

# **Whalley Community Hydro Limited**

**(A Community Benefit Society)**

## **Prospectus**



**An opportunity to invest in a community enterprise to generate renewable energy from a hydro-electric scheme on the River Calder at Whalley**

**Share Offer Document  
January 2015 (third edition)**

**Target: £750,000**

*Note that since the offer was launched the maximum shareholding has been revised from £20,000 to £40,000 and the offer remains open.*

## Third edition foreword

This prospectus has been revised to reflect changes that have taken place since it was first issued in 2013. Construction began on May 19<sup>th</sup> 2014 and was completed on 13<sup>th</sup> November 2014. The project came in on time and just under budget. After a slow start during which we were learning to run the plant, and despite the problems of a heavy autumn leaf fall that occasionally blocked the inlet screens, the plant has performed well. In the first 55 days of operation we have achieved 20% of our target annual output. All the necessary finance has been secured. However, although we have used loans to complete the project, we would much prefer to:

- enlarge our shareholder base to enable us to pay off the loans and incur lower interest payments,
- allow more local people to engage with the project,
- begin investing in other carbon saving projects earlier.

Hence we are continuing to keep the share offer open to allow people to invest including:

- those who have only recently become aware of the scheme,
- those who had doubts that it would ever get off the ground and can now see that it has, and
- those who would like to increase their initial investment.

We have raised the maximum shareholding from £20,000 to £40,000 under the change to regulations introduced by the Treasury in April 2014

## Summary

We are seeking investors who wish to become members of a social enterprise running a 100kW hydro-electric plant on the south side of the weir on the River Calder at Whalley. It utilizes an historic weir which has been in place for over 600 years when it was built to supply water to Whalley Abbey. Later, in the 19<sup>th</sup> Century it was used to power the local Abbey Corn Mill which ran until the 1950s. Now this electricity generation project takes the story into the 21<sup>st</sup> century. The scheme has been designed to protect and enhance the river, its environment, biodiversity and appearance.

As fossil fuels are depleted and become more expensive, and as carbon emissions are creating damaging global warming, convenient sources of renewable energy are assuming an ever greater importance. A feasibility study demonstrated that the River Calder provides an excellent local resource of energy ready for development. River flow data going back over 30 years underpins our confidence.

If you choose to make an investment you will become members of Whalley Community Hydro Limited. We are an Community Benefit Society run for the benefit of the local community. All our members have a say in how the business is run and in who runs the business. You will be a co-owner of an enterprise that operates initially a single hydro-electric plant, but will seek to expand into other areas of energy generation and energy conservation.

Members are asked to invest between £250 and £40,000. Each member will have an equal say in the enterprise, irrespective of how much they have invested. The initial directors who have formed the society are accountable to the membership. Directors will be elected by the membership at the Annual General Meeting. Members will receive a regular newsletter and be entitled to attend our AGM and other special general meetings that may be called from time to time. We expect to be able to pay a dividend of between 3 and 5% to shareholders on the money they invest once the scheme has bedded down. However, the primary purpose of the project is to provide community benefit for the local area.

With the aid of a grant for £20,400 from DECC (Department for Energy and Climate Change) we commissioned a design study which demonstrated the scheme was technically and financially sound. Construction costs together with other startup costs will total around £750,000 and gross annual income from the sale of electricity is likely to be around £92k. Direct annual running costs are expected to be about £23k pa, so we anticipate a before-tax surplus of £69k annually will be available to pay off loans and interest, build up a small number of strategic reserves, distribute to shareholders and use for further reducing carbon emissions locally by developing more renewable energy.

The scheme is economically viable since there is a guaranteed market for all our electricity under the Renewables Obligation and a minimum price for it under the Feed-in Tariff (FIT) which is guaranteed by the government and indexed for 20 years. Moreover the price at which we sell to the national grid is likely to rise over time as energy prices increase generally.

Overall, the directors consider this project to be a sound and viable financial proposition. Over £525,000 has been raised up to 31<sup>st</sup> December 2014 and the balance of the money needed has been secured with loans. We are now seeking additional shareholder investment in order to reduce our borrowings.

## Description of Business

### Community Benefit Society Structure

We established a corporate body, an Industrial and Provident Society for Community Benefit, registered in 2011 with the Financial Conduct Authority. In August 2014 we became a Community Benefit Society (CBS) under a new Act of Parliament. Co-operative and Mutual Solutions Ltd have advised us on the content of this prospectus.

