Community Share Issues and Community Land Trusts

Making Communities More Sustainable through Access to Land and Finance

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Background

Community Land Trusts (CLTs) are community controlled organisations set up to benefit a defined community by providing and managing homes and other assets, which will remain available and affordable to local people in perpetuity. To date, very few CLTs have raised finance and increased their membership through issuing community shares. This is despite ideological similarities between CLTs and societies issuing community shares – most notably the ensuring of community control and accountability. The research project aims to investigate why CLTs have not significantly issued community shares to date, and what can be done to support CLTs wishing to raise finance through community shares.

Key Findings

- CLTs do not feel confident enough to issue community shares for their housing project. This is because there is not much information available on CLTs issuing community shares; there is not much awareness of the professional support that is available, and the social benefits of CLT housing are not as widely understood as the benefits of other kinds of community asset ownership (e.g. shops, pubs and renewable energy generation).
- The scale of a housing project makes it daunting for a community group to consider how to raise finance independently – even small projects costing upwards of £750,000.
- Housing attracts investment from other sources (typically mainstream lenders) and so often it is possible to raise finance from elsewhere – volunteer led CLTs who are focused on delivering a housing project are attracted to the simplest method of financing a project.
- CLTs would like to issue community shares but cannot see how community shares can work in practice for a housing project.
- That issuing community shares can contribute significantly to developing a committed membership is not well understood by CLTs

Recommendations

- To offer a comprehensive support package to a pilot CLT with the aim of trialling a community shares approach
- To develop and disseminate case studies and presentations on the experience of existing CLTs that have issued shares
- To design, develop and promote support services and resources on community share issues that are specific to the CLT sector that can be made available nationally to CLTs
- For the CLT sector to focus on improving messages about the social benefits of CLTs

Introduction

Background

The existence of housing need in the rural West Country is clear to the majority of those living and working there. 'Home Truths 2012: South West'[i], a report produced by the National Housing Federation, shows that the average house price in 2012 is eleven and a half times the average salary across the region, in rural areas it is up to 13 times the average salary. Social housing waiting lists have increased over the last few years more in the South West than in any other region of the UK – up 26% from 148,422 in 2010 to 186,305 in 2012. One in twelve households in the South West is on a social housing waiting list.

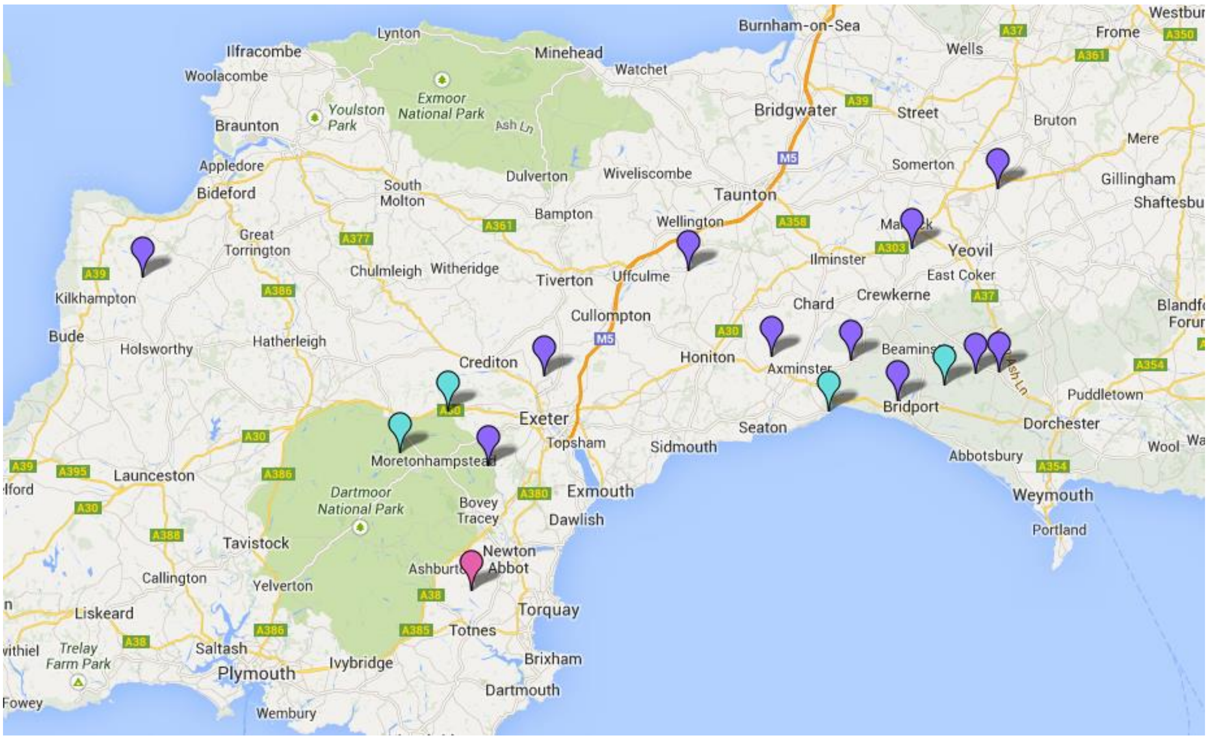
It is within this context of market failure that Community Land Trusts (CLTs) are emerging in increasing numbers in the region. A CLT is a community controlled organisation set up to benefit a defined community by providing and managing homes and other assets, which will remain available and affordable to local people in perpetuity. This sense of agency (or 'doing it yourself'), and the addressing of market failure using community led action, ideologically aligns CLTs with community shares. CLTs and community share issuing societies both require member control and both aim to be financially self-sustaining. Housing developments have been traditionally thought of as attractive in terms of gaining investment (investing in 'bricks and mortar'). This ought to further align CLTs with community shares, which are reliant on having a solid business case for meeting a social or environmental need in a community in order to attract sufficient investment by members. Despite these apparent similarities there has been very little activity by CLTs in terms of raising investment through community shares.

