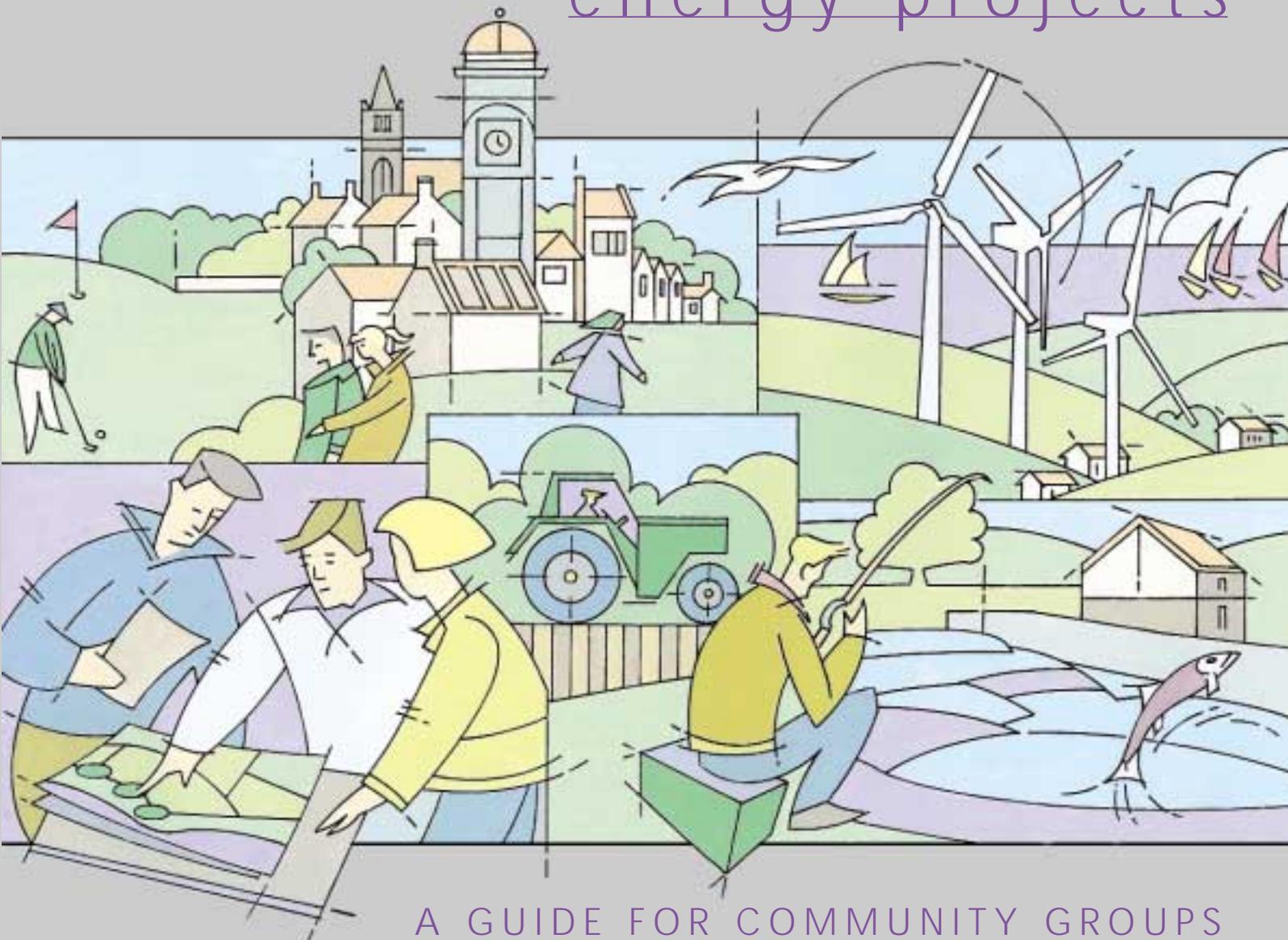


community involvement in renewable energy projects



A GUIDE FOR COMMUNITY GROUPS

dti

Department of Trade and Industry



DTI New & Renewable
Energy Programme

community involvement in renewable energy projects

A GUIDE FOR COMMUNITY GROUPS

While the information contained in this report is given in good faith, it is indicative only of the general position and is issued strictly on the basis that any person or entity relying on it does so at his or its own risk and without benefit of any warranty or commitment whatsoever on the part of the DTI, ETSU or Rubicon Link as to the veracity or accuracy of any facts or statements contained in this guide.

Prepared by
RUBICON LINK
First published
February 1996
Revised by ETSU
May 2000

ETSU K/GE/00014/36/REP

table of contents

		Page
1	PREFACE	3
2	INTRODUCTION	4
3	WHY COMMUNITY INVOLVEMENT?	5
	WHAT IS COMMUNITY?	6
	THE DEVELOPING PROCESS AND COMMUNITY INVOLVEMENT	7
	LEGAL STRUCTURE	10
	EXPERTISE AND THE NEED FOR PROFESSIONAL ADVICE	10
4	WHAT IS THE BEST PROCEDURE FOR STARTING A PROJECT WITH COMMUNITY INVOLVEMENT?	11
5	SETTING UP A COMMUNITY RENEWABLE ENERGY PROJECT	12
	SHARE OWNERSHIP	13
	CONTROL MECHANISMS	14
	LOCAL BENEFIT	14
6	WHAT SOURCES OF FINANCE ARE AVAILABLE?	15
7	LEGAL STRUCTURE WHICH MAY BE SUITABLE FOR COMMUNITY INVOLVEMENT	17
	1 COMPANY LIMITED BY SHARES	17
	2 PUBLIC COMPANY LIMITED BY SHARES	17
	3 PRIVATE COMPANIES LIMITED BY GUARANTEE AND HAVING NO SHARE CAPITAL	18
	4 INDUSTRIAL AND PROVIDENT SOCIETY	18
	5 CHARITIES	19
	6 LIMITED PARTNERSHIP	19
	TAXATION OF VARIOUS LEGAL STRUCTURES	20
8	EXAMPLES OF HOW A PROJECT WITH COMMUNITY INVOLVEMENT COULD BE PLANNED AND DEVELOPED	21
	KEY POINTS FOR COMMUNITY INVOLVEMENT	22
	APPENDIX 1: TAXATION OF LEGAL STRUCTURES	24
	APPENDIX 2: BUSINESS PLAN	24

1

preface

The privatisation of the electricity supply industry and the introduction of the Non-Fossil Fuel Obligation (NFFO) under the 1989 Electricity Act has enabled independent power generation from renewable energy sources to become economically viable in many places across the UK. To date, most of the opportunities have been exploited by private and public businesses, ranging from small companies with a few employees up to the major established power generators.

