

Report to the Energy Group concerning the research into the setting up of a company that will be able to retain income within Transition City Lancaster and yet be able to raise money from the community.

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1. **This was difficult in that many officials do not like dealing with anyone that is not a company.** They feel that they are simply wasting their time and that information given out may not be useful.
2. The formation of a company is generally easy.
 - a. **Ordinary limited companies** can be formed with a few days, but the aim of the company can be altered dramatically by shareholders (or by directors if the shareholders are not watching). Voting is one share-one vote. The value of the shares can vary, and the EIS can be used to bring in investors.
 - b. **Industrial and Provident Societies** can be in the format of a co-op, which allows individual share holders a vote in its action, but makes it difficult for large groups (such as the Transition City Lancaster, if it owns most of the shares) to have as much rights as might be expected. They don't have to be Coops but can be changed to being one at a later point. They can also be changed to being CICs at a later point. They take longer to set up.
 - c. **Community Interest Companies** can be defined by their articles of association right at the beginning of the company and they might be fully nailed down as to the aim of the company. They are particularly helpful if the person that puts a lot of money in at the beginning is sure of what will happen to it and the direction it will go. The assets of the company cannot be lost, and they can only give a 5% annual return as a maximum to shareholders. They take longer to set up.
3. **Tresoc** (Totnes Renewable Energy Society) is organising their company as a IPS, and was recommended by Andrew King to use the same system for ours. However, the group in York are using a CIC but they have had problems.
4. **The format of the potential company was explained** such that Transition City could retain the voting power, the ability to buy out the shares of risk capital investors, and the ability to organise the income stream to the company. They would also be able to pick the directors and the manager. This seemed to fit best with an IPS possibly not initially a co-op (if that is possible) to avoid the risk capital shareholders voting out Transition City. If the risk investors buy shares and not just loan the money to the company then they can reclaim money from their tax through the Enterprise Investment Scheme. This means that for every £25,000 they invest it actually only costs them £20,000 and so the price at which they would be bought back could be much lower than expected. Have a look at the details about various methods to form community interest type companies: <http://www.co-operativefutures.coop/documents/L10comparisonofLegalOptions.pdf>

5. **The possibility of using a CIC, an ordinary limited company or IPS is initially currently unclear** but an IPS seems how the company should aim to be laid out eventually.
6. **How the company could be laid out. This was described as the ‘mother company’** that would retain much of the capital of the businesses as they were created.
 - a. 260,000 £250 shares given to the Transition City group as the foundation of the company
 - b. 200,000 £250 shares sold to risk capital investors. This would be under EIS and so offer 20% tax relief to investors along with 100% capital gains tax allowance after 3 years.
 - c. The risk capital shares would be bought back from the investors at specific rates e.g. 3 x the initial investment after 3 years, or 4 x after 4 years or 5 x after 5 years. As a result to maximum value paid back to risk investors could be £2M.
 - d. As much money should be raised for the company via other formats e.g. banks, NWDA, individual shares not under risk investment agreement.
 - e. This would permit the Transition City to remain in charge of the company, with a board of directors, and a manager while at least 3 applications for a wind farm site were carried out.
 - f. The aim of the company would be initially specifically to raise planning permission for wind farms.
7. **When an individual wind farm permission is available, a second company would be commenced.**
 - a. This could simply be an ordinary limited company as shares would be sold locally to raise £2M and with all other money available through banks and investment groups.
 - b. The building of the wind farm would be put out to tender
 - c. The wind farm, once built, may be sold, as an entire company to an investment group (e.g. Triodos have done this in the past).
 - d. The share payment to the investors would not change because of this sale.
 - e. OR, the value of the wind farm could be found and borrowed against in order to repay the speculator investors of the mother company.
 - f. OR, the wind farm may not be sold at all, and the income from the wind farm may be used to create adequate cash availability to the mother company and allow it to pay off the risk capital investors.
8. **Under each of these models the aim would be for the Transition City Lancaster Community Energy Company to be in charge of quite a large sum and not require any further risk capital.**
9. **It is important that a company is formed relatively soon in that in order to make agreements with land owners and farmers it must be the company that makes the agreement** as no individual can do this.

Decisions: The name of the company.

Cherys suggested the 'Transition City Lancaster Community Energy Company'. She said that it should be a co-op and this will be looked into as possible.

The Format of the company: This was fairly clear in that it had been and IPS by Tresoc, and suggested by Andrew King. However, the ability for the initial risk capital shares to be bought back was difficult. This had to be looked into further.

Formation of an IPS: I said I would try to find the method by which this is done.

Contacting Andrew King: Cherys said that she was to contact him and go over the models and way in which applying for grants to set up the company might be most useful.

Contacting Steve Cartney at Origin Energy in York to work out why they picked the CIC model. He has now come back to me and offered that we go over on the 9th or 10th of June.

Discussing with the Coop Bank (Chriss Matthews) as to which format would be the most useful and easiest for them to fund. I.e. asking for advice. I will report back to the group.

An IPS has the format:

- An IPS is a trading organisation that operates as a co-operative either for the benefit of its members or the wider community.
- IPSs are currently exempt charities which means they do not have to register with the Charity Commission. This will cease to be the case when the 2006 Charities Act comes into force.
- An IPS is usually funded by share capital, but this takes a different form to limited companies. The value of the shares is fixed and does not go up and down with the value of the organisation.
- An IPS is the only vehicle that can issue shares on a low-cost basis.
- Buying a share confirms membership and decisions are taken on a one-member-one-vote basis (regardless of number of shares owned). There is an upper limit on the cash value of shares that can be held by one individual (£20,000 currently).
- IPSs are regulated by the [Financial Services Authority](#) (FSA).

Community Interest Company has the format: <http://www.opsi.gov.uk/si/si2005/20051788.htm> The most useful format that can be taken is of a company that has share rights to vote that are defined by the company at its articles of association, that the shares may change in value and be bought and sold according to the rights of the market. Both of these would permit the system to allow the company the raise risk capital without losing voting rights and yet offer to buy back the shares at a later date at a figure that would be seen to be reasonable.