

Developing an Investment Grade Proposal

The Low Carbon Infrastructure Transition Programme (LCITP) is a collaboration of public partners with the remit of supporting the development of low carbon projects in Scotland. As part of this role it is important that projects understand the approach that private sector investors, banks and financiers take in assessing the invest-ability of low carbon solutions. LCITP has therefore prepared this high level background document. It should be noted that this document has been developed for the purpose of guidance only and should not replace advice from individual investors, banks and financiers or be considered as in any way a part of the formal due diligence process.

This document provides high level guidance on the probable content of a business case and proposition to prospective investors. It is an organised list of information that projects can consult to determine if they have sufficient information available to produce an investment grade proposal, or what they may be required to produce to reach such a stage.

This guidance does not represent any individual organisation's view and each individual investor, bank and financier will have its own detailed approach to the development and appraisal of individual opportunities. It is therefore important to bear in mind that there is a cost involved in amassing all the information that may be required by a potential investor. It is recommended that all projects clarify with potential investors at the earliest possible opportunity what information they would require, including preferred format. Early engagement with potential investors could mitigate against unnecessary or additional cost and effort in amassing the required information.

The investment structure suggested below is only a guide to the likely elements required in an investment proposal and is not a definitive list.

1. Project description

Use the tick boxes to map the information you already have available and to identify what may be required.

A brief summary of the project could include:

- Information relating to project developers, owners and borrowers
- Partner(s) (include web links if available to articles/documents that highlight partners skills / successful track record in similar projects)
- Project Location
- Project Description including background and objectives

- Proposed Technology(s) and comment on where this technology has been implemented before and by whom
- Breakdown of project funding and/or investment requirements
- Potential revenue streams
- Project Time Frame - clearly identifying current status and each future stage of the project

2. Investment Proposition

The content in this section focuses on clearly setting out the scale of the investment opportunity and the potential return. For the purpose of initial investor engagement the high level outputs should be clearly summarised.

Use the tick boxes to map the information you already have available and to identify what may be required.

Relevant supporting information could include:

- Nature of the investment opportunity (e.g. an asset backed investment opportunity or other guarantee or warranty)
- Key investment dates and outline repayment dates; including
 - potential tranching investment; where the money is released in blocks as certain milestones are achieved and risk is reduced
 - commencement date of any income stream linked to the development programme
- The forecast target internal rate of return (IRR) - clearly identifying any government grant support/subsidy
- Financing Options Appraisal - estimating and presenting the costs and benefits of each potentially worthwhile option, taking full account of risks

3. Delivery Strategy

The information in this section should provide the potential investor with a brief synopsis of the project delivery strategy, risk profile and mitigation measures, fit with planning / economic / other policy and impact – Social, economic, other.

Use the tick boxes to map the information you already have available and to identify what may be required.

Relevant supporting information could include:

- Delivery Team/Management Structure
- Development programme (a detailed breakdown of the work to be completed at each stage of the project)
- Key dependencies linked to the development programme (above) and critical paths and dates including consents acquired/required
- Risk Register including mitigation - approach to de-risking the project so that financial returns are maximised and risks minimised
- Evidence of community, local supply chain, regional and national benefits as appropriate
- Description of financial support which has been provided to the project already, when and from what source
- Description of Operation and Maintenance Costs on an annual basis
- Memorandums of Understanding, Exclusivity or Tenancy agreements in place including under what terms

4. Long-term Vision for Financing

It is important when engaging with investors that you are clear on the long-term vision for the financing, ownership and funding structure of the project. This will help your assessment of funding and/or investment offers received, and the type of funder or investor sought by the project.

Use the tick boxes to map the information you already have available and to identify what may be required.

Relevant supporting information could include:

- Your vision of who owns the completed project (e.g. single or shared ownership, opportunity for community buy in or to sell to market etc)
- Available evidence of market demand for each phase or element of the project and investment interest in these markets (e.g. sale of energy)
- The stage in the project life cycle where there are potential entry and exit points for finance. This should be profiled into the financial model
- Any offers already sought for forward funding or future buy out options

5. Collaborative Partners and Advisers

Provide an overview of key partners and advisers, including their commitment to the project, engagement and level of input to date and any previous experience of undertaking projects of this type.

Use the tick boxes to map the information you already have available and to identify what may be required.

Relevant supporting information could include:

- Overarching Burdens, Site Owners, Option Owners, Trusts, Memorandum of Understanding
- Planning Applicant
- Consultants; such as planning, Cost, others
- Local Authority / Public Sector / Statutory Consultees
- Advisors; such as Financial, Legal, Technical, others
- Industry Groups
- Community Partners/Stakeholders

6. Summary

This section summarises relevant supporting information that could be developed and packaged, which may be required by potential investors to support any consideration of funding. It is worthwhile checking at the earliest opportunity with potential investors what documentation the investor would require.

Use the tick boxes to map the information you already have available and to identify what may be required.

Relevant supporting information could include:

- Business Plans for each stage / element of the project
- Strategic Development Plan
- Market Demand Analysis

- Detailed Planning Reports
- Detailed costing with supporting information on how they have been derived and the output from any due diligence carried out to date
- Commercial Structures – including advice around contracts, borrower options, lease / ownership evidence and offtake and feedstock agreements
- Confidential Information Memorandum – this is a document drafted by an advisory firm or investment banker used to market a project to prospective buyers
- Valuations of project, where these have been carried out, for what purpose and by whom (Lenders will often have specific criteria for a valuation exercise and it is therefore worthwhile agreeing this criteria with a potential investor in advance)
- Copies of any approval documents (planning, Section 75, 36 or other)
- Name of the Local Authority Council and the Planning Application Reference no. and hyperlink to the on-line application.