

# Increasing Cash Flow and Reducing Operating Costs using RHI Cash Flow Financing

# Introduction



- Alterinvest Capital Ltd.
- Established 10 years
- Based in Cheltenham, Gloucestershire and Toronto, Canada
- Provider of investment and finance for niche markets.
- Work with asset managers and financial institutions



Never take your eyes off the cash flow  
because it's the lifeblood of business.

RICHARD BRANSON

# Renewable Heat Incentive: Good Bad and the Ugly

- Government incentive paid to equipment owners producing renewable heat.
- AD plants, biomass boilers, ground source heat pumps etc.
- 20 year term, backed by statute, first of its kind in the world
- Grandfathered rights = guaranteed continue to be paid once on scheme
- Quarterly claims by submitting data and payments 6 weeks later (if your lucky)
- Data needs to be 100% accurate to receive payment on time
- Increasingly slow payments of RHI claims due to red tape and staffing at Ofgem
- Pre accreditation RHI cash flow “gap”
- “Back of the queue” system
- No Assignment of Rights – cannot be used as security for lending



## Resulting Consequences of RHI payment delays :

- Potential strain on cash flow .....
1. Limits number of opportunities to reduce operating expenses
  2. Limits projects potential to increase ROI
  3. Limits/restricts finance options





Its not all bad news.....

What's the answer?

Financing product that puts project owner in control of  
RHI cash flow



# Renewable Heat Incentive Cash Flow Financing

- Two year product development with Wesleyan Bank
- 12 month forecasted RHI claims paid upfront as single payment
- Open to newly accredited projects and also projects awaiting accreditation plus existing operational projects with RHI history
- Any technology that receives RHI
- No minimum or maximum amounts of RHI
- Four quarterly amortized repayments
- 48 hours bank decision making
- Cash in bank within week





## 1. Opportunities to reduce operating expenses:

Up front cash flow puts you in control and provides opportunity to:

- Negotiate discounts with service and fuel suppliers
- Negotiate/pre pay annual contracts



# Cost saving example:

- Horticultural farm
- 500kW boiler – cost £125-£250k capex
- Operational 12 hours / 5 days week @ 85% efficiency
- Between 450 and 550 tonnes woodchip @ £80 - £120/tonne
- Circa 12 month Projected RHI £46k - **PAID UPFRONT**
- RHI Financing £46k @ 9% quarterly repayments
- Yearly interest cost £2,616
- Possible 3% woodchip discount via pre pay contract = £1,380.00 p.a. saving
- Adjusted cost of financing £1,236 = 4.25%



## 2. Improve projects return on investment:

- Strong up front cash flow will provide opportunity to:
- Investment into new assets, technology or business
- Replacement equipment. Recent Government announcement to continue RHI when replacing equipment like for like
- Invest in technology to improve efficiency of equipment
- Reinvestment in new projects which can provide 12% + ROI

# Enhanced Capital Allowance



- Using the ECA is ideal if you want to:
- Invest in energy efficient equipment for your business
- Save money by reducing tax due on your profits
- Lower overheads and reduce energy bills
- Build your assets
- Boost cash flow
- Reduce your business' energy consumption and emissions
- Meet strict environmental legislation requirements



\*ECAs will not be available in respect of expenditure on plant or machinery when it generates electricity or heat (or produces biogas or biofuels) that attracts tariff payments under either of the FiTs or RHI schemes.

# ECA Example:



	Capital Allowance	Enhanced Capital Allowance
<b>Tax Rate</b>	20%	20%
<b>% of expenditure to which allowance applies</b>	25%	100%
<b>Equipment cost</b>	£40000	£40000
<b>Taxable amount reduced by</b>	25% of £40000 = £10000	100% of £40000 = £40000
<b>First year saving</b>	20% of £10000 = £2000	20% of £40000 = £10000
<b>Balance brought forward to second year</b>	£40000 - £30000 = £10000	£0
<b>Taxable amount reduced by</b>	25% of £30000 = £7500	£0
<b>Second year saving</b>	20% of £7500 = £1500	£0

# Reinvestment example:

- 500kW boiler – cost £125-£250k capex
- Operational 12 hours / 5 days week @ 85% efficiency
- Between 450 and 550 tonnes woodchip @ £80 - £120/tonne
- Circa 12 month Projected RHI £46k - **PAID UPFRONT**
- RHI Cash Flow Financing £46k @ 9% quarterly repayments
- Interest: £2,616
- \*Purchase qualified new equipment = £40,000
- Enhanced Capital Allowance cash flow/tax saving = £10,000
- £7,384 positive cash flow



### 3. Provides more financing options:

- Strong up front cash flow will provide opportunity to:
- Repay short and/or long term liabilities early saving interest costs
- Repay expensive project financing @ circa 12%-14%
- Replace need for secured overdrafts/working capital financing
- Provide gap filling – pre accreditation to accreditation
- Provide lenders confidence in project

# RHI Financing Details:

- 12 month forecasted RHI claims paid as single up front payment
- Circa 8% - 10% pricing depending on credit strength
- 12 month amortized loan with quarterly repayments (dovetail with RHI receipts)
- Renewable annually
- 48 hour decision making and documents ready
- 3 months bank statements
- 4-5 years in business (if new project will look at parent)
- Full latest accounts
- Standard loan document (non-regulated)
- Third party (NFU & NNFC) confirmation of forecasted RHI claims
- Directors guarantees (only if necessary)



# Summary



- Consistent cash flow is life blood of any business especially new renewable energy projects which tend to be debt financed.
- Claiming and receiving RHI is not an easy process
- Receiving RHI payments on time from Ofgem is a challenge
- RHI Cash Flow Financing provides strong cash flow helping to:
- Reduce operating costs
- Improve ROI
- Provide greater financing options

- Thanks for listening!

- Stephen Stranks