reference number, which is expressed as two letters, followed by two sets of numbers, (e.g. NT 26742 77081).
- If you can locate the project site on a map but do not know the Eastings and Northings for the location, visit <http://gridreferencefinder.com> when you have zoomed in to the correct location on the map, click on “Measure and Drawing Tool” and then right click exactly on the location of the project on the map. Eastings and Northings for that location will be shown below the map.

Starting work

- Following any approval and before any loan offer can be made a credit check will be carried out. Applicants are asked specifically to provide a credit check authority to Energy Saving Trust at Stage Two in the application process. Please note applicants who fail the credit check process will be deemed ineligible.
- Following satisfactory completion of organisational and financial checks, successful applicants will receive a loan offer from the Energy Saving Trust.
- The loan offer will be subject to general and project-specific conditions.

- The loan offer may only be valid for a limited period, which will be specified in the loan offer document.
- The loan may be offered in staged payments aligned to agreed milestones. Successful applicants would be awarded the full amount but release of funds would be dependent on achieving these agreed milestones.
- Work that is included as an eligible cost within the application should not commence until you have signed and returned your loan agreement to the Energy Saving Trust.

General conditions of loan

- The recipient will undertake all appropriate measures to secure planning consent
- The applicant will endeavour to secure legally binding site and access options agreement
- Monthly progress reports must be provided.
- Access by the Scottish Government or its agents to all information necessary will be granted to ensure compliance with all commitments made by the applicant and obligations on the applicant arising from receipt of loan assistance
- Where the applicant is not a community organisation , applicants must be willing to enter into legally binding agreement during the course of the loan period governing the provision of community benefit with community benefit recipient(s) for lifetime of project, enforceable on successors in title.
- Applicants must consider a community consultation strategy in line with the [Community Benefit Guidance for CARES Applicants](#).
- Local community groups beneficiaries must undertake to supply a community investment plan during the course of the loan period
- Applicants must satisfy the due diligence, financial and organisational checks required prior to the distribution of public funds to the applicant
- Applicants must allow publication of details of any loan-assisted work and reasonable access to other project groups or businesses wishing to learn from the project
- Satisfactory management and maintenance plan must be in place prior to financial close
- Should there be any material changes to the project once a funding decision has been made, e.g. changes to local planning guidance, applicants must approach

Local Energy Scotland for advice in the first instance.

Breach of conditions

The Energy Saving Trust reserves the right to terminate the loan agreement and require full repayment of monies outstanding at any stage if the loan conditions are breached or the information provided by you in the Application Form is false or incorrect.

Communication

Where a CARES loan is awarded the managing body will expect regular communication with the applicant.

This will include monthly updates to be provided to your assigned Development Officer on project milestones below:

- Changes in: spend forecast, timetable or any other aspect of the project
- Lease agreement
- Planning application
- Grid connection
- Community Benefit agreement
- And/or Community Investment Plan
- Issues the project may be facing which is hampering its development and progress
- Fulfilment of any special conditions or any other identified project milestones

Please note these will be required for any release of funds.

Claiming your loan against project expenditure

With each loan claim you submit you will be required to provide evidence of progression on project milestones including:

- Changes in: spend forecast, timetable or any other aspect of the project
- Progress reports on Lease agreements, Planning applications, grid connection, Community Benefit agreements or Community Investment Plans

- Issues the project may be facing which is hampering its development and progress
- Fulfilment of any special conditions or identified project milestones

Release of funds

CARES loan funds will only be released after Local Energy Scotland has received original invoices and progress report (as above) for work carried out.

The following will apply:

- Claim forms and all relevant invoices must be sent to Local Energy Scotland's office
- On receipt of the invoices, the Local Energy Scotland development officer assigned to the project will validate all claims and may undertake a site visit to check progress
- If satisfactory, the Energy Saving Trust (EST) will make a payment directly into your bank account.

All loans (including any instalments) must be drawn down by 31st March 2016 unless agreed otherwise. You **MUST** inform the managing body Local Energy Scotland if you become aware that you may not be able to meet this condition.