We have chosen this legal model because it emphasises the social benefit of the investment we are asking our members to make. Incorporation gives the members and directors the protection of limited liability, just like a limited company, but unlike a company, a CBS is not designed to generate private profit, (though we certainly intend that investors will receive a fair return on their investment), but to deliver a community benefit. This model guarantees that the assets that the society will own will be used for the benefit of the community and cannot be disposed of for the private profit of the directors or members. This is called an “asset lock”.

The Rules, which act as our constitution, have been approved by Financial Services Authority (forerunner of the Financial Conduct Authority) and are available on our website ([www.whalleyhydro.co.uk](http://www.whalleyhydro.co.uk)).

Providing that they behave responsibly, reasonably and legally and take out any necessary insurances, incorporation protects directors of the society from any legal action against them as individuals and any access to their personal finance in the event of the enterprise entering receivership. The protection of limited liability for members is absolute – the most you could possibly lose is the value of your shares.

Our members will join our society because they wish to be part of a community enterprise that directly addresses the major challenges of energy security and combating climate change by generating renewable energy in an environmentally sustainable way. From initial discussions we were confident there was sufficient interest from within Whalley, Billington, surrounding villages and from other supporters with connections to the area, to recruit enough members to join the Society and raise sufficient finance. The CBS structure allows any person who buys shares to become a member of the company. Each member has one vote irrespective of how many shares he or she owns.

### **Share Issue - Applying for shares**

Each share costs £1. Because of the large amount that we need to raise, we decided that the minimum investment would be 250 shares. No shareholder can invest more than £40,000. Our initial and ambitious target was to raise the whole of the required capital through individual shareholders. However, this did not prove possible, so we have covered the shortfall with flexible loan finance. Our renewed appeal is designed to reduce our dependence on loan finance and secure a wider equity base for the reasons set out in the Foreword and Summary

Applications for shares will only be accepted by post on the official application form included at the end of this prospectus, accompanied by a cheque made out to Whalley Community Hydro Limited for the full cost of the shares applied for. All the details required on the form must be completed.

The offer will remain open until we reach our funding limit.

To encourage investment in schemes like ours, the government has established the Enterprise Investment Scheme (EIS), which can give a 30% income tax refund based on the value of the investment. All applicants who pay a sufficient amount of tax will be able to take advantage of the EIS scheme. Further details on EIS are given on page 8. Investments are exempt from inheritance tax.

### **Withdrawal of Capital**

The company's income will be seasonal to some extent as the ability to generate electricity is dependent on river flows and rainfall. Hence a complete picture of income will be obtained after a full 12 months of operation and when monies have been received from electricity companies and the government.

In order to give the enterprise time to settle down, we will require investors to commit to keep their investment in the enterprise for at least the first three years before they can withdraw it. This period will run from the day that electricity generation commences. After that time, the investors will be required to give three months notice of their intention to withdraw funds. The company rules will give the directors the power to refuse a request to withdraw funds if it will endanger the business. It is our firm intention not to use these powers unless absolutely necessary. We want investors to know that their money is available if and when they need it.

We are confident there will be a waiting list of new members ready to replace investors that withdraw funds. The shares that members buy are redeemable in the way set out above, but they are not transferable (i.e. people cannot sell them to anyone else). This arrangement allows the society to be exempt from the Financial Services and Markets Act for Society share issues.

In order to assist shareholders who need to withdraw their money at relatively short notice and in cases where there is no new investor ready to replace them, we intend in the medium term to establish a reserve fund that can act as a buffer. This would help to avoid cases of undue hardship. However, the directors might still have to exercise their power to restrict withdrawal of capital on occasions if this would harm the society.

## **Risks**

Your investment is fully at risk. If the business fails, you may lose some, or all, of the money you have invested. Whilst we firmly believe that the business will be profitable, it is important to note that there are associated risks.

Prolonged equipment failure is a possibility, though we believe a remote one as the technology involved is very basic engineering and similar plants have a long life expectancy.

In the event that the plan fails to meet the level of output promised by the installer, we have negotiated a clause in our contract with them that will provide financial compensation to offset any shortfall.

Prolonged drought and an inability to generate electricity is another possibility, though those with long experience of local weather will regard this as unlikely. The long term outlook according to professional meteorologists is for more rainfall, not less. We have river flow data for over 30 years from a gauging station just downstream from the weir which shows a fairly steady pattern of flows. Whalley weir is virtually at the bottom of a total catchment basin of 316 square kilometres extending into the Pennines which receives substantial rainfall. The Calder and its tributaries also receive the clean water discharges from a number of major sewage works further upstream and this gives it the characteristics of a "high base flow" river. Photo-voltaic panels on the turbine house roof will provide some seasonal balance.

