

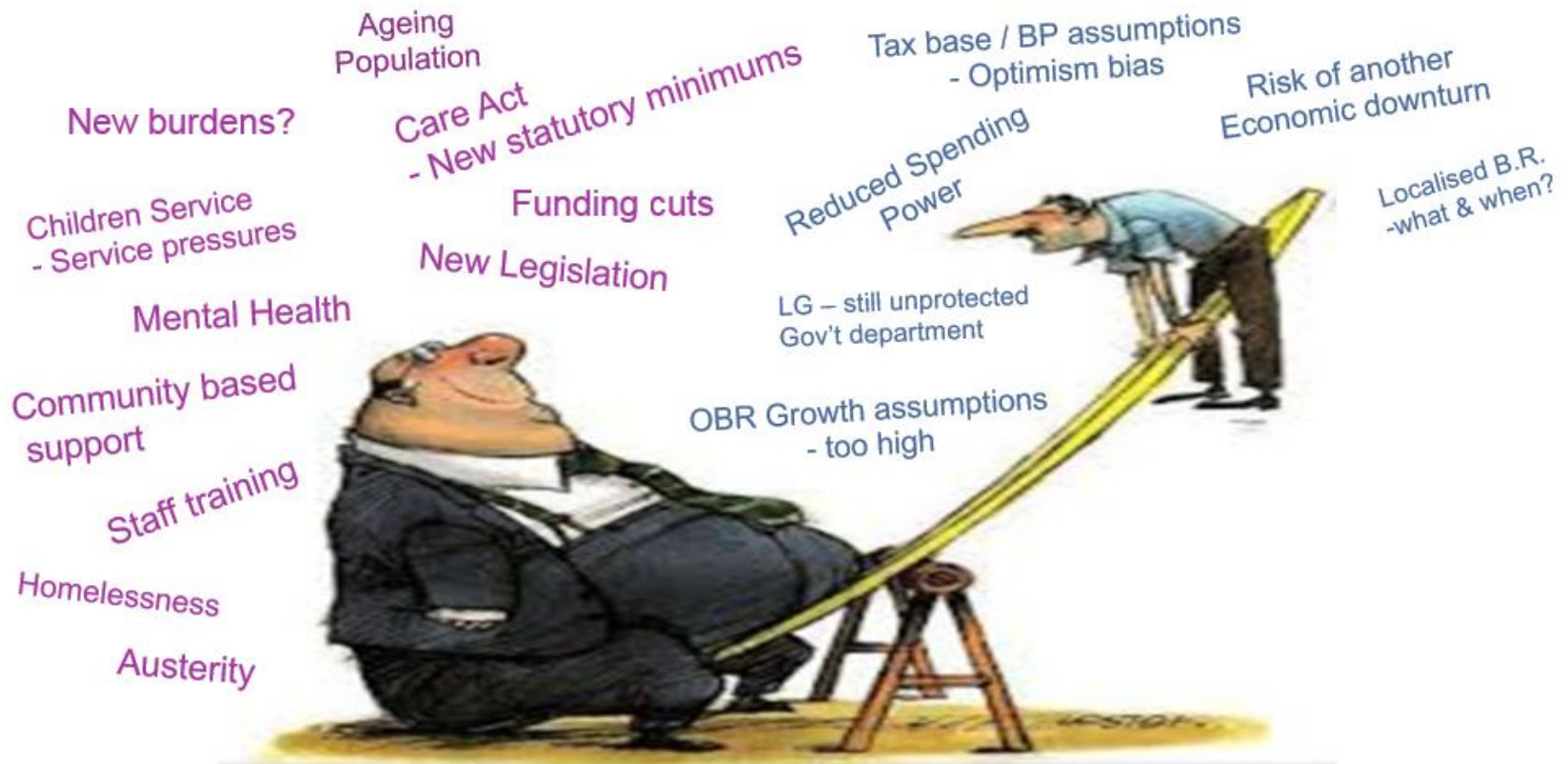
Renewable Energy Investment Casebook 2018