Amending your Loan

Local Energy Scotland recognises that projects funded under CARES may change in nature through the course of development and the nature of the changes may impact on the initial agreed loan schedule.

- Where changes are required, please contact your Local Development Officer for a Loan amendment application form
- A reassessment of the project risks will take place at each loan amendment request.
- Under certain circumstances, where project risks have increased this may result in the write-off facility being removed from any further loan facility.

Loan repayment

All loans will be repayable in full with interest at the point at which a capital project is financed .i.e. when the finance for the capital construction stage is finalised. You must inform Local Energy Scotland in writing when you have reached this stage.

- You can repay the loan in full, with interest, at any time however please inform us if you intend to do so.
- The interest will be compounded and fixed at 10% per annum and will accrue on a full monthly basis from the date that the loan is paid. If the loan is paid in instalments, then each instalment will attract interest from the date of payment to the recipient.

A statement showing the original loan amount and the interest accrued is available on request.

Loan Write-off facility

This is a key feature of the CARES Loan scheme. Loans have a write-off facility if the project fails to gain planning consent or meets another insurmountable obstacle; subject to EU State Aid rules (see attached Annex for further details). An application for write-off loan can be requested and will be reviewed by the CARES panel and approved by the Scottish Government. Satisfactory documentary evidence is required demonstrating that one or more the following circumstances apply:

- A detailed feasibility study has indicated the project is no longer feasible
- It has not been possible to establish an option or access agreement for the site
- It has not been possible to secure a cost-effective grid connection
- Formal planning permission has been refused
- The project is unable to achieve financial completion
- Other reasons can be considered

A copy of the write-off application form is available on request.

Loans without Write-off facility

- Refundable deposits (i.e. grid deposit) will not be eligible for write-off and should be refunded to the Scottish Government should the projects not go ahead

- In cases where the applicant is not able to accept a loan with a write-off facility because of European Union State Aid Conditions (see Appendix 1), a loan may still be offered on purely commercial terms, without a write-off facility. Community benefit provisions will still apply

Interest

- CARES Loans are short term loans to allow prospective developers to work up a project to a stage where a commercial funder will agree to provide loan finance to build the scheme. The loan is required to be repaid when financial close on the capital scheme is reached.
- Example - If a CARES Loans of £100,000 has been used for a year to develop a project to a stage where a bank will fund the capital stage, and if the cost then to build the project is £800,000, the developer (whether community or commercial) will require to assemble finance of £910,000. This will allow the capital costs to be financed, and the CARES Loan to be repaid in full - £110,000 including the CARES Loan interest of £10,000.
- Interest is charged at a fixed rate of 10% per annum from the date that instalments are drawn down until the date the loan is repaid. If the loan is written-off, then the interest accruing to the loan is also written-off.
- Interest will accrue from the date that the loan is paid to the recipient, if the loan is paid in instalments then each instalment will attract interest from the date of payment to the recipient.

General Advice and Assistance

- Local Energy Scotland (the managing body) is responsible for all aspects of scheme delivery other than the actual provision of loan finance, which will be administered by the Energy Saving Trust. Local Energy Scotland is a consortium of partners from across Scotland including Changeworks, Energy Agency, SCARF and the Wise Group

If you are interested in taking forward a project, advice is available from the managing body:

Local Energy Scotland

Energy Saving Trust

2nd Floor, Ocean Point 1

94 Ocean Drive

Edinburgh

EH6 6JH

Tel: 0808 808 2288

Email: info@localenergyscotland.org

Local Energy Scotland's' free independent advice and support will include:

- Initial telephone guidance on eligibility to allow you to decide whether or not you wish to apply, including referral to background information relevant to your possible project
- Links and networking opportunities with other similar project developers
- Guidance on application and loan management procedures
- Initial appraisal of your project – further scheme assistance will depend on confirmation of feasibility at the beginning of the loan term
- Technical guidance on the project development process including planning and other regulatory requirements
- Guidance on identifying and procuring specialist consultancy services
- An objective appraisal of detailed feasibility studies
- General guidance on company and [joint venture structures](#) and good governance
- Guidance on best practice in community consultation

