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Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean

SCOTTISH  
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Scottish Enterprise

**Low Carbon Infrastructure Transition Programme**  
***Scotland's Development Unit for Low Carbon Projects***

**Scottish Low Carbon Heat Funding Invitation**

**Investment Grade Business Case Guidance**

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## 1. Introduction

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 to provide guidance on developing an investment grade business case. 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 case, 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 amassing the required information.

## 2. Investment Grade Business Case Requirements

For the purpose of the Scottish Low Carbon Heat Funding Invitation it is expected that an Investment Grade Business Case (IGBC) will demonstrate the following mandatory criteria:

- The potential to deliver a significant reduction in greenhouse gas emissions and energy consumption;
- The potential to have a positive and significant social and economic benefit for Scotland
- Ability to contribute to the strategic priority of Low Carbon Heat; and
- Can be fully commissioned in LCITP timescales.

Note that whilst demonstration of ability to achieve the above objectives is a mandatory requirement for LCITP, the IGBC will be assessed against both these and a wider set of criteria which will include the information set below:

1. Description of project and investment opportunity including schematic diagram of the overall energy balance.

2. Technology options appraisal with a feasibility study and with any relevant detail in appendices;
3. Overview of financial plan for both construction and operations period. This should include all costs including on-going administration, operation and maintenance arrangements;
4. Detail financial model and supporting Assumption book. See Annex 1 for further details of what we expect to be included within a financial model
5. Commercial and governance structure for the project through procurement, construction and operations periods. Including details of the organisation/company vehicle(s) that will be responsible for delivery, details of ownership and any parent company guarantees or loans. This should include details of shareholdings and how profit/surplus will be allocated
6. Funding requirements: Schedule profiling total capital costs, LCITP repayable grant requirements and match funding. Confirmation of and evidence of committed match funding for minimum of 50% capital costs.
7. Project procurement strategy;
8. Project capital delivery programme and timeline to enable commissioning to meet RHI deadlines(if applicable)(as a minimum include the following readiness milestones: 'Design complete', 'Planning applications time-frame', 'Tender complete' and 'Commissioning date');
9. Sourcing strategy and details of suppliers where the operation process requires on-going supply of material/fuel e.g. biomass or waste stream. Heads of Terms/contracts where appropriate.
10. Clear details of potential consumers with supporting market testing documentation;
11. Outline Energy off take agreements – including a costs per unit;
12. Partnership agreements where necessary to support project delivery'
13. Project risk register;
14. Plans for community for engagement and dissemination of project learning;
15. Summary or Project Delivery Team, including pen portraits where possible.

### 3. Investment Grade Business Case Structure

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

#### 3.1 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 we links if available to articles/documents that Highlight partners skills/successful track record in similar project
- 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

### 3.2 Investment Proposition

The content in this section focuses on clearly setting out the scale of the investment opportunity and 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.

### 3.3 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

### **3.4 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 support 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 of 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

### **3.5 Collaborative Partners and Advisers**

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

Use the tick boxes to map the information you already have available and 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

### **3.6 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 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 Local Authority Council and planning Application Reference no. and hyperlink to the on-line application.

## 4. Annex 1

Please ensure your financial model:

- Ties in to the figures set out in the application
- Covers the construction and commissioning period on a monthly basis and the operating period on a quarterly basis
- Show all expected capital expenditure, showing a monthly profile of the construction and commissioning phase
- Shows all finance cash flows (debt/equity/grants/etc.), including a monthly drawdown profile of the construction and commissioning phase, interest payments, dividend and repayments
- Includes return on investment calculation in form of IRR and NPV calculations, and the model should be able to show any debt servicing ratios where the project has external debt/equity
- Includes all expected revenues (including incentives) for the project with each line item shown separately
- Includes all expected costs of the project with each line item shown separately
- Is dynamic (i.e. calculations do not contain hardcoded figures) and allows for sensitivity testing of key assumptions (including inflation)
- Includes a databook and supporting assumptions