Construction started on May 19<sup>th</sup> 2014 and was completed and the plant handed over on 14<sup>th</sup> November 2014. The project came in on time and just under budget. After a slow start during which we were learning to run the plant, and despite the problems of a heavy autumn leaf fall that occasionally blocked the inlet screens, the plant has performed well. In the first 55 days of operation we have achieved 20% of our target annual output. We have received preliminary accreditation with Ofgem for payment of our Feed in Tariff and application for conversion to full accreditation was applied for after start up. Ofgem has a current backlog of such applications, but there is no reason why we should not obtain full accreditation. A contract has been agreed for sale of our electricity to Good Energy Limited.

Looking further ahead there are the possible risks of damage to the installation from floods and the ingress of floating debris etc. The generator building has been built at a height that puts it well above any previously known flood level (the so-called 100 year level). Screening and safety devices built in to the installation should prevent damage to the essential equipment. We have

taken out adequate public liability insurance as well as cover for material damage, business interruption, directors' and officers' liability.

There is a risk that the price of electricity could collapse but we consider that highly unlikely. The Government backed Feed-in-Tariff, which is much more significant than the electricity resale price in the early years, is guaranteed and indexed for 20 years.

Weir collapse is a possibility, but is unlikely after being in place for so many years; it is a sturdy low-tech structure and will be surveyed regularly and renovated when necessary. We have now carried out two sets of stabilisation repairs and are confident that the weir will remain sound for the foreseeable future. Even before the second, larger of the two repairs was carried out, the weir came through the major flood event of 2012 with no noticeable problems.

### **Dividends**

Each year, the directors will recommend what interest rate should be paid on share capital. This recommendation will be voted on at the annual general meeting.

We also expect to commit money for possible future plant replacement and a share withdrawal reserve. Community Benefit Societies are expected to pay a dividend of not more than 5% or 2% above the prevailing Bank of England minimum lending rate. This said, the Society will aim to pay interest to its shareholders in the range of 3-5%, once the project has settled down. We expect to pay our first dividend not later than the end of our third full year of operation once the full figures for the electricity and feed-in tariff revenue earned are available. It may be earlier than this but much will depend on how much of our initial capital we raise from investors and how much is in the form of borrowings, as priority will need to be given to interest payments and phased repayment of loans.

The CBS rules determine any surplus made by the Society, after it has paid a dividend to its shareholders must either be reinvested in the business or used for public benefit. Once we have paid our running and finance costs, the remaining profits will be available to be used in the local Whalley and Billington and surrounding area. How these profits are used will be up to the members each year, but we intend to support local carbon saving projects that tackle climate change, promote energy efficiency and reduce fuel poverty. Directors and members will not benefit financially in any other way from the activities of the society.

It is important for members to understand that the value of their share will not increase. The only financial benefit for members is from the dividend that is paid.

This proposal is not regulated by the Financial Services and Markets Act 2000 because the shares in the Society are not 'securities' for the purpose of those regulations. It is therefore not authorised by the Financial Conduct Authority. If the business fails investors have no right of complaint to the Financial Ombudsman or the Financial Services Compensation Scheme.

# The Board

## Directors

The Society is managed by a board of directors of up to 12 members of the Community Benefit Society. They are accountable to the membership and report to them via a newsletter and an AGM. After the first AGM, held in November 2014, all the current directors remain in post. At each succeeding AGM, at least one third of the directors must stand down and may be re-elected or replaced by new directors drawn from the membership of the Society.

The current directors of the Society are:

**Tim Ashworth.** Tim is a retired engineer. He holds a Diploma in Mechanical Engineering from Loughborough College (now University). He has been a manager of research and development, measurement and control systems and technical service to the paper manufacturing industry, primarily in Northern Europe/Scandinavia. Specialist knowledge of more energy efficient pressing and drying systems led to presentation of technical papers worldwide as well as to a number of grants of UK and European patents.

**Graham Sowter MBA, ARIC.** Graham has had a varied working career spanning over 40 years including periods as a research chemist, chemical plant manager, labour relations specialist, printing factory director, self-employed computer consultant and college lecturer. He has been active in his community in a variety of roles and served on Ribble Valley Borough Council for 13 years including a three year stint as Chair of the Community and Environment Committee. He was a Parish Councillor for 20 years.

**Chris Gathercole BSc (Spec), DCP** Chris formerly worked in the NHS, developing community services for people with learning disabilities previously housed in large institutions. He has experience of setting up social enterprises introducing and disseminating approaches to enhancing the lives of people with disabilities – one introducing supported employment in the UK and one for citizen advocacy in the NW of England. Both involved setting up training and conferences to bring about widespread social change. He has been a long standing member of Friends of the Earth and was a founder member of Transition Town Clitheroe.