ANNEX 1 – Useful links

STATE AID

State Aid information can be found at the following Scottish Government Website

http://www.stateaidscotland.gov.uk/state_aid/SA_HomeView.jsp?p_applic=CCC&p_service=Content.show&pContentID=323&

CARES Loans and State Aid

CARES Loan Scheme offer loans up to £150k, at a 10% p.a. interest rate, with a write-off option if a project fails to gain planning consent. The write-off part is a form of state aid, and as such, the loan with the write-off option must be offered under the de minimis exemption as CARES Loan Scheme is not a Notified Scheme.

De Minimus

CARES Loans must be considered within the rules for *de minimis* funding.

“Under EC regulation 1998/2006 (de minimis aid regulation); this is a de minimis aid. There is a ceiling of €200,000 for all de minimis aid provided to any one firm over a 3-year period. “

http://www.stateaidscotland.gov.uk/state_aid/SA_MainView.jsp?pContentID=349&p_applic=CCC&p_service=Content.show&

Euro v Pound

The State Aid *de minimis* ceiling is expressed in Euros. This can be equated to Pounds Sterling by using the rates shown on the EU website.

http://ec.europa.eu/budget/infoneuro/index.cfm?fuseaction=currency_historique¤cy=GBP&Language=en

Agricultural Businesses proposing to use the energy generated on site

The de minimis threshold is €15,000 over any 3 year period for undertakings active in the primary production of agricultural products- the €200,000 threshold would apply where the installation owner is able to confirm that none of the electricity will be used in the primary production of agricultural products. See <http://www.scotland.gov.uk/Topics/Government/State-Aid/if-its-aid/deminimis> for more detail.

Agricultural businesses planning to use the energy produced on their own sites can still be offered a commercial loan – with no write-off facility.

ANNEX 2 – CARES Guidance - support for Industrial Provident Societies (co-operatives and bencoms)

The Scottish Governments Community and Renewable Energy Scheme (CARES) supports locally owned renewable energy. This guidance is intended to improve the clarity for CARES support to Bencoms and Co-operatives. Three options have been outlined that vary depending on the structure and rules of the society. We also accept there will be variation to these models and can discuss support with community groups and rural businesses.

The approach for CARES support for Industrial Provident Societies is:

1. Bencoms. In terms of CARES support these are treated as community applicants as local community benefit is built into the bencom model. Applicants are eligible for;

- CARES start-up grant (up to £10k)
- CARES pre-planning loans (up-to £150k)
- REIF post planning funding and support

2. Co-operatives (including CARES rules). Where the society includes provisions in the rules below, there is no requirement for fixed community benefit payments as paying local community benefit is part of the Societies purpose. The following rules must be met.

- I. The interest rate should be set a level to maximise the local community benefit from the renewable energy project. Interest paid to members must not exceed 8%. This level will be reviewed quarterly and is based on comparison with current market lending rates for projects relative to the Bank of England base rate.
- II. The surplus from the renewable energy project must be paid for the benefit of the local community. Payments should follow the principles outlined in the Scottish Government Good Practice Principles for Community Benefits from Onshore Renewable Energy Developments <http://www.scotland.gov.uk/Publications/2013/11/8279>

In addition to these provisions being within the Societies rules a requirement for the capped interest rates and payment of community benefit will be specified within the CARES grant and loan conditions. Where co-operatives demonstrate they meet these conditions they can access:

- CARES start-up grant (up to £10k)
- CARES pre-planning loans (up-to £150k)
- REIF post planning funding and support

3. Co-operatives (no conditions). Where the society doesn't include additional rules specified in option 2 they are eligible for:

- CARES pre-planning loans (up-to £150k)
- They will be required to pay a minimum of £10k/MW installed as community benefit rate of £10k/MW. They should follow the principles outlined in the Scottish Government Good Practice Principles for Community Benefits <http://www.scotland.gov.uk/Publications/2013/11/8279>

Applicants are not eligible for the CARES start-up grant or REIF.