

Guide to establishing a community group as a legal entity

Introduction – why go legal?

Any community group looking to take forward a renewable energy project will need to give considerable attention to having the right legal status. Unless the group becomes one of a number of possible Incorporated¹ entities, there are a number of fundamental issues that may well arise:

Access to grants or other sources of funds will be difficult if not impossible

Few third parties such as property owners and installers will offer or undertake contracts

Accountability of decisions, especially financial, will be unenforceable

The laws for raising money by public share subscription are very strict

Individuals are likely to be at risk of personal financial liability for any problems or failures.

What options are there?

The simplest Incorporated option might be to become a company limited by guarantee which is a quick and low cost process but this would be unsuitable for most community ventures because it would not ensure that any benefit would actually be delivered to the community over the long term. Although achieving charitable status could possibly address this specific issue, there are a number of restrictions on what a charity can do that may well hamper the project (but see the TTT case study). This leaves two main types of structure that predominate in the community energy field:

Industrial and Provident Society (IPS). This is an older form of arrangement and can either be structured primarily for members benefit as a Cooperative or otherwise for Community Benefit. Membership is normally through withdrawable shares (ie they cannot be sold except back to the Society, and usually then at the discretion of the Directors) with a limit of £20,000² per shareholder and decisions are made on a 1 member one vote basis. Community Benefit Societies often have an asset lock on the property of the Society so that, if it is wound up, only the original investment is returned to shareholders and any accrued benefit would have to go to a similar community organisation. IPSs pay any corporation tax after interest or dividends have been paid out, making them more tax efficient.

Community Interest Company (CIC). This is a more recent structure and is intended to ensure that a limited company will actually benefit the community to some extent rather than just its shareholders. If it can pass a Community interest test and also has an asset lock, a CIC has the advantage over an IPS of a much higher cap on how much it can pay back to investors and no limit on individual shareholding. However, a CIC share offer may well require a much higher level of external scrutiny which will have an appreciable additional

¹ Companies are 'incorporated' to form an entity with a separate legal personality. This means that the organisation can do business and enter into contracts in its own name. BIS document URN 11/39 Nov 2011

² Soon to change to £100,000 as well as calling IPSs "Community Benefit Societies under new legislation.

up-front cost. CICs are often appropriate if a large sum of money needs to be raised for the project.

How to decide?

The different options available are quite complex and any decision needs careful thought on the immediate and long term aims of the community energy project and what will best ensure that the venture can go forward. There are a number of case studies of local examples available with an explanation of the reasoning for the final outcome which help illustrate the main issues:

[SBCES](#)

[Transition Town Totnes](#)

[Plymouth Energy Community and PEC Renewables](#)

Other community groups wider afield also offer advice on this. There are good examples at:

[Oxford North Community Renewables \(ONCORE\)](#)

[Ouse Valley Energy Supply Company \(OVESCO\)](#)

[Sustainable Hockerton V27 wind turbine](#)

[Bath and West Community Energy](#)

[Low Carbon West Oxford \(LCWO\)](#)

Beyond these specific examples, the Centre for Sustainable Energy (CSE) offers [The Source](#) page linking to some of the best examples of helpful resources. In particular, there is much advice and a [“Select a Structure” on-line tool](#) at Cooperatives UK website and any community venture is strongly advised to look at what is available elsewhere on the website including their wide range of [approved Model rules](#) for an IPS which are often used by community energy ventures and also their [Practitioners Guide to Community Share offers](#) .

[Wessex Community Assets](#) have additional expertise on the finance raising aspects as well as offering an alternative set of model rules.

Plan LoCaL also has a number of useful resources, including a paper exercise [Setting up a community structure for renewable energy projects](#) which will help community group members understand the issues and better contribute to the decision process.

Low Carbon Hub has a handy [Decision-making guide to legal structures](#) which readily allows the different legal options to be compared across every important aspect.

For legal clarity the [BIS guide to legal forms for business](#) sets down many of the definitions of the various terms.

The Charity Commission offers [Becoming a Charitable Company](#) as a good starting point if there is possible interest in a charity structure.