Appendix 3: Delivery Options

For churches to deliver a programme of energy improvements will require significant financial investment. The measures outlined in this report all have an associated capital expenditure, and some PCCs will be challenged financially to meet these costs. Most commonly, financing is obtained through grants and fund raising within the community. There are however alternative models which may be worth consideration; this section gives details of some examples.

It is now quite common for local community groups, be they already existing organisations or groups of individuals, to come together for the purpose of helping to deliver new low carbon energy installations. Commonly, these are solar, wind, hydro and heat pump generation projects, insulation, lighting and other energy efficiency projects or a mixture.

There is quite a long list of communities who have succeeded in setting themselves up to deliver particular, locally beneficial, projects, indeed, in 2019 Community Energy England2 identified 252 such groups in England.

Whether the low carbon energy projects are stand-alone, such as a solar array, or integral to a building such as wall insulation, LED lighting or a heat pump, there are common factors involved in delivering the project. The primary ones being related how to fund the cost of:

- developing the project, for example planning permission may be needed;
- purchasing and installing the equipment;
- operating costs, e.g. fuel, insurance, maintenance, personnel;
- repaying investors and loans;
- and funding any additional community benefits.

Where there is an existing organisation, such as a single parish, with its own building, there may not be a need to set up a new organisation, particularly if it already has funds of its own available or intends only to use grant funding. However, if there are several buildings involved, possibly with different owners, then it is likely to be advantageous to set up a special purpose vehicle with a legal status that can take responsibility for the projects.

Groups often find that if they need to raise money from investors, lenders or granting bodies it is convenient to set up a dedicated new legal entity for the specific purpose of owning and installing the project. Community Energy England has found that, since 2015, the most popular type of legal entity for this purpose is the Community Benefit Society (BenCom) followed at some distance by the Community Interest Company (CIC).

The Bencom and CIC have different advantages and disadvantages, outlined in the following pages.

[2] **Community Energy England** is a not for profit, membership organisation which represents the interests of community energy groups.

Community Benefit Societies (BenComs)

A Community Benefit Society is a type of legal entity which exists to undertake activities for the benefit of a defined community rather than paying out profits solely to its member shareholders. They are defined by the Co-operative and Community Benefit Societies Act 2014 and regulated by the Financial Conduct Authority (FCA). BenComs are an evolutionary form of the traditional Industrial and Provident Society which has been around since the 19th Century.

Setting up a BenCom is straightforward, you need to register a set of society rules with the FCA based on existing model rules which have already been accepted by the FCA. Model rules are available from a number of sponsoring bodies listed on the FCA website, such as:

- Co-operatives UK
- Energy4All Limited
- Sharenergy
- Wessex Community Assets Limited
- Wrigleys Solicitors LLP

The advantage of a BenCom over a limited company and many other legal forms is that you can have an asset lock which prevents the assets of the BenCom being sold off at the community's expense at a later date.

Another major distinguishing feature of the BenCom is that it can issue withdrawable share capital as distinct from ordinary or transferable shares. Members can withdraw their capital from the BenCom at the face value of the shares, by contrast transferable shareholders have to find a willing purchaser in order to sell their shares and have to take the prevailing market price. For small companies this can be difficult to do.

A BenCom can pay interest on its shares, but no more than is sufficient to attract investment. Directors have the discretion to decide how much interest is paid depending on the availability of funds. Directors will also have discretion to refuse withdrawal of shares if there are insufficient funds available.

Withdrawability is likely to be a very attractive option for community investors since it offers a simple means of selling their shares.

BenComs can issue withdrawable shares whilst being exempt from the financial promotion regulations requiring an approved prospectus to be used, greatly reducing compliance costs. However, this means that it is important that investors are aware that their investment is at risk and that there would be no recourse to the financial ombudsman. The BenCom should ensure that its offer document is true, fair and not misleading.

In summary, BenComs are a common choice because:

- Issuing share capital is unregulated by the FCA so is low cost;
- They can issue withdrawable share capital;
- Assets are locked into the organisation and for the benefit of the community so they can't be sold off at a later date for the benefit of members;
- Interest can be paid on share capital to attract investors;
- Can attract donations and grants because of community benefit objectives;
- Democratic as each member, whatever the size of their shareholding, gets an equal vote.

Community Interest Companies (CICs)

A Community Interest Company (CIC) is a type of company which is set up to benefit a community or to pursue a social purpose, rather than to make a profit for its shareholders. CICs are expected to reinvest their surpluses to do more of their work but can also pay a proportion of this out to the owners or investors. As well as the standard limits on dividends under company law, only 35% of a CIC's distributable profits in a single year can be paid out in dividends to the company's shareholders

Like BenComs, CICs have a statutory asset lock which means the assets cannot just be sold off, but can only be transferred to another CIC or organisation with a similar level of asset protection and community ethos.