The Wessex CLT Project

The Wessex CLT project was set up in 2010, originally commissioned by Carnegie UK Trust using funding provided by the Empowerment Fund (from the Department of Communities and Local Government), but now becoming financially self-sustaining. The Wessex CLT Project seeks to support local people to address the needs of their own communities through the establishment of CLTs, and also provides support to CLTs to develop projects which meet the community's aspirations in terms of addressing community sustainability, but also addresses the attitude to risk of the local people involved in the CLTs.

The Wessex CLT Project found, in talking to community groups throughout Devon, Dorset and Somerset, that whilst communities wanted to take the lead in affordable housing developments through setting up CLTs, many preferred not to take the risks involved in taking full and sole responsibility such time-consuming and costly projects; especially in the post-2008 economic climate. The outcome has been the development of partnerships with a small number of receptive housing associations whereby the CLT becomes the freeholder and enters into a long-term lease with the association.

The landlord: tenant relationship has enabled the CLT to effectively commission their projects, to sign-up to the local lettings agreements and to receive an income, all without taking much risk. This model has attracted considerable support from local authorities and the Homes and Communities Agency; not least in the form of £4.5m of grant funding - some 30% of the national allocation to community-led schemes. The programme is due to achieve over 100 homes on community-owned land by March 2015.



A map of the locations of the CLTs the Wessex CLT Project is working with currently. A turquoise marker indicates an emerging project; a blue marker indicates a current project; a pink marker indicates a Parish Council led project.

Affordable homes on site in Hemyock; a partnership between Upper Culm CLT and Hastoe Housing.

For a Housing Association, the benefits of partnering with a CLT are both social and financial. One Housing Association reported the following benefits:

1. The empowerment of communities and provision of opportunities for people to learn and be involved. CLTs have the potential to provide great learning opportunities which may lead on to employment or training opportunities, which Housing Associations are keen to facilitate because this makes tenancies more sustainable

2. CLTs undertake the work of advocating the provision of affordable homes within the local community. This can be more challenging for a Housing Association negotiating with a community from the 'outside'. The advocacy frees the staff of the Housing Association from much of the initial, resource intensive work of community liaison.

3. CLTs have a great sense of ownership because local people have driven the process and achieved something tangible. This tends to result in much lower on-going management and maintenance costs for a Housing Association.

4. If a CLT were to take on full ownership of the housing scheme, this would have financial benefits for the Housing Association as it can then re-invest the receipt into the provision of even more homes. Housing Associations are used to the disposal of assets and re-investment through Right to Buy, shared ownership staircasing and active asset management strategies, so transferring ownership to a CLT is viewed no differently, particularly as CLTs represent only a small part of the stock of any Housing Association.