However, by conventional power generation standards, renewable energy projects are small, and in general are connected to the local electricity distribution network. As such, they are a key means by which a community can contribute towards sustainability, and participate in a new local business.

Community renewable energy projects are now well established in Denmark and Sweden, but they are less common in the UK and there are few precedents to follow. Consequently, this guide cannot be considered definitive or indeed fully applicable in all cases, but it does aim to describe the processes involved in effectively establishing a community renewable energy project.

The guide starts by discussing the benefits of renewable energy and the scope for community involvement. The principal steps in developing a project involving the community are then described, before moving on to the likely procedures for starting a project. Sources of finance and the necessary legal structures are outlined, with taxation aspects (key issues for community investors) and the preparation of business plans being summarised in the appendices.

The guide has drawn from a number of contributors and is based on the findings of a report by Ray Mitchell of Rubicon Link, Malcolm Lynch of Malcolm Lynch Solicitors and Jeff Bishop of BDOR, who have experience in establishing community ventures and the development of renewable energy projects. In particular, the contribution from Ray Mitchell in preparing this guide is gratefully acknowledged.

Fiona Brocklehurst
Renewable Energy Commercialisation Programme
ETSU

2

introduction

Energy generation has become an essential part of life in industrialised societies. From the provision of light and warmth to the manufacture of products on which we all rely, energy serves the needs of billions of people around the world. But people are becoming increasingly aware that heat and power which depends upon finite natural resources alone is unsustainable in the long term. Furthermore, they know that many of the world's environmental problems are caused partly by the way in which we choose to exploit energy sources.

These concerns have led to a search for ways of producing heat and electricity that do not compromise the environment and the needs of future generations. Renewable energy - energy flows that occur naturally and repeatedly in the environment and can be harnessed to serve human needs - is part of the solution.

The energy in wind and water has been used for centuries to meet human needs - from powering sailing ships to grinding corn. Today, policy-makers and the public are increasingly aware of the valuable role natural sources of energy can play in generating the electricity and heat on which we depend. Unlike fossil fuels, renewables produce few, if any, harmful gas emissions.

At present, the vast majority of the world's energy is generated from 'traditional' sources, ie the fossil fuels: oil, coal and gas. Using these, however, produces atmospheric pollution which can lead to problems such as acid rain and the 'greenhouse' effect.

Moreover, fossil fuels are finite, with only coal predicted to be available in significant quantities at the end of the 21st century at current rates of consumption. The same is true of uranium, the source of nuclear power. Exploiting renewable energy resources, which, at present, meet 3% of the UK's electricity needs, reduces the rate at which conventional energy resources are used up. With the cost of power generation from renewables steadily dropping, they promise to play an increasingly significant role in energy supply.

3

why community involvement?

To date, the vast majority of renewable energy projects has been established by commercial developers. Except for the few more socially orientated developers, few have actually sought community involvement in any form, with contact being made only when planning permission was sought. Despite their contribution to sustainability, such schemes were sometimes considered to be an unwelcome intrusion from outsiders, exploiting local resources and offering little in return to the community. As a result, many communities are now becoming more closely involved in the development and operation of projects to ensure that they too can directly benefit from renewable energy.



A community can derive a considerable number of benefits from becoming involved in a renewable energy project:

- involvement will give the community some degree of control over the scheme
- a financial return should be generated, both to the community and investors
- if successful, involvement in a community venture will provide a sense of satisfaction.

However, it will mean a considerable time commitment from individuals within the community, and investment in the project carries a degree of risk, as with any other business venture.

Community involvement in renewable energy projects can also help to raise awareness of renewable energy and its benefits, increase commitments to its further expansion, explain its fast-developing technology, and deal positively with the impact of renewable energy developments.

Any renewables project could be structured as a community scheme, but because of factors such as size and cost, wind, hydro and biomass schemes are the most likely to be pursued. Community involvement, both on a collective and on an individual basis, can be achieved in a variety of ways, including ownership in smaller projects. This guide explores the possibilities.

WHAT IS A COMMUNITY?

A distinction exists between “communities of locality” and “communities of interest”. It is important to be clear both on the type of community involved in a project and on who benefits from the proposals.

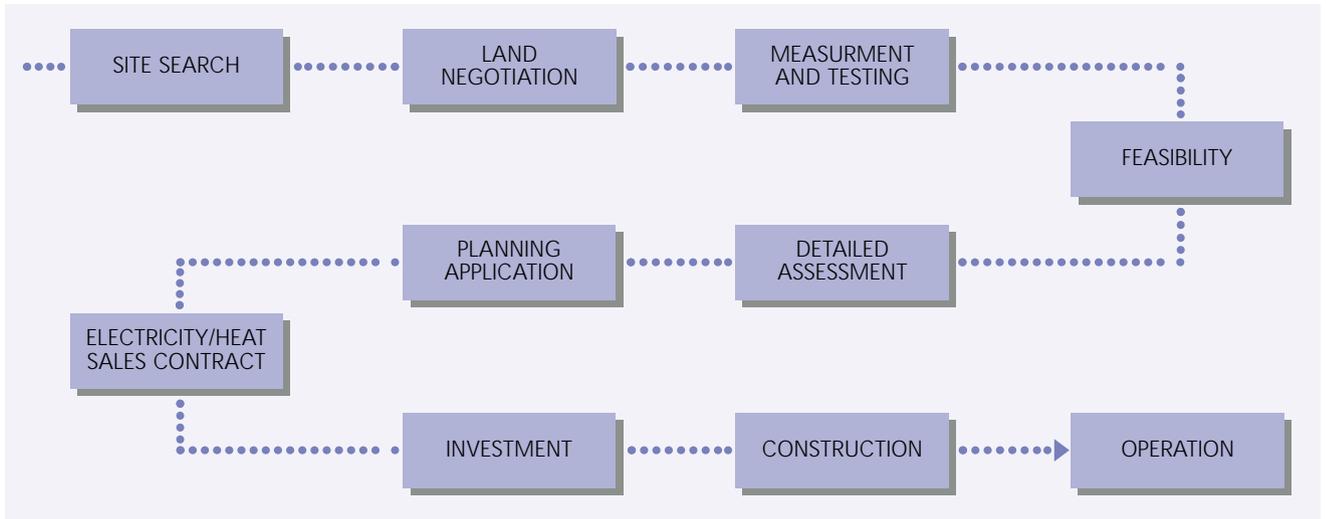
A community of locality can be a farm or other estate with a family working the land; it can be a village or a town; it can be an entire county or even a metropolitan borough with a population of millions. The same principle applies to all of these: all of the people live in the area in question and every one has a personal interest in it.