## **Bill Wilkinson C Eng, MI Mech E, FIHEEM**

Bill is a chartered mechanical engineer who started his working life at British Aerospace, later moving into the NHS, managing hospital infrastructure at several sites in the north west. Bill has been advising WCHL on contracts and is acting as project supervisor during the construction phase. He has recently retired as Director of Estates at Calderstones Partnership NHS Foundation Trust in Whalley where he has been responsible for managing the Trust's property portfolio, introducing a wide range of low carbon technologies which have significantly reduced the energy consumption of the Trust's estate. He played an extremely useful part in our final negotiations with the main contractor and brings valuable additional expertise to the Board.

The current directors are unpaid and do not expect to be paid for their work in future.

## Secretary

**David Lynch BSc (Economics), FCA.** David has worked as a qualified chartered accountant acting for many small and medium sized businesses, including many limited companies, covering statutory work, preparation of accounts, taxation, cash flow statements and management accounts.

The four directors and company secretary have invested a total of £82,000 in shares in the scheme.

The above team has a broad range of skill and experience to draw on, including expertise in finance, management, and general technical matters, bearing in mind that the technology involved in hydroelectricity schemes is relatively straightforward.

### **Advisors**

On the more involved technical aspects of the hydro scheme we have been advised by Bert Boersma (and subsequently David Brockington) of Spaans Babcock, who conducted the £20,400 technical appraisal scheme funded by the Department for Energy and Climate Change. Spaans Babcock have an international reputation and have around 20 of their screw generators operating successfully in the UK with a total capacity of 2000kW. Examples in the north of England include Lowood at Haverthwaite (outlet of Lake Windermere), Linton Falls near Grassington, North Yorks, Burneside near Kendal and Esholt near Leeds.

On legal matters we are advised by John Houldsworth, a solicitor based in Whalley and Clitheroe with a specialist interest in land and property issues.

Micro hydro consultancy on the whole project is provided by Peter Hill of Power from the Landscape with funding provided by Green Communities.

Dave Hollings of Cooperative Mutual Solutions has provided and continues to provide consultancy, funded by The Cooperative Group, on governance and issuing shares.

## **EIS Scheme – Tax Relief**

The generation of hydro-electricity is an eligible activity for Enterprise Investment Scheme tax relief purposes and the Community Benefit Society is an eligible legal vehicle for the same. All shareholders can apply for an income tax reduction worth 30% of their investment after the start of trading if they pay enough tax. The directors have received confirmation that ours is an eligible business and will apply for formal approval after the society has been trading for four months. Approval will allow investors to apply for this tax relief. Applications are made to HMRC direct, not by the society which cannot give guarantees of any investor's eligibility. [www.hmrc.gov.uk/eis](http://www.hmrc.gov.uk/eis) is HMRC's own information site that explains the application procedures. If in doubt, investors should seek professional advice.

## **Directors' declaration**

Due care has been taken in preparing this offer document, a process which has been overseen by the directors, who can vouch that the information it contains is in accordance with the facts and that there are no omissions likely to affect its import.

This offer document should be read in conjunction with the list of Frequently Asked Questions to be found on our official website, [www.whalleyhydro.co.uk](http://www.whalleyhydro.co.uk) which expands and develops many of the topics covered by this prospectus.

## Application Form for purchase of shares in Whalley Community Hydro Limited

I/we wish to become a member of Whalley Community Hydro Limited in accordance with the Rules and apply for:  
Ordinary Shares to the value of: £                      and enclose a cheque for this amount, made payable to Whalley Community Hydro Limited. For this offer the minimum shareholding is £250 and the maximum £40,000. Applications can be received at Whalley Community Hydro Limited, 22 Clitheroe Road, Whalley, Clitheroe BB7 9AB until the Directors declare the offer closed.  
Name and address (PLEASE USE CAPITAL LETTERS)

For more than two joint applicants, please photocopy this form and ensure each applicant completes and signs the form.

	Applicant	Joint applicant
First name(s) in full		
Last name		
Address		
Postcode		
Telephone no.		
Email		

### EIS

If you wish to claim tax relief on your investment under the EIS, please tick the box . You need to be a UK taxpayer to claim this relief.

### Priority application

If we raise more investment than we require, priority will be given to applicants who live within a ten-mile radius of Whalley weir.