Objectives

The objectives of this project are:

- to conduct research into why community shares have not been used successfully by CLTs to date by interviewing (by phone and email) established CLTs who have chosen not to raise finance through community shares and also those CLTs who have attempted to raise finance through community shares

- to conduct an attitudinal survey (building on the findings of the interviews) with the twelve CLTs, four Housing Associations and two of the Local Authorities which WCLTP is currently working with, on how a community share model could fit into their projects and the current funding environment

- to analyse the findings of the research in the context of the ideological parallels between CLTs and a community share model and the fact that CLTs rarely use community shares in their finance packages

- to make recommendations on addressing the barriers to using community shares for CLTs

- to develop a model to test with the CLTs informed by the research findings – a solution brokered between the CLTs, Housing Associations and Local Authorities

Methodology

Wessex Community Assets has a broad understanding of the scale and depth of the CLT sector as it has been working with Community Land Trusts since its inception in 2004. It has also been involved in the emergence of the National CLT Network and is represented on the Board of the National CLT Network. Through the Wessex CLT Project it is working intensively with 11 active CLTs in the South West and a number of emerging ones. This has meant that it has been possible to make contact with, and have frank and open discussions with many CLT pioneers, practitioners and advisors.

Why not a Community Share Issue? – Established CLTs

An email request was sent out to five established CLTs for information on why they did not raise finance through a community share issue. The CLTs were asked the following questions:

- Did [name of CLT] consider raising finance through a community share issue at any point?
- What factors influenced the [name of CLT]'s decision against raising finance through community shares?
- Would [name of CLT] consider using community shares to finance any further project?
- What would CLTs need to seriously consider a community shares approach to part financing a housing project (considering resources, support, funding, anything else)?

Why not a Community Share Issue? - CLT Advisers

An email request was sent out to CLT Advisers involved with the National CLT Network advisers forum. The advisers were asked the following questions:

- Have you have worked with any CLTs that have chosen to raise finance by issuing community shares?
- If you have worked with a CLT which has raised finance through community shares do you think the share issue was successful?
- What factors led to the success, or lack of success, in your opinion?
- Why do you think some CLTs are not considering raising finance through issuing community shares?

CLTs that have Issued Community Shares

Three CLTs were identified as having carried out community share issues through Wessex Community Assets' specialist knowledge of the sector. One other CLT that had raised finance through a community share issue was identified but that CLT did not respond to requests for contact. Semi structured interviews were carried out over the telephone with board members of the three participating CLTs. See appendix 1 for the interview structure.

Attitudinal Survey with Housing Associations, Local Authorities and Active CLTs

One to one meetings were held with representatives of four Housing Associations and a Local Authority. Before the meetings a summary of the research findings to date was circulated to all meeting attendees. The discussion at the meetings focussed on presenting the findings of the research to date and asking openly for suggestions of how the barriers to CLTs raising finance through community shares could be addressed, making it clear that there was no expectation of commitment to an idea going forward to ensure that all ideas were brought forward. These open discussions have been possible mainly because of a relationship of trust, and an understanding of working towards mutual aims, that has developed between the Wessex CLT Project, Housing Associations and the Local Authority. Of the ideas that emerged, two Housing Associations have also provided follow up support in using financial modelling software to analyse the potential community shares models for CLTs.

A two hour focus group session was organised and all of the CLTs working with the Wessex CLT Project were invited to attend. Eleven people, representing five CLTs attended the session. The session commenced with a presentation to set the scene with some context on community share issues generally, an explanation of the research conducted to date and an outline of two prospective models. Following the presentation a set of questions were posed:

- Do you think local people would be prepared to invest in a local housing project?
- Do you think local people understand the social benefits of the CLT?
- Do you think it would be possible for the CLT to explain these business models to local people to help them to understand how secure their investment would be?
- What help (professional or otherwise) would the CLT need to have to do this?
- Do you think the CLT has the time and energy to put together a share offer document, promote this locally and administer the scheme (support would be available)?
- Do you think local people would be interested in investing in the CLT through a website (there is an online tool available called microgenius - www.microgenius.org.uk)?
- Would the benefits to using these models make them worth doing?
- What are the risks?
- How could these models be improved?

