



Springbok Sustainable Wood Heat Co-operative

Springbok Co-op is a new co-operative that has been formed to build and operate a wood chip fuelled district heating system, utilising locally sourced wood chip, at Springbok Estate, Alfold, Surrey. It will provide heat to Care Ashore, a charitable home for retired seafarers, a separate block of 7 flats and a further 14 individual houses, bungalows and maisonettes. The properties are at present heated by individual boiler systems fuelled by oil or electricity but the larger oil boilers are in need of replacement and the Estate is not on the gas grid.



Some of the residential buildings at the Springbok Estate

Springbok Co-op's income will come from the sale of heat at the Springbok Estate and the Renewable Heat Incentive ("RHI"), a payment made by the UK government for the generation of qualifying renewable heat.

Springbok Co-op will result in reduced heating costs for the Springbok Estate. Once it is trading profitably, has paid interest to its investors and has built up appropriate reserves, Springbok Co-op intends to rebate any excess income to its customers by reducing its charges for heat, following co-operative principles.

Springbok Co-op is not seeking to waste heat or burn wood fuel just to generate income from the RHI. This would be completely contrary to co-operative principles. In 2014 it paid for an energy efficiency survey to identify improvements which could be made in the residential buildings on the Estate. Energy efficiency measures (both for heating and electricity) were identified and Springbok Co-op has allocated an initial contribution of up to £15,000 towards energy efficiency improvements.

What is a co-operative?

Springbok Sustainable Wood Heat Co-operative is a members' co-operative formed under the Industrial and Provident Societies Act 1965. It is a company with limited liability and has a Board of Directors appointed by members. The main differences between a co-operative and a company are that a co-operative is a democratic organisation, with each member having one

vote regardless of their shareholding; and it is also an ethical organisation and social enterprise which follows internationally recognised co-operative principles, not a profit maximising organisation: it seeks to pay a rate of interest to members on capital invested at the level necessary to attract and retain the capital required for the life expectancy of the co-operative which is 20 years, but is otherwise motivated by community objectives and the delivery of the project.

Springbok Co-op is a pioneering project for community ownership and there are very few comparable commercially or municipally owned district heating schemes. In consequence there are uncertainties in the financial modelling in addition to the inherent uncertainties arising from the weather and the structure of the Renewable Heat Incentive. Nevertheless, Springbok Co-op intends to enable investors to make a tangible investment to mitigate climate change and to facilitate the improvement of local biodiversity as well as receiving a fair return, anticipated to average 7% if the project is as profitable as anticipated (which is not guaranteed or certain – some of the specific risks are described further below). It is anticipated that the performance of Springbok Co-op, as a pioneering project, will be studied and monitored with a view to it being replicated elsewhere.

Opportunities to improve local biodiversity and butterfly habitat

In addition to the generation of renewable heat in the place of fossil fuelled heat, it is hoped that a consequential effect of Springbok Co-op will be to generate employment in local forestry through its purchase of locally sourced wood, and to bring presently unmanaged woodlands back into management which will significantly improve their biodiversity. Much of the woodland in the vicinity of Springbok Estate is unmanaged former coppiced woodland, currently overgrown, dark and comparatively devoid of natural diversity. By enabling local woodland to be brought back into sustainable management through the purchase of local wood for fuel, the resulting coppicing, felling and replanting will bring light back into the woodland, with immediate benefits for woodland flowers, butterflies and birds. A particular opportunity has been identified in the immediate area to improve the habitat for woodland butterflies, particularly the Wood White, which is now restricted to a handful of locations in the south east of England but which has been spotted in nearby Sidney Wood which is owned and managed by the Forestry Commission.



The rare Wood White butterfly

Progress so far

Planning consent was granted for the boiler house and district heating system by Waverley Council on 10th July 2014. Contracts were signed on 6 October 2014 with Douch Biomass appointing them to design, build and commission the wood chip fuelled district heating system at Springbok Estate. A 21 year lease has been granted by the trustees of Springbok Estate for the area of land where the new boiler house and fuel silo are to be constructed. Terms have been agreed with Care Ashore and a number of the residents for the supply of heat.

