

Torrs Hydro



Main theme: Use of Equity Finance

Torrs Hydro is the UK's first community owned hydro-power scheme. Located in town of New Mills on the River Goyt, the scheme is designed to generate clean energy and an income stream that can be re-invested into the local community. Although some grants and a loan were available to develop the scheme, the directors used a community share issue to raise much of the money that was used to fund it's construction. Richard Body, a director of Torrs Hydro explains how the scheme came about...

"Torrs Hydro's primary activity is generating electricity from a renewable source. We also use the power plant as a focus to provide education about renewable energy, environmental sustainability and asset-based community development. Our aim is to generate an income that can be invested in the local community through a grant scheme. In 2006 a social enterprise called Water Power Enterprises (H2OPE) was looking at developing a weir on the river into a hydro-electric power scheme. They were in talks with New Mills Town Council who were going to invest in the site and create a revenue stream, but pulled out when they found they were not permitted to sell power into the national grid.

After that H2OPE had a plan to build the site and it themselves. They needed community investment in the project to fund it's construction but weren't sure how to go about it. They started to involve some local people including myself and after some consultation the local community decided that if we were going to invest we would rather own the scheme outright. This would ensure that any profits would benefit the New Mills community. We agreed that scheme would be wholly community owned but that we would repay the money that H2OPE had invested up to that point.

Grants from EMDA, the Cooperative Fund and the Sustainable Development Fund (through the Peak District National Park) contributed about £165,000 to the start up and construction costs, and the bank loan from the Coop Bank provided

another £70,000. But the total cost to set up and build the scheme was around £360,000. This is where the community share issue came in."

To raise money through a share issue Torrs Hydro had to identify an appropriate legal structure...

"H2OPE helped us select an appropriate legal form. We are an Industrial and Provident Society for the Benefit of the Community (IPS Ben Comm). This structure particularly appealed because it is cheap and easy to arrange a share issue. This is because IPSs are specifically excluded from FSA rules about miss-selling investments. It costs us around £1000 to put together our 'invitation to invest' whereas making a public offer of shares in a limited company costs tens of thousands of pounds.

The group of Founding Directors liked the structure because regardless of how many shares you own you only ever get one vote so all our shareholders have an equal voice. It also enables us to focus on providing a community benefit, including the creation of a local grant fund, whilst allowing us to pay a modest return to our shareholders from our profits.

The four original directors of Torrs Hydro worked very hard to produce our Invitation to invest. This was a written document that set out what we intended to do, the capital investment we needed to start, the predicted income that the electricity generated would produce and the expected annual running costs. Writing, checking and rechecking the content enabled us to gain a fuller and clearer understanding of the project. In the finished document we were honest and realistic about the risks of investing, whilst also highlighting the potential environmental and social benefits. It clearly states 'Investing in THNM should be seen as a social investment, not a financial investment. Your money will fund a public-spirited 'not-for-profit organisation'. Once we'd completed the document it was checked line by line and reviewed against the legal criteria by a lawyer before publication.

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The whole process was quite rushed as we had a lot of immovable deadlines to meet in order to achieve our goal of being up and running by summer 2008. In particular the deadline for ordering the Archimedes Screw that would be at the heart of our hydro-power scheme was February 1st.

After a lot of hard work the community share offer finally opened in November 2007...

“The share offer was opened on 23rd November 2007 and ran until the end of January 2008. Good publicity to make sure as many people as possible knew about the scheme was essential to the success of the share issue.

We brought in some professional PR help with this. The scheme was in the local papers throughout 2007 and Claire got us national coverage on BBC TV and radio. We had a website set up so that anybody who was interested could find out about the scheme. Appearing the media definitely had an impact because I could see the peaks in traffic to our website after the broadcasts. We also ran a series of tours to encourage people, particularly locals, to come and visit the site and hear about our plans. We didn't try to hard sell the idea of the scheme, but invariably people ask for a copy of our invitation to invest at the end of their visit.

When the share offer closed at the end of January 2008 we had raised just over £1000,000 of capital. We also had a second share issue that ran from December 2008 and March 2009 because the building work cost more than we expected, This brought the total share capital to £126,000: enough for us to complete the construction of the scheme.

Richard believes that Torrs Hydro is already benefitting the New Mills community and reflects on the experience of building the scheme...

“It is too early for us to be making significant profits that can be reinvested into the community but we are already seeing some other benefits. There are a lot more people visiting New Mills to see the scheme and they

spend money while they are here. This is on a small scale but it is still beneficial. Perhaps more importantly there is a great deal of community pride in the scheme, and not just among our own shareholders.

Building on the scheme was a huge learning curve and we went into it naively. This said, if we had known everything we know now I still think we would have ended up with something very similar. The most important thing is that without the £126,000 from our shareholders the scheme would never have been built. There were no more grants and we had borrowed as much money as we could, Without the community share issue we simply could not have done it.

Key lessons:

- Community share issues can provide a source of capital where grants or loans are not available
- The IPS Ben Comm structure allows you to issue shares at much lower costs than a limited company
- The IS Ben Comm structure gives every member one vote and an equal say in how the society is run, regardless of how much they may have investment financially

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| Legal structure: | IPS Ben Com |
| Main activity: | Electricity Generation |
| Number of employees: | None (20 volunteers) |
| Turnover: | £22.500 |
| Location: | New Mills, Derbyshire |
| Date formed: | September 2007 |
| Percentage of generated income: | 100% |
| Date written: | May 2010 |
| Website: | www.torrshydro.org |

This case study is one of a series produced by the Capacity Builders funded ‘Stepping Up To Enterprise’ project in the East Midlands.

The case studies tell the stories of voluntary or community organisations and how they moved to developing trading. The case studies are available on the website www.oneeastmidlands.org.uk/sute.