A community of interest is an association of people who may live so far apart that few ever meet. Their motives may be ethical, such as in a nationwide environmental organisation, or purely financial, such as an investment group, or any mixture of these.

The distinction between the two types of community is blurred by, for instance, absentee landlords, who may hold their property largely to generate income and will have a considerable interest in the amenities of the local area and the conservation of the environment generally. Likewise, a community may be a blend of a community of locality and a community, or communities, of interest.

THE DEVELOPMENT PROCESS AND COMMUNITY INVOLVEMENT

The process of development will follow a similar route whether the project is to be entirely commercial or whether there is to be community involvement. However, there are four additional ingredients if the community is to be involved. The flow chart below shows the typical process and the additions. A more detailed chart is set out in the centre of this guide showing a process by which a community project could develop from conception to operation.



The additional steps for community involvement which may take place in the early stages of project development are:



It is essential to ensure that the community is informed from the outset of the possibilities and advantages of renewable energy developments, and to formulate a clear plan for turning the interest generated into solid commitment. In many cases there is also the need to create a "core team" to manage this process, derived from and representing the community.

It is important to understand the various steps that have to be taken when considering a community-led renewables project. Each of these steps is outlined below, focusing on the scope for community involvement.

Site search options are often limited in the case of wind energy or water-powered schemes as the renewable energy resource for these technologies will typically only be economic in specific locations. Although transport costs are a factor, the precise locations for biomass projects may be less restricted. While a commercial developer may wish to keep his proposal confidential until initial land purchase negotiations are completed, this may limit public support particularly if it is to be a community project. Prior consultation enhances confidence and may generate extra site options, and the concept of community benefit can be emphasised. Consultation with planning authorities before site identification will certainly be beneficial and the potential interests of other agencies can be identified.

A site may be identified as suitable for the development of a renewable energy scheme by either of two routes:

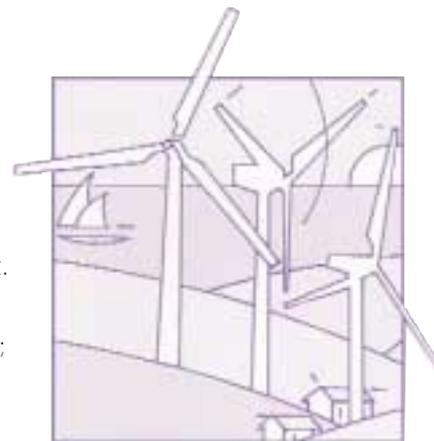
- ① A community of locality might realise that it has higher than average wind strength, higher than average sunlight, higher than average rainfall, or a source of combustible waste. Any of these are potential sources of energy, but where to start? Assessment of the long-term viability of any proposed development depends on an initial site survey which, being highly technical in nature, normally requires the services of experienced professionals. Any energy source which depends upon the vagaries of the weather might require monitoring over a period of up to a year, as well as research into past weather data to assess whether the monitored year is typical of the long-term pattern. Usually such investigations must be paid for 'up front' by the community group and, regardless of the results, the costs are unlikely to be covered by borrowing, although subsequent development costs might be. Even if the results are positive and a project goes ahead, the costs are not normally recoverable in any form of grant or subsidy; they can only be recovered from the long-term profits of operation.
- ② A community of interest might be keen to promote a specific technology or renewable energy in general, in which case it will seek suitable sites. Having found one - and, presumably, paid the costs of assessment without a guarantee of return - it must justify to the local community that the proposed development is assured of bringing advantages which outweigh the effects of any intrusion. For most people this can only be done in terms of financial participation, which implies shared ownership. The sharing of ownership can be achieved at any stage in the development or operation of the project.

Land negotiation and the agreement of rents etc is often a commercially sensitive issue, and this step emphasises the problem of confidentiality required in dealing with individual landowners and the general benefits of openness with the community. Clearly, the core team, representing the community group, will need to balance these two conflicting aspects.

Measurement and testing is often required to demonstrate the feasibility of projects and illustrates a similar problem. These activities are often highly visible and any attempt to conceal them from the public gaze could ruin all chances of co-operation. Again, early consultation with the community is important.

Feasibility, detailed assessment and planning application divide naturally into the processes of community consultation and development of project detail. The community must be confident that both will be led by the core team and not unduly influenced by external parties. The processes of planning application require special attention, and careful explanation of all aspects of community involvement and the methods proposed to achieve it, should be given. However, no specific project structure may be allowed to influence planning decisions. Planning authorities are not primarily concerned with the details of management of a scheme; their role is to represent the interests of the community at large. They will consider local environmental effects and should be accessible to individuals and groups with local interests. Similarly, the legal and financial restraints upon any specific project must be made clear to the community and all its representatives from the outset. When the site has been shown to be suitable and viable for development, and when consultation at local level has resulted in a definite plan for all aspects of the project, the planning application can be made. Before any site work can begin, planning permission must be obtained.

The community group will also have to consider, sooner or later, the influence of groups which may not have any financial stake in the project. For instance, there are those whose overriding concern is protection of the environment, which does not automatically imply support for every project. Many of these groups have influence on decision-makers and policy-makers at all levels and their support is important; the earliest possible consultation with such bodies will help in identifying potential problems and in planning solutions.



Arrangement of an **Electricity/Heat Sales Contract** and application for planning permission can be made in any order - but there may be problems either way. Clearly, the energy must be sold at a price that makes the project viable. This can be done in a number of ways.

Investment in a community project may be sought at any stage, but although some contributions to development costs may be received from local people, it is unlikely that major investment will be secured prior to the beginning of the project's operation. The promotion to secure this investment should begin much earlier but must normally proceed from a formal prospectus. This will be a legal document requiring specialist compilation for the community. The returns on the investment may be at least equivalent to the usual forms of secure investment and there is a social incentive for ethical investors. It is possible for local investors to be offered favourable purchase options, but communities may have to establish their own methods for shareholders to leave a scheme. However, the community could still be involved without investment - for instance, by bringing in a commercial developer and concentrating on influencing the development process.

Construction may begin when the project is clearly defined in all its aspects, development and construction costs have been covered, a secure power purchase agreement contract has been signed and planning permission has been obtained. The involvement of the community must be sustained throughout the construction phase, as some temporary disruption may well occur.