Terms have also been agreed with Springbok Estate for the supply of wood from the Estate to the Springbok Co-op for fuel.

Contracts with the other residents on the estate who will also be drawing heat from the system are now in the process of being drawn up. All residents have been consulted about the project.

Groundworks for the heat main and underground fuel silo commenced in November and have progressed as well as can be expected (given the weather) and are now nearing completion

Work will start shortly (i.e. early in February) on the erection of the pre-fabricated boiler house similar to one at Hever Castle Golf Club (pictured right). The total cost of the project is anticipated to be £425,000 comprising £377,000 payable to Douch Biomass for the design, planning, building, procurement, installation and commissioning of the district heating system and a further £48,000 for Springbok Co-op's estimated working capital needs, energy efficiency improvements, a contingency allowance and the fundraising and project management costs.



Initial Funding

To maximise the prospects of commissioning the system and submitting the application to OFGEM for RHI before a further expected RHI degression in April 2015 deposits to secure the services of groundwork teams had to be paid in October 2014 to enable the start on site on the project in November 2014 and to cover the deposit on the two Herz boilers. Both these were met by short term loans from Care Ashore and some of the Directors of Springbok Co-op.

An initial share offer was launched late in 2014 which raised £150,000 primarily to cover further staged payments to Douch as they became due. Subsequent to the share offer, Springbok Co-op has been given advance assurance by HMRC that SEIS tax relief will be available for this share issue.

Further Funding

Springbok Co-op intends to make a further share offer to raise the balance of the funds required to pay for the project and to repay the loans in the first quarter of 2015.

Both Energy4All and Douch Biomass, Springbok Co-op's biomass heating contractors, are committed to the success of the Co-op. Douch Biomass has been helpful in agreeing a fixed price design and build contract (obtained after competitive tender) and granting Springbok Co-op supportive staged payments, and Energy4All has agreed to defer payment of its fees until the second share issue. Pure Leapfrog, a provider of social investment loans to community renewable energy, has indicated that in principle it is willing to support Springbok Co-op with a

loan of up to £50,000 to enable it to proceed with this project until it is fully funded by share offers. In particular the intent of the Pure Leapfrog loan is to allow time for the second share issue to be made to members of the British merchant marine, as potential beneficiaries of Care Ashore, and those associated with the UK shipping industry.

Tax Relief

Springbok Co-op has been given advance assurance by HMRC that tax relief will be available for the further share issue under EIS tax relief.

The effect of tax relief on the second share issue is that 30% of the amount invested under this offer is credited against a member's income tax liability in the current or previous tax year; capital gains tax relief is also available. A separate paper is available, based on content from the HMRC web site, which provides an outline of this valuable tax relief.

In order to remain a qualifying investment for SEIS and EIS tax relief, the powers of the Board permitting shares to be withdrawn or to redeem shares may only exercised after three years have passed from commencement of trading – that is from when Springbok Co-op commences selling heat.

Directors

The Directors are Mike Smyth, Rod Edge, Bill Hicks, Rachael Hunter and Tom Parker (from left to right in the photograph below) and Kathy Smyth.



Mike Smyth is a solicitor and is the (unpaid) chair of Energy4All and Wey Valley Solar Schools Energy Co-operative.

Rod Edge is a chartered accountant and a director of Wey Valley Solar Schools Energy Co-operative; he was the founder of Keepsafe Limited which he developed to become one of the UK's largest self storage warehousing businesses.

Bill Hicks is the estates manager of Care Ashore.

Rachael Hunter is a renewable energy and co-operative project manager who previously worked for the Environment Agency.

Tom Parker is Head Gardener at Grove Farm Estate, Turners Hill, Sussex, in which capacity he has been instrumental in the installation and operation of a substantial wood chip fuelled district heating system at that estate. Tom is also a naturalist and Kew trained horticulturalist

and also will be supporting Springbok Co-op on the sustainability of its wood supply and on ensuring that its procurement of wood fuel actively contributes to enhancing biodiversity. Kathy Smyth is a former property and planning solicitor. She currently sits on the Board of Community Energy England, the member organization which represents the community energy sector.