I do\* / do not\* live within ten miles of Whalley weir (the site of the project). \*Delete as appropriate

### Agreement

- I have read the Share Offer Document, including risk factors.
- I wish to become a member of Whalley Community Hydro Limited.
- I agree to be bound by the Terms and Conditions included in the Share Offer Document and the Rules of Whalley Community Hydro Limited. (see [www.whalleyhydro.co.uk](http://www.whalleyhydro.co.uk)).
- I understand that the Board of Directors of Whalley Community Hydro Limited may reject my/our application, and are not obliged to tell us why it has been rejected.
- I consent to receiving formal notices by email and links to formal documents on Whalley Community Hydro Limited's website.

### Signed as a Deed

First applicant

Joint applicant (if applicable)

Signature

Signature

Date

Date

Please send your completed application form and payment (cheques made payable to 'Whalley Community Hydro Limited') to:  
Whalley Community Hydro Limited, 22 Clitheroe Road, Whalley, Clitheroe BB7 9AB.

If you wish to nominate a person to whom you wish your shares to be transferred on your death, please tick the box  and complete the form overleaf. If you wish to pay by 10 monthly instalments please tick the box  and we will contact you.

### Data protection and money laundering

The data provided by you on this form will be stored within a computerised database. This data will be used only for Whalley Community Hydro Limited purposes and will not be disclosed to any third party. It is a condition of the offer that to ensure compliance with the Money Laundering Regulations 2003, Whalley Community Hydro Limited may at its absolute discretion require verification of identity of any person seeking to invest.

### Notices by email and documents on our website

To reduce our administrative costs, we would like to be able to send you formal notices by email and refer you (by email) to documents posted on our website. By signing this form you are consenting to receiving such notices by email and accessing documents through our website.

## Application Form for purchase of shares in Whalley Community Hydro Limited.

We wish to become a member of Whalley Community Hydro Limited in accordance with the Rules and apply for:

Ordinary Shares to the value of: £

**Official name and correspondence address of corporate applicant (PLEASE USE CAPITAL LETTERS)**

Full official company name	
Address	
Postcode	
Telephone no.	
Email Registered Company number	
Contact name	

### Agreement

We agree to be bound by the Terms and Conditions included in the Share Offer Document and the Rules of Whalley Community Hydro Limited which can be viewed at the website [www.whalleyhydro.co.uk](http://www.whalleyhydro.co.uk).

I understand that the Board of Directors of Whalley Community Hydro Limited may reject our Application and is not obliged to tell us why it has been rejected.

### Signed as a Deed

Director.....

Director/Secretary.....

For and on behalf of.....

Date.....

Please send your completed application form and payment (cheques made payable to 'Whalley Community Hydro') to: Whalley Community Hydro Limited, 22 Clitheroe Road, Whalley, Clitheroe BB7 9AB.

### Data protection and money laundering

The data provided by you on this form will be stored within a computerised database. This data will be used only for Whalley Community Hydro Limited purposes and will not be disclosed to any third party. It is a term of the offer that to ensure compliance with the Money Laundering Regulations 2003, Whalley Community Hydro Limited may at its absolute discretion require verification of identity of any person or company seeking to invest.

## Holding shares on behalf of children and nomination of shares on death

(PLEASE USE CAPITAL LETTERS)

### You can choose to:

- Hold shares on behalf of children and/or
- Nominate a person to whom you wish your shares to be transferred on your death.

Please fill in the relevant sections below.

### Holding shares on behalf of children

If you wish to hold shares on behalf of someone who is under 16, please fill in that person's details below (noting EIS and other tax relief issues).

First name(s) in full
Last name
Date of birth
Address (if different from that supplied on application form overleaf)
Postcode

### Nomination of shares on your death

You can nominate a person aged 16 or over to whom you wish your shares to be transferred on your death. Trustees will need to be appointed for a nominee under 16 years old.

Whalley Community Hydro Limited will respect your wish in so far as the law and our Rules permit.

If you are a joint shareholder, your holding will pass to the other joint shareholder(s) on your death, unless you complete the form below.

#### Personal details of your nominee

First names (in full)
Last name
Address
Postcode

I understand that it may not be possible for Whalley Community Hydro Limited to action this request and I and my heirs will not hold the Society responsible for its actions. I understand that these instructions can only be revoked or amended by my giving clear written instructions to the Secretary of Whalley Community Hydro Limited at its Registered Office.

I understand that trustees will need to be appointed if my nominee is under 16 years of age.

Signed as a Deed	Date
Name in print	

Signature of witness	Date
Name in print	

Please send with your completed application form to:  
Whalley Community Hydro Limited, 22 Clitheroe Road, Whalley, Clitheroe BB7 9AB.