Operation involves ongoing project management and company administration. This is when the community group gain their rewards - investment returns and a sense of achievement by working together as a cohesive community group. The management will need to be aware of changing circumstances which may be beneficial to community investors.

It must be emphasised that, to secure interest and ultimate commitment, strong leadership from the core team and full consultation with the community are essential. Environmental groups actively promoting renewable energy are well equipped to show the need for such development and the potential benefits to a community. Similarly, much useful information is available from the DTI's New & Renewable Energy Programme.

In developing a project the sequence of events is not rigid, and in many cases not every activity is required. For example, a community project which brings in a commercial developer might not ask for local involvement, nor offer control, until the project is operational. Until then, the developer would cover his own costs and would not require the establishment of a community management organisation.

LEGAL STRUCTURE

There are six possible legal structures which could be used by community groups as legal vehicles for the ownership of renewable energy projects. Each of these structures is outlined later in this guide. The choice of legal form should be made after consideration by the community group of the following influencing factors:

- the relationship between the people involved
- the way money is to be raised, and the risk/reward expected.

Legal forms are not completely static instruments but may be adapted to some extent to accommodate the requirements of the group. These are explained more fully later in the guide.

EXPERTISE AND THE NEED FOR PROFESSIONAL ADVICE

Few communities of locality will be able to provide the necessary expertise and experience to develop a project fully. The choice is whether to employ individuals or organisations to manage specific fields, effectively creating a management organisation (centred around the core team) specific to the project, or to delegate the entire management process to an organisation with previous experience in renewable energy projects. The first option creates additional costs through professional fees and requires the community to be able to control the activities of those employed. The second option involves finding a commercial developer sensitive to community issues.

Communities of interest, as prospective investors, may already have ready access to sources of professional advice, whether technical or financial, and may well have experience of legal and political constraints. However, individual investors should certainly seek independent financial advice before making an investment.

It cannot be assumed that these links will always operate in favour of any specific project. As in any business proposition, confidence is the key; this can only be created by the professionalism and openness shown by those initiating the project.

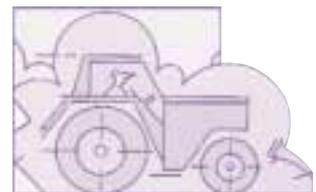
4 what is the best procedure for starting a project with community involvement?

Until more experience has been gained nationally, it will be rare for communities of locality to initiate substantial projects. The technologies involved are relatively new to non-specialists, even though many are well-proven within the renewables industry. The idea of community investment in, and control of, such projects is also fairly novel in the UK, and there is no significant history of such developments from which a community can draw useful guidelines. This lack of experience may generate fears inhibiting commitment and investment locally. Therefore, if initial technical surveys show clearly that a project is feasible, the whole idea will still have to be 'sold' to the community by the core team or developer.

A group considering development, which may already have the tacit support of a community of interest, may have the resources and expertise to promote a project to the community of locality, but this process must be carefully tailored to maximise community confidence. It is therefore essential that community consultation begins at the outset, that the proposed structure of the consultation process is made clear, that the individuals and organisations involved are known and accessible to the community and that the extent of control and the timescale of the financial return are outlined.

Communities of locality are most likely to be concerned with detail, such as any possible visible and audible intrusion during both construction and operation, and obstruction to local traffic and commerce. These considerations, obviously, can create opposition as much from individuals - some locally influential - as from the community at large. The broader benefits to the community of site selection, environmental impact, operational management and finance are often difficult to put into context. This is where outside help is most often needed. In particular, to draw the necessary support from a wide range of people, the long-term economic benefit to the community must be made very clear, even though the aspirations of individuals within that community may differ.

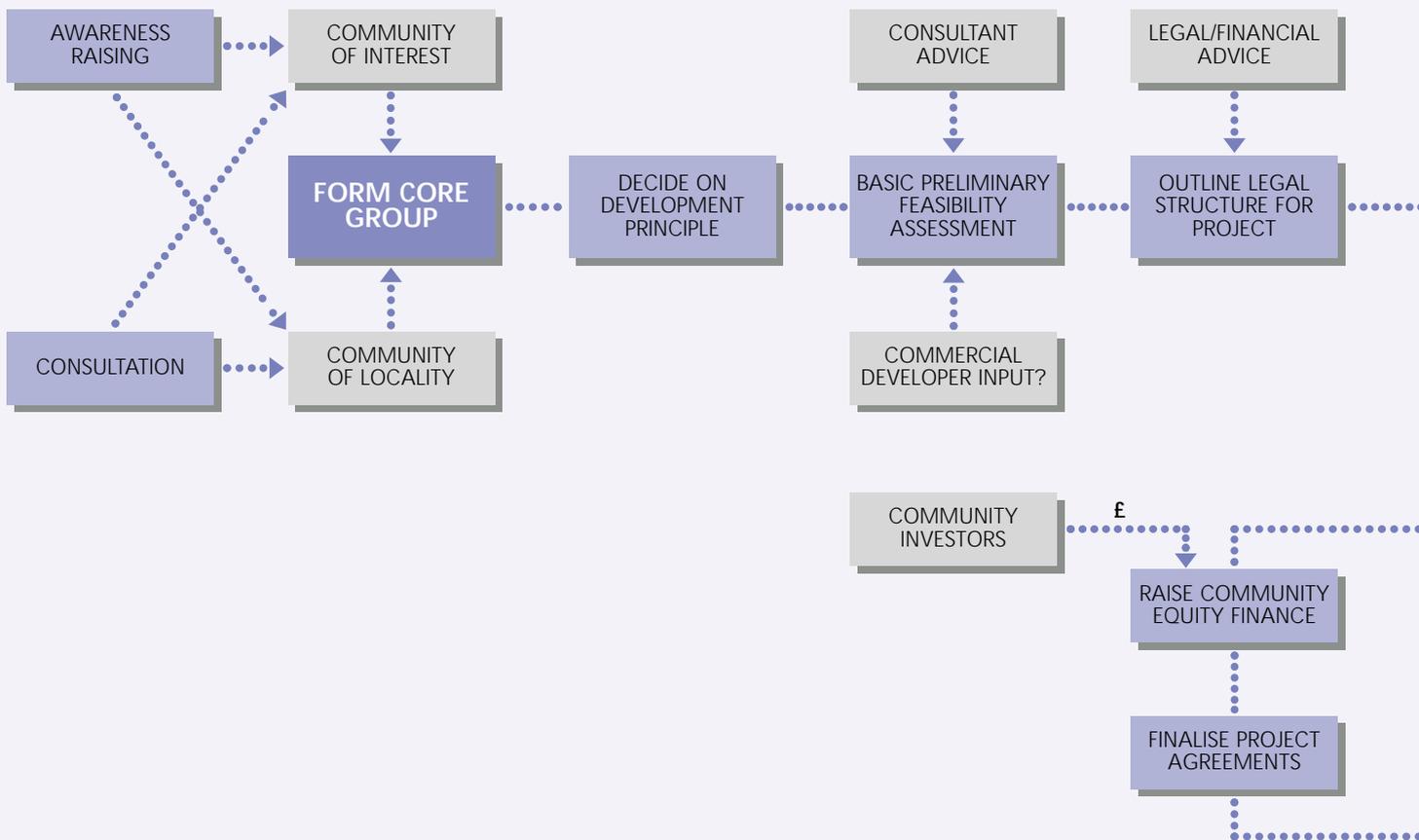
At some stage in the project's development process a distinction needs to be drawn between community consultation and community investment. It is likely that a majority of individuals in a community will be concerned about the possible adverse effects of any scheme. These people, individually or collectively, may have no inclination towards investment yet may be able to influence local opinion. The consultation process must reassure these individuals that the consideration of benefit to the community prevails. The results of community investment need even more careful consideration, and it seems likely that each project will be set up according to its own particular circumstances. There are three possible outcomes resulting from investment - share ownership, control mechanisms, and local benefit.