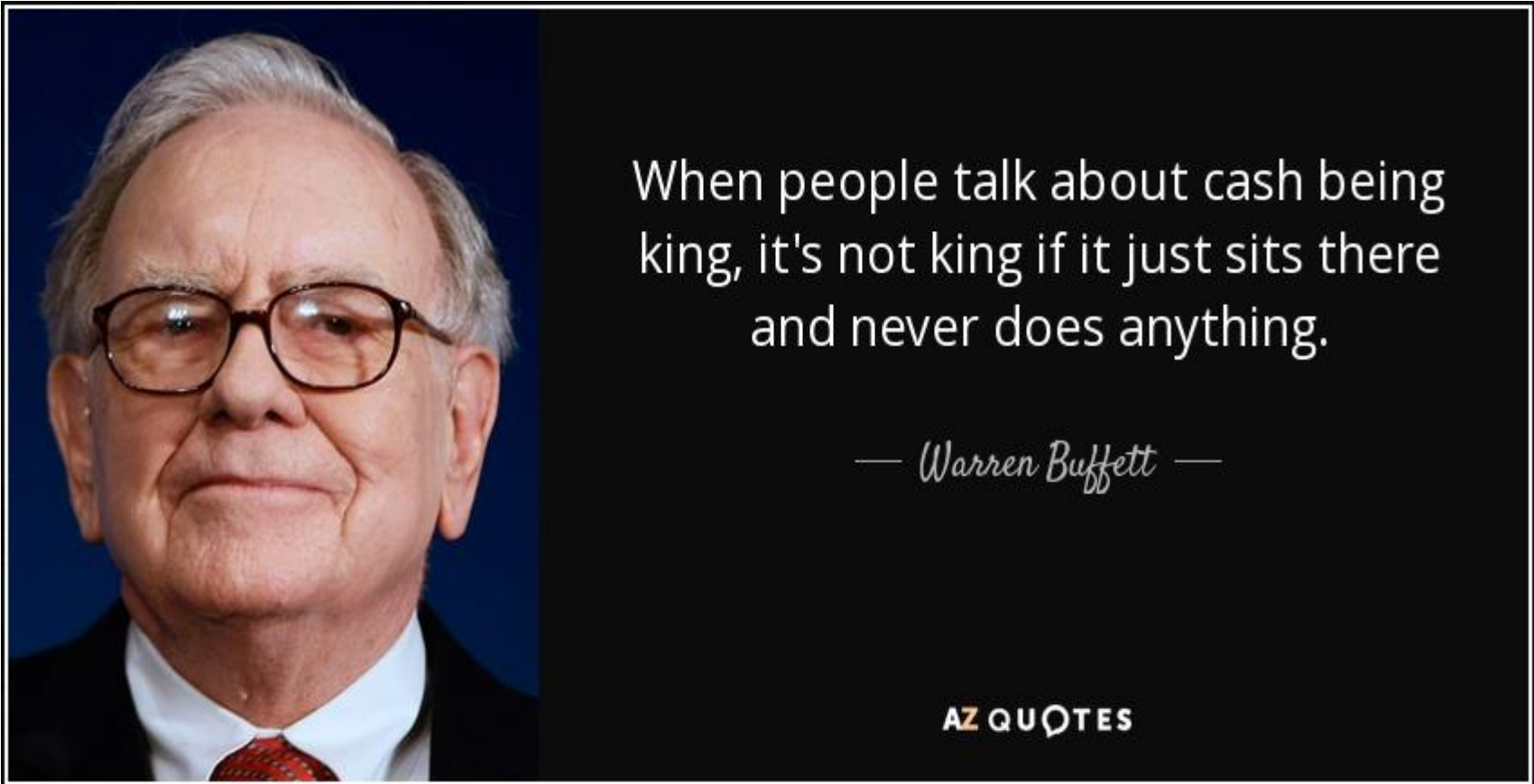
5th December 2018

2018 Regulatory Reboot

- Mifid2
- IFRS9
- CIPFA TM Code of Practice
- CIPFA Prudential Code
- 2018 MHCLG
- CIPFA Statement on Borrowing in advance of need and investing in Commercial Property

Balancing the budget





Spending power erosion

Base rate, inflation and real rates since Jan 2006



We cannot fight new wars with old
Weapons.

- **Vinoba Bhave** -

Capital Strategy Checklist

Capital Expenditure

- Governance
- Long term plans
- Asset management planning
- Restrictions around funds

**CIPFA TM Panel Statement –
effective 2018/19...but can
defer to 2019/20**

Investments and liabilities (risks)

- Approach, due diligence, risk appetite
- Governance process for approval and monitoring
- Summary of material investments, guarantees and liabilities

Treasury Management

- Governance
- Long term planning inc. MRP
- Risk appetite, key risks and sensitivities

Skills and knowledge

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Borrowing in Advance of Need and Investment in Commercial Properties

Prime Objectives:

- Security of funds
- Avoid exposure to unnecessary or unquantified risk
- Do not borrow in order to profit from the investment of the extra sums borrowed
- Commercial investments (Capital) must be proportionate to resources of the authority

Guidance forthcoming on risks of CP investing

Caution Against:

- Becoming dependent upon commercial property income
- Taking too much debt relative to net service expenditure; and
- Taking on debt to finance commercial property investments

Commercial Property is not the only option

" An **investment strategy** is a set of rules, behaviours or procedures, designed to guide an investor's selection of an investment portfolio"

Local Authorities have different risk appetites that are influenced by a variety of local factors. Key factors are;

- Trade-off between risk and return.
- Direct or pooled investment.
- Equity or debt.
- Significance of ratings.
- Local preferences.
- Template counterparty list.

Risk Diversifying Investments

Green:



Renewable Energy



Waste to Energy

Business Support:



Pooled Investment Funds



Business Investment

Responsible:



Forestry



Carbon Reducing Tech.