CICs can only issue transferable shares and they are subject to the financial promotion regulations so that any public share offer would require that a fully regulatorily approved prospectus be used.

Setting up a CIC is straightforward, you need:

to adopt a suitable constitution – the CIC regulator provides model constitutions which can be used;

to provide a community interest statement explaining what the business plans to do in order to satisfy the community interest test;

to adopt a statutory asset lock stating that the company's assets will only be used for its social objectives, and setting limits on the dividends that can be paid shareholders

to get your company approved by the CIC regulator

Comparison of operational structures

The following table summarises the differences between the BenCom and the CIC.

	Community Interest Company (CIC)	Community Benefit Society (BenCom)
Governance	Directors manage on shareholders. 1 share 1 vote.	Board of directors manage on behalf of members. One member one vote. Maximum shareholding of £100,000.
Liability	Limited	Limited
Asset Lock	Statutory asset lock.	Statutory asset lock.
Benefits	Profits used for the benefit of the community. There is a cap on dividends shareholders can receive.	Members can receive reasonable interest on their shares. Profits must be used for the benefit of the community.
Shares	Transferable	Transferable or withdrawable.
Grant eligible	Potentially eligible if profits mostly used to benefit the community.	Potentially eligible.
FSA exempt	Not exempt	Transferable shares and withdrawable shares - exempt.

Both types of organisation have an asset lock which prevents their assets from being sold off for private profit, it ensures that they would always be used for community benefit and only transferred to another organisation if that had the same level of guarantee.

Both types of organisation have limited liability, so that directors and members/ shareholders are not personally liable for debts of the organisation.

Financial Considerations

A community energy project would usually involve raising funds to pay for capital expenditure on the basis that an income will be generated or energy cost savings will be passed on in order to pay back investors and loans and generate excess funds to spend on community beneficial activities

In some cases, investment in more insulation for a building's fabric or updating heating systems will provide improved comfort and heating levels but not necessarily much or any return on investment via lower energy bills. In these circumstances it will be necessary to view the projects not as a potentially investable community energy projects but rather as necessary upgrades to be funded from donations and grants.

The total annual energy bill for the 7 churches surveyed was £6,570. This is relatively small because some of the buildings are underheated, or at least could benefit from increased heating and insulation to provide better thermal comfort.

The poor heating is compounded by the low level of utilisation of the buildings meaning that the low energy bills don't present sufficient scope for making savings which could otherwise finance the investment cost required to retrofit efficiency and renewable installations. What would help would be a plan for extending the use of the buildings over more hours per week thus helping to justify the cost of investment.

We understand that usually each parish would be responsible for financing the cost of building upgrades from local fund raising and such grants they may be able to access. This being the case, there may be a role for a more centralised approach to implementing the projects identified across multiple churches due to the need for financing and the specialist technical nature of the projects. It may also be easier to raising the funding collectively.

A centralised approach could also make it easier to utilise specialised expertise to set the projects up rather than relying on a piecemeal approach by individual PCCs. The Deanery could take this role itself or perhaps facilitate the establishment of an umbrella community energy special purpose vehicle which would oversee the projects. This vehicle would then be on hand as additional opportunities at other churches came along and needed assistance with energy related projects.

There could be a role for the Deanery to help churches in the group to use the excel model developed as part of this project to evaluate different retrofit options. Then draw up a group investment plan and collectively apply for grants.

As the Church of England has recently taken on a target of achieving carbon neutrality by 2030, this would be greatly assisted by having just such a coordinating body as described above to help individual parishes to upgrade and implement energy efficiency and low carbon heat and power solutions.

Investment opportunities

In addition to seeking grants, the Church of England would be in a good position to raise funds by issuing bonds which, with the backing of the Church itself, are likely to be viewed as a low risk investment by individual investors and thus be offered at a low rate of interest.

For example, Abundance Investment is currently helping West Berkshire Council to raise £1 million to invest in rooftop solar projects by issuing a bond offer, backed by the Council. They are expecting that local members of the community will wish to invest. The bonds generate 1.2% interest and the investment is repaid to the investor in stage payments over 5 years. The interest is fairly low as it is guaranteed by the Council rather than being dependent on the performance of the solar projects which would be a potential source of risk otherwise.

Typical community energy projects have raised funds by selling shares. Since the income needed to pay interest on the shares is dependent on the income generated by the projects themselves, there is always some risk that the project doesn't perform as expected. This additional risk means that investors seek higher rates of return. If the Church provides the backing rather than the projects themselves, there is a greatly reduced risk of the projects not performing, therefore the investment is viewed as much more secure and can be offered at a much lower interest rate.

Given that the investments identified in this project are unlikely to make a return, the capital cost is more likely to be raised from grants and donations from parishioners. That being the case, use of existing Church charitable status may be more appropriate for raising funds than establishing new, dedicated BenComs or CICs to hold share offers or seek loan.