5

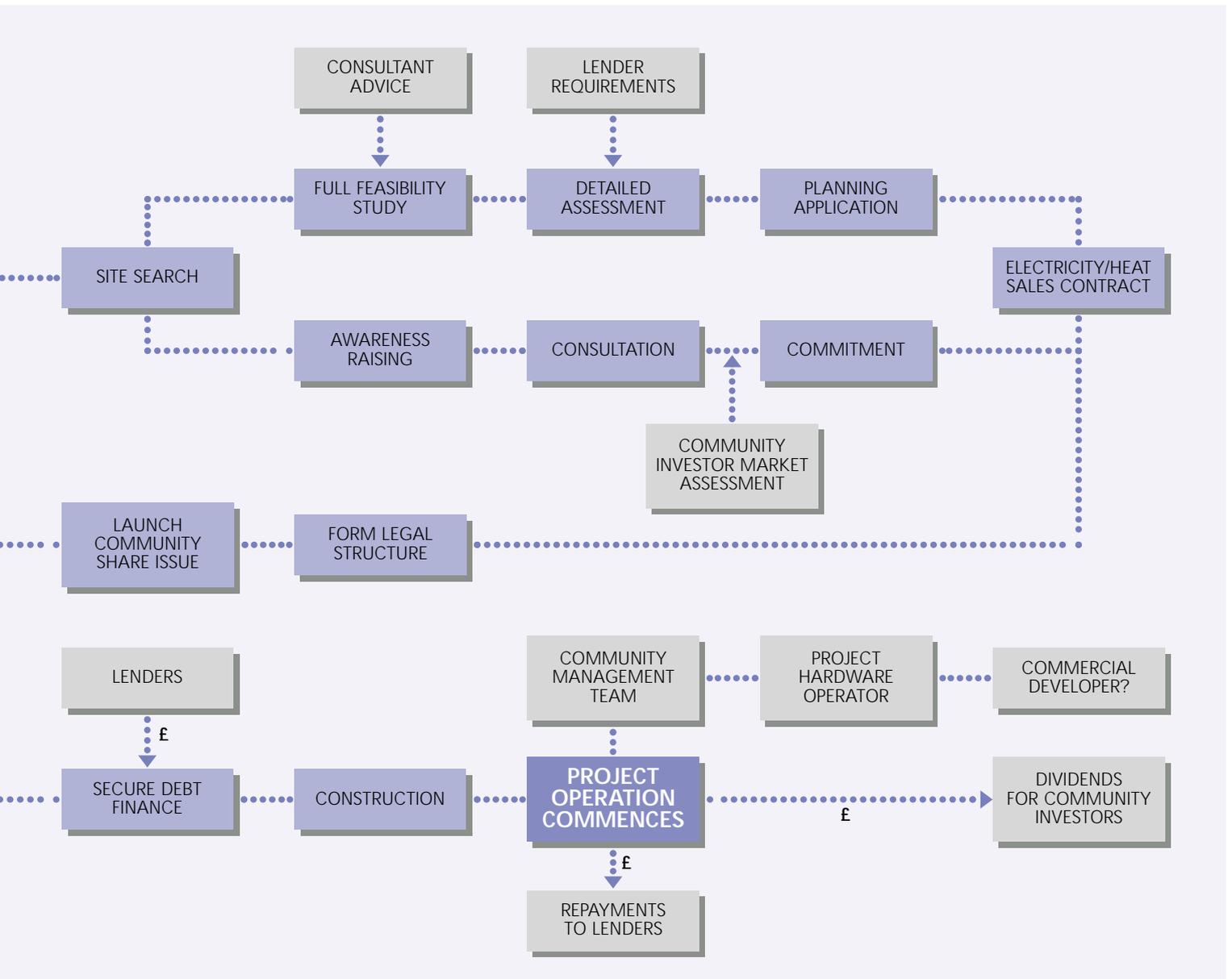
setting up a community renewable energy project

This diagram illustrates the likely steps and participants involved in setting up a community renewable energy project involving a community share issue. The extent of involvement by consultants, commercial developers and financiers will vary according to the way in which the project is initiated. Similarly, the timing and order of events will depend on individual project circumstances.



SHARE OWNERSHIP

Any scheme of share ownership must be proposed at the earliest stage of consultation with the community and must be seen to be fair. In any community, there will be relatively few individuals with the resources for substantial investment. If the ownership scheme is seen to allow control of, and profit from, the proposed development solely by these individuals, the remainder are likely to concentrate on the negative effects. Communities of interest, to whom a disproportionate level of benefit and control could accrue, should also be careful not to alienate the wider community. The picture is further complicated by the possible need for a practical development to transcend statutory boundaries, such as parish, district or county. The community of locality for a project may turn out to be very different from local perceptions of community. Clearly, any scheme of share ownership may be designed to allow the broadest possible benefit to everyone in the area, so the availability of shares could be regulated to satisfy local aspirations, either by offering discounted shares to the residents within the immediate vicinity or by giving first call on shares to a similar group.