Localism:



Leisure



Fuel Poverty

Regeneration:



Crematoria



Residential Property

Treasury returns:

Tenor: 3 – 7 years

Yield: 4.00% - 8.00%

Non-Treasury returns:

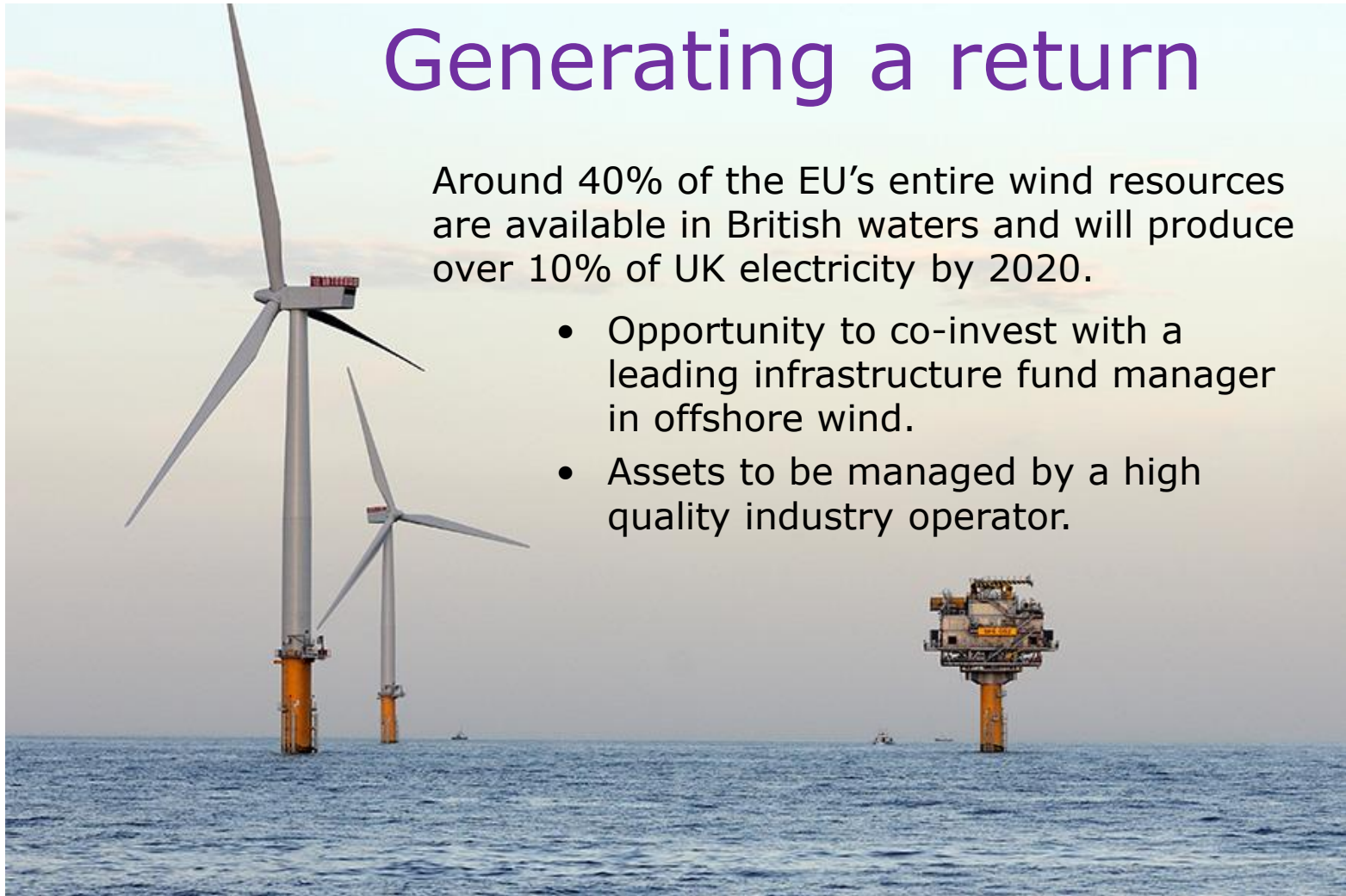
Tenor: 5 – 30 years

Yield: 5.00% - 12.00%

Generating a return

Around 40% of the EU's entire wind resources are available in British waters and will produce over 10% of UK electricity by 2020.

- Opportunity to co-invest with a leading infrastructure fund manager in offshore wind.
- Assets to be managed by a high quality industry operator.



One man's waste...

An operating renewable energy Anaerobic Digestion (AD) plant producing biogas (harnessed by two CHP engines) to supply electricity to over 2,500 homes.

- Guaranteed income streams to 2033 from Government incentives (FIT/RHI).
- Highly efficient Bio-digesters operating 24 hours, 7 days a week.
- PAS110 accreditation for digestate fertiliser, promoted as a stand alone product.
- Innovative and award winning business with flexible feedstock procurement and excellent industry contacts.



Risk Diversification

...It's not all about avoiding losses!

- Yield Impact.
- Accounting impact (IFRS9).
- Impact on cost of carry.
- Impact on benchmark: Bank rate v Inflation v Peers.
- Impact on sector concentration.
- Impact on maturity.
- Social / Environmental / Economic impact.
- VFM – Reward for the risks you are taking.

RPM Capital Solutions

- Capital financing
- Short/Long term funding
- Asset sourcing/purchases
- Sales
- Structuring
- Renewable assets/bonds
- Private debt
- Secondary Markets

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