Other key parties

Energy4All is a non profit distributing social enterprise that works to deliver community owned renewable energy. It has successfully supported the launch of, and now administers, 15 such co-operatives with more under development.

Douch Biomass of Nutley, East Sussex was appointed after a competitive tendering process when Springbok Co-op took into account experience, expertise, price, quality of installation and support and commitment. Douch Biomass are one of the leading regional specialists in biomass heating and district heating, with a significant number of successfully installed systems in this area.

Stewart Boyle, wood fuel energy consultant and senior associate of South East Wood Fuels, has advised Springbok Co-op generally and in particular on feasibility, design, heat loads and on the appointment of contractors.

Risks specific to Springbok Co-op

All renewable energy offers incur some level of risk but the risk for investors in the Springbok Co-op is considered to be higher than, for instance, in a renewable energy co-operative raising investment for solar pv. Target interest payments are not guaranteed, and are dependent on profits which may not be achieved.

- The RHI rate is determined on the date of commissioning of the heating system which, due to the complexity and scale of the construction required, is unlikely to be before March 2015 and may be later. Since July 2014 the rate of RHI on smaller biomass boilers has been liable to reduction at short notice. Three reductions have taken place in RHI since planning consent was granted for the boiler house in the summer of 2014 and a further depression is expected for systems commissioned after 1st April 2015. Consequently Springbok Co-op does not know – and has no means of knowing – exactly what the rate of RHI will be at commissioning.
- There is no ability to pre-accredit or reserve a rate of RHI for this size of boiler nor is there any special pre-accreditation system for community initiatives under the RHI as there are under FITs. Douch Biomass are experienced in making RHI claims and designing systems in compliance with RHI, but OFGEM have considerable flexibility in the manner in which they determine RHI claims and whether to permit them.
- The price of wood chip varies considerably, and is likely to continue to do so until the Co-op has built its own supply chain of wood, rather than buying from nearby “hubs”.
- Further, the government (through OFGEM) is introducing new rules on the sustainable sourcing of wood fuel, compliance with which will be necessary to receive RHI the effect of which may increase wood fuel cost to the Co-op.
- The Co-op’s income is also dependent on the Co-op’s heat customers honouring contractual obligations.

- The design and construction of the heating system and the Co-op's equipment purchases are supported by manufacturers' and installer's warranties and there is always a risk these may not be honoured.
- It is not easy to calculate the heat load of old buildings when limited historic data is available or to predict the effect of replacing an old, inefficient heating system with a modern district heating system. The effect of behaviour changes, the impact of further insulation and particularly the impact of weather are also unknown.
- There is little comparative information to model the project against and the technology is comparatively new in the UK. The Co-op has done its best to model the outcomes and to allow for risks, but this project is pioneering in the UK and any investors and future members must accept the risks attendant on being pioneers, and accept that the investment will enable the Co-op to undertake a journey, the experience of which will be made available to others and will be widely followed.

Administration and charges

Energy4All has agreed with Springbok Co-op for a minimum of three years:

- i) to assist Springbok Co-op to raise the necessary funds through share offers to the public, and to administer the share offers, registers and the SEIS/EIS aspects. The budget for such fundraising, inclusive of expenses (such as advertising, print, web, design and accountancy fees), is £15,000;
- ii) to administer Springbok Co-op in conjunction with Rachael Hunter and Tom Parker. The budget for administration (which includes not only accounting and company secretarial, but meter reading, RHI administration, fuel sourcing, monitoring, invoicing, customer relations and maintenance administration), inclusive of the external and third party costs of administration such as annual charges paid to the FCA, insurance, meeting expenses and external accountants reporting on the accounts, is £12,000 per annum.

We will revise this briefing to keep it up to date. Full details of the project and the underlying assumptions, risks and returns will be set out in the share offer document and any investment may only be made on the terms of that share offer document. Those interested in investing should do so only after reading the full share offer document when it becomes available and taking appropriate financial and other advice.

Please support this exciting and pioneering project by becoming an investor.

Contact us

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