CONTROL MECHANISMS

The extent to which a community group may be able to control a project may be limited through restrictions imposed by commercial developers or major lenders to the project. In practice, developers are often willing to contemplate community control of projects, provided their interests are protected. Lenders required solid assurances that projects will be properly planned and managed in all respects; these assurances are most easily provided by experienced developers, who are accustomed to managing substantial projects involving large sums of money. Many communities are conscious of their lack of expertise in the management of large projects and see little advantage in local control provided that local benefits are assured. However, some influential groups regard a high level of community control as essential, which may conflict with the criteria of banks and commercial developers.

LOCAL BENEFIT

There are several possible ways for a project to provide local benefit. In addition to dividend payments to local investors, there is sometimes the expectation of a payment to provide a local benefit, eg a new village hall. This may be unacceptable because it is not linked to the profitability of the project and neither can it be seen as beneficial to the community generally. What may be seen by some as a charitable donation may be seen by others as a bribe. A more satisfactory arrangement may be for the community of locality to create one or more elected groups to receive and administer a share of profits. This could resolve the problem arising when the community of locality does not invest in shares to the necessary level and yet there is resistance to a project being totally in the hands of non-residents.

Renewable energy projects, particularly biomass schemes, can also increase local employment. Other less tangible benefits can be generated within the community - a sense of personal and community achievement, and a step towards sustainability.

6

what sources of finance are available?

Renewable energy schemes are capital-intensive, and the construction costs are high. For example, a 1-2MW scheme employing two wind turbines and serving on average 1000 homes may cost in the region of £1million. Few community groups will therefore be able to fund the development and construction costs of any substantial scheme on their own. The site search and assessment costs will be totally at risk, and development and construction will require experienced professional services. A community group, possibly with the support of a pre-existing community of interest, may be willing and able to cover these expenses and to allow others to buy shares at one or more predefined stages.



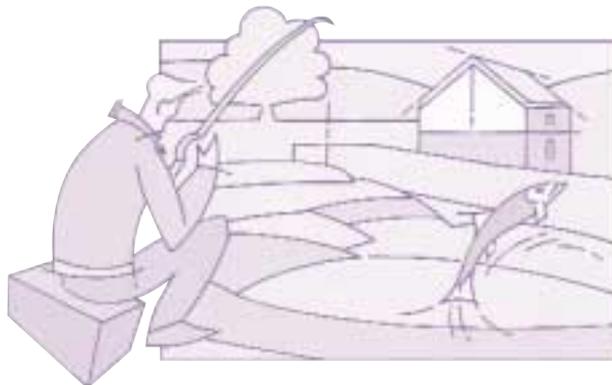
Usually, a large percentage of the required capital can be borrowed from a bank. However, the balance of capital will need to be found from within the community as a demonstration of commitment. The bank will also require a clear plan of management for both development and operation, with individual and corporate responsibilities defined. Appendix 2 shows the essential features of a business plan. The period over which the loan must be repaid is dependent on the contract to sell electricity but may be up to 12 years. Community investors will be required to have a long-term equitable interest, and this can be achieved by an appropriate corporate structure which is both accessible and answerable to them. Servicing loans will always have priority over payments to investors. Investors may lose their entire investment if the project is unsuccessful. It may not be possible to withdraw their funds from the scheme readily, although it may be possible to match sellers with new investors in an informal way. It is therefore essential that the entire project is realistically structured from the outset, in terms of engineering, management and finance.

Banks, whether commercial or social in ethos, will use similar criteria to assess the viability of a project. Some will require specific control and management conditions. All will require a proper financial plan with a projected annual cash flow, which shows the annual profits to be at least 1.3 times the annual loan costs over the full loan period. The physical and contractual assets of the project will be applicable. Arrangement fees of about 1% of the loan will be normal. Typically banks will lend up to 80% of the entire project costs.

Different banks will offer a range of loans. Social banks offer loans between £50,000 and £2million, whilst a commercial bank's loan threshold starts at £2million with no upper limit. Clearly, the possible sources of finance may be determined by the size of the project, with increasingly strict requirements for the larger sums. In particular, UK merchant banks may require a professional investor such as a venture capital company, utility or major power generator to be involved in the project. In all cases, the banks will require their expenses incurred in arranging the loan to be covered; these range from £10,000 for a social bank and up to £35,000 for a commercial bank.

In general, banks are interested in lending to communities for renewable energy projects, but all require clearly defined control and management structures. Social banks which may be financing the more modest projects with genuine community involvement will look at the competence of the individuals in the management. The commercial and merchant banks will emphasise the need for experienced commercial involvement.

- INVOLVEMENT
- CONTROL CONDITIONS
- MINIMUM AMOUNT
- COVER RATIO
- SECURITY
- INTEREST
- GEARING
- CAPITAL/LOAN
- FEES
- TERM OF LOAN
- COSTS



7 legal structures which may be suitable for community involvement

While the legal form should be considered at an early stage, the final detail can be left to later in the process. At a certain stage in the project it will be important to create some form of legal entity to facilitate the aspirations of the community. Set out below are the basic frameworks for the six legal structures which, typically, may be employed. This should give groups an idea of the qualities and characteristics of the different structures, but appropriate legal advice should be taken before setting up a particular legal form.

Each legal structure has a set of rules setting out its constitution and operating procedures. These can be adapted at the outset to incorporate specific requirements of the community group, eg shares to be sold only to people living within a certain distance from the project.

1 COMPANY LIMITED BY SHARES

A private company limited by shares is simple to form, with registration normally effected within two weeks. A private company may have various types of shares, eg ordinary shares or preference shares, but may not issue shares to the public. Capital is raised by a limited number of private share sales. The liability of a member of a company limited by shares, is limited to the amount remaining unpaid on shares the member holds.

The exit route for investors from a private share company can be difficult as the shares are not listed on any Stock Exchange. However, it is usual for current shareholders to be offered the shares of a member who wishes to dispose of his shares, before a transfer is permitted to a new shareholder.

2 PUBLIC COMPANY LIMITED BY SHARES

A public limited company must have a minimum share capital of £50,000 before it starts trading. It may offer shares to the public, and it may be listed on the Stock Exchange, although most public companies do not have such a listing. When a public company makes an offer to the public to purchase shares it must issue a prospectus with full information about the company. A minimum capital requirement is set in the prospectus and that target must be met within 40 days of issuing the prospectus. Compiling and issuing a prospectus is usually expensive.

Shareholders in public companies which are not listed on the Stock Exchange have similar limited options for sale of their shares as shareholders in a private company.

3 PRIVATE COMPANIES LIMITED BY GUARANTEE AND HAVING NO SHARE CAPITAL

Companies limited by guarantee have characteristics similar to private companies, but members agree to pay a guaranteed sum if the company is wound up rather than make a capital investment. It is usual that the guaranteed sum is under £10. The profits of the company can be distributed amongst the members of the company either equally or by some other standard. It is usual for these companies to have voting rights based on one vote per member.

This structure is often used for a not-for-profit organisation, where profits are never distributed but are reinvested in the company. Similarly, if its principal purposes comply with charitable objectives, it may be registered as a charity.

The exit route from a company limited by guarantee is simple; a letter of resignation will usually suffice.

PRIVATE LIMITED COMPANY

- Limited liability
- Shares sold but not offered publicly
- Voting according to number of shares owned
- Shares may be sold to other shareholders or to new shareholders
- Not listed on Stock Exchange

PUBLIC LIMITED COMPANY

- Limited liability
- Minimum capital £50,000
- Shares sold to public via a prospectus
- Shares may be listed on stock exchange but unlikely in community project
- Shares may be sold to existing shareholders or applicants for new shares

COMPANY LIMITED BY GUARANTEE

- No share capital
- Limited liability
- May issue loan stock
- Exit by letter of resignation

4 INDUSTRIAL AND PROVIDENT SOCIETY

An industrial and provident society is a corporate body with limited liability and may be registered either as a bona fide co-operative society, or as a society for the benefit of the community. It is possible for the latter to receive charitable status if its activities fall within certain charitable purposes. These societies are often used for organisations with a social as well as an economic purpose.

A minimum number of seven members is required for an industrial and provident society, and all members have limited liability. The society may issue shares to members up to a maximum of £20,000 per member. These shares are usually issued and redeemed at their face value.

The voting rights attached to shares are 'one person one vote', irrespective of the number of shares owned by that person. Shares are usually redeemable by the society rather than sold to a third party.

5 CHARITIES

Charities may take one of three legal structures: as a company limited by guarantee; as a trust; as an industrial and provident society. It is possible that a private company limited by shares may be registered as a charity but this form is not often used.

Four activities are accepted as charitable by the Charity Commissioner. The activities and objectives of any organisation wishing to gain registration as a charity must fall within at least one of the following:

- the relief of poverty
- the advancement of education
- the advancement of religion
- other purposes beneficial to the community, not falling under any of the previous headings.

Directors of charitable organisations must adhere strictly to the charitable objective of the organisation. They are generally unpaid, and their investment powers are restricted by law. Members of a charity cannot benefit from the funds of the charity. Charities may raise money from the public by gifts or covenanted donations.

It is possible that the operation of renewable energy schemes may be an activity which is within the objectives of an environmental charity. Often charities establish trading companies to carry out trading which is not charitable.

6 LIMITED PARTNERSHIP

A limited partnership is formed by the creation of a Partnership Deed. It is restricted to 20 members and partners are jointly and severally liable for the debts of the partnership.

In a limited partnership there must be one partner with unlimited liability. Limited partners must state an amount which they will commit to the partnership and they can then be held liable for that amount. A limited partnership is usually set up for a fixed period of time,

eg between eight and ten years, and the assets are then sold and distributed between the partners. It is possible for an individual partner to sell his share during the period to the other partners, or outside of the partnership if the Deed permits. It is quite usual in a limited partnership for the partner with unlimited liability to be a company with limited liability.

Although it is difficult to generalise on the most appropriate legal vehicle to use, it is likely that community groups will choose either a public limited company or an industrial and provident society. While each enables investments to be raised from the general public, the public company requires a formal prospectus, but shareholdings of individuals are not limited to any given sum.

The industrial and provident societies restrict an individual's shareholding to £20,000 but have less formal investing procedures.

TAXATION OF VARIOUS LEGAL STRUCTURES

Each legal structure set out on the previous pages may be treated differently regarding tax. Some will be liable for Corporation Tax, and in others the individual owners will retain tax liability. Some have the potential for qualifying under the Enterprise Investment Scheme, which gives individuals 20% tax relief on qualifying investments of up to £150,000 in any financial year. At the end of this guide, Appendix 1 sets out an outline of the tax treatment of the various legal structures.

INDUSTRIAL & PROVIDENT SOCIETY

- Either co-operative or for benefit of community
- Latter may have charitable status
- Limited liability
- Maximum capital per member £20,000
- One vote per member
- Shares redeemable at par

CHARITIES

- Three possible legal structures available
- Limited activities acceptable as charitable
- Members cannot benefit personally
- Charities may own renewable energy companies

LIMITED PARTNERSHIP

- Created by deed
- Maximum 20 partners
- One partner with unlimited liability
- Limited partners may not form management

examples of how a project with community involvement could be planned and developed

Community projects can evolve in many different ways. However, if they are to overcome the many hurdles successfully, all projects will need a core team to drive the scheme forward. Developing a renewable energy project past the conceptual stage and bringing it into operation requires specialist skills and not inconsiderable resources. As stated earlier, sometimes individuals within the community have these skills and resources, but on other occasions it may be necessary to join forces in some way with a commercial project developer or consultant. Community groups will have to consider at an early stage how they intend to develop their project. Set out below are four possible examples of how projects could be taken forward:

Small Group-led: A project developed through to commissioning by a small group of local people - most probably landowners/farmers. Though aiming to engender wider community interest at the outset, and to engage a large number of local residents as equity participants at the commissioning stage, their principal intention would be to generate and sell power as a commercial activity.

Developer-led: A project led all the way through to commissioning by a commercial developer. The developer's aim would be to establish a renewable energy project and sell power and, after the commissioning stage, to sell on the project at a profit to a group controlled through the investment of a large number of local residents. The developer would assist the new group in preparing to manage the project and might also take on a contract to operate the equipment on their behalf.

New Group-led: Under this scenario, a motivated local community would form a new group to control the development of a local project and to manage it after construction. As a new group, they might well need to bring in a commercial developer to undertake, under their close control, most major pre-commissioning work. The developer would be repaid through some form of agreed royalty on project output, and might take on a contract to operate the equipment on their behalf.

Existing Group-led: A project developed in full (and perhaps operated) by an organisation such as a development trust or other registered charity (ie undertaking work for the benefit of the community). The group would sell power or substitute electricity otherwise purchased by themselves. As an existing group, it might feel that there was no need to widen investment or involvement beyond the group itself.

The process of securing community commitment will differ between, first, Developer- and Existing Group-led schemes, which need only ensure that they have access to all necessary expertise to proceed, and secondly, Small Group- or New Group-led schemes. A Small Group may have the necessary business skills and be able to start without much help, but a New Group is likely to want wide support before beginning development. Also the need to offer sufficiently concrete proposals to arouse interest must be weighed against the need to appear flexible. A public meeting can outline possibilities and allow relevant prior success to be

described, but, as yet, there are few precedents in the UK. The meeting could also formalise the remit of the core team who will become responsible to the community for the development of the project.

In setting up a project organisation there will be choices available regarding a legal structure for the group. A Small Group needs to allow for flexibility: it may be that the best structure for initial fund-raising may not be the best for later stages. A New Group will need to test community feeling first and rapidly choose a structure which matches this with creditability to initial funders. An Existing Group may need to establish a project-specific sub-group to prevent local policies from influencing its other activities.

The problem of raising initial development funding remains for all scenarios, with £20,000 estimated for a modest wind power project. Grants and subsidies for most community projects are hard to find, and may not be available for community energy projects. An established developer will risk his own money. A Small Group might raise this from its members if there are enough of them. In some communities, part of the development costs can be avoided by contributions of the technical and professional skills of local firms or interested individuals. These contributions may be set aside for payment later if the project is successful, but care needs to be taken on the standard of professional competence, timing and accountability.

KEY POINTS FOR COMMUNITY INVOLVEMENT

COMMUNITY INVOLVEMENT

- The success of community schemes comes through the involvement of individuals and groups from either communities of locality or communities of interest.
- Involvement can be achieved through community consultations and through community investment.
- Community involvement is important at all stages and should be offered in a variety of ways.
- Though many forms of involvement are possible, concerns about local impact should be balanced by clearly identifiable local benefit.
- Community projects require initial work to raise awareness, secure commitment and set up an organisation.
- Community schemes will have to address exactly the same requirements for consultations as commercial projects.
- Project scenarios vary in terms of appropriate structures, access to set-up funding, the nature of core groups, their requirements for technical input, the means of accessing main funding, and methods of securing investment.
- For many community projects, one particularly difficult stage is the initiation, when money may be hard to secure but is essential for progress.

AVAILABILITY OF FINANCE

- Commercial banks are willing to lend to renewable energy projects involving the community.
- Social banks are keen to lend to such projects.
- There is little difference between banks' lending criteria for commercial or community projects.
- Social banks are able to offer small loans (£50,000 to £2 million) more readily than commercial banks. Commercial banks are able to finance larger schemes than social banks (£2 million to £100+ million).
- All banks want to see a clear management structure with defined areas of responsibility and a professional input in the building and operation of the scheme.

LEGAL STRUCTURES

- A variety of legal structures can be used, depending on particular circumstances.
- Economic factors are likely to be more influential than legal ones.
- There is no obstruction in the English legal system preventing community involvement in renewable energy projects.
- It is likely that either a public limited company or an industrial and provident society will be used by community projects.
- All structures other than charities or mutual traders will pay tax on their profits.
- Investors in projects qualifying under the Enterprise Investment Scheme may receive tax relief.
- No special VAT relief is available.

This guide has aimed to summarise the approach a community group could take when attempting to set up a renewable energy scheme with community involvement. Setting up a community project will involve the commitment and dedication of a number of people over a lengthy period of time.

A continuing process of information dissemination and consultation with the community is essential; so is the taking of professional advice on the technical, financial and legal aspects of the project. The guide has set out one route which a community group could follow, described the legal structures appropriate to a community scheme, and given a brief synopsis of available finance.

This publication is only an introduction to a new and developing subject.

Further information, including a more general report on community involvement in renewables projects (ETSU K/FR/00095/REP), is available from the New & Renewable Energy Enquiries Bureau at the address below:

New & Renewable Energy Enquiries Bureau

ETSU

Harwell

Didcot

Oxfordshire

OX11 0QJ

Tel: 01235 432450

Fax: 01235 433066

E-mail: NRE-enquiries@eat.co.uk

appendices

1 TAXATION OF LEGAL STRUCTURES

1 LIMITED COMPANIES

- Taxed at corporation tax rate, currently 30%.
- Small company rate currently 20%.
- Enterprise investment scheme may be available which gives tax relief at lower rates for investment of up to £150,000.
- Profits paid out by way of dividends - advanced corporation tax is deducted by the company from the dividends. Individuals receive dividends net of tax with a tax credit note.
- Disposal of shares subject to capital gains tax based on the gain less an allowance for inflation.

2 COMPANIES LIMITED BY GUARANTEE

- Distribution of profits most unusual. If made, subject to corporation tax.
- Enterprise investment relief not available.
- Any surplus assets on winding up will be subject to either corporation tax or capital gains tax.

3 INDUSTRIAL AND PROVIDENT SOCIETIES

- Distributions to members are deductible as an expense by the society.
- Enterprise investment relief may be available.
- A society pays interest to members rather than dividends. Interest is paid gross to UK residents.
- On winding up, if assets distributed to members, capital gains tax would be payable.

4 CHARITIES

- Exempt from income tax and capital gains tax if applied for charitable purposes.
- Profits from trading subsidiaries are taxable
 - usual to covenant profits to charity
 - not taxable in charity

5 LIMITED PARTNERSHIPS

Partnership is not a taxable entity. Each member is taxable on share of partnership profits and gains at individual rate.

2 BUSINESS PLAN

When a group is actively seeking loan finance for a project, it is essential to prepare a business plan. A business plan will vary in its particular components dependent on the actual project, but there will be many similar features which must be included:

- The aims and objectives of the initiating company.
- The people involved, their experience, skills and responsibilities. In the case of a community scheme, it will be necessary to explain how the management is appointed and how the community is kept involved.
- A description of the project, its location, the planning position, requirements for other permits and local reaction.
- A description of the site, the ownership, lease arrangements, and any restrictions.
- A measurement of the renewable energy resource, so that an annual prediction can be made. For example, in the case of wind, usually one year's data is required.
- Identification of the plant and equipment to be used, together with an estimated cost of a turnkey contract and details of the manufacturer's warranty. Details of the ongoing operational management and its cost.
- A cashflow statement showing the capital cost, how it is financed, and the income stream from the project over its life. A profit and loss account and balance sheet should be linked to the statement.
- Details of bank loans, showing the interest rate, term, bank fees, and repayment liability. Equity investment should also be detailed.