There was lively discussion as the CLTs addressed the questions – and raised questions of their own. See appendix 2 for the focus group hand out.

The development of a community shares model informed by discussions with Housing Associations, Local Authorities and CLTs is planned to be an iterative process, with each development/refinement of the model building on input from different stakeholders.

Limitations of the Research

It is recognised that CLTs are diverse organisations, all responding to the needs particular to their own community, with different business models, plans, and capacity and skills on their boards. In particular all of the CLTs participating in the attitudinal survey are working in partnership with a Housing Association. This is because the Wessex CLT Project offers specialist advice in the field of CLT and Housing Association partnerships. This has enabled the research to access a significant number of receptive CLTs to discuss barriers to community share issues for CLTs and potential models. However it also means that caution must be taken when applying the findings from this research to the whole sector, since what is true for one CLT may not be true for another. One reason that the CLTs would choose to work in partnership with a Housing Association is to minimise risk and demands on their own time and resources.

The research was inevitably qualitative rather than quantitative as the CLT sector is at a relatively early stage in its development.

Research Findings

Why not a Community Share Issue? – Established CLTs

Four established CLTs responded to an email request for information on why they did not raise finance through a community share issue. Six themes emerged from the responses:

1. **There was a lack of awareness of community shares.** Two of the CLTs responding did not even consider a community share issue as part of their finance package: *‘we did not consider this option as we were not aware it was applicable to our development’*.
2. **There was a lack of knowledge and/or professional support on community share issues.** One of the CLTs considered using community shares but discounted it as being too complicated and proceeded to ask for loans from local people instead: *‘we did the loan documentation and donation appeals ourselves but I don’t think we could have done this if it were a share issue and it all just seemed too complicated’*. Another CLT said: *‘funded external support for researching and setting up the prospectus would probably be the most helpful as it would remove some of the inherent risks that small organisations would face from this kind of exercise’*. It was felt that carrying out a community share issue would be a distraction from the main objective of the enterprise: *‘we decided that the initial costs both in terms of cash and our own limited time/volunteer resources meant that the risks were likely to outweigh the gains and might mean that we 'took our eye off the ball' as it were in terms of the wider project's needs’*.
3. **The scale of the project discouraged CLTs from using community shares**. Typically an affordable housing scheme involves raising sums greater than £1million in development finance. Two of the CLTs felt that the community would not be able to contribute enough to a project of this scale to make it worthwhile. One CLT said: *‘it is doubtful if our community had depth of pocket to materially influence, as funding required £1.4million’*, another said: *‘We did not think there would be sufficient financial support for such a share issue’.*
4. **There was availability of alternative sources of finance**. These alternative sources of finance are more frequently used in funding the development of affordable housing and more readily understood. They are a partnership with a Housing Association, loans from commercial lenders and sector specific lenders, and grants from the Homes and Communities Agency. One CLT said of a community share issue: *‘we would not consider it for housing. We prefer our partnership approach with a registered provider. (However, as government raises rent levels this may not provide affordable homes in communities where market house prices and rents are so high - so we may need a rethink in the*

future.)', another said: *'Our preference on housing would be other sources such as local government and commercial lenders'.*

5. **CLTs would issue community shares in the future.** Three CLTs claimed that they would use a community share issue to raise finance in the future, although, in the case of two CLTs, not for housing, but for a smaller project – e.g. to raise finance for a pub. The CLT that did not say that it would consider issuing community shares in the future had already successfully raised community finance through loans.

6. **CLTs need to see where community shares have been used successfully.** Two CLTs indicated that they would like models to follow - to see model community shares documentation, and examples of where community shares have been used successfully by CLTs: '*information regarding other successful schemes; and information on the types of scheme where this approach has already been successful e.g. housing, workspace, community facilities etc.'*

Why not a Community Share Issue? - CLT Advisers

Five specialist CLT advisers responded to an email request for information. One adviser who responded had been involved with a CLT which had raised finance through a community share issue, but had not advised them on the share issue itself (a legal professional had been engaged by the CLT to advise on the share issue). None of the other respondents had directly worked with CLTs issuing community shares. The CLT advisers mainly raised issues highlighting the barriers to issuing community shares for CLTs, five further themes emerged which are inter-related with the themes emerging from the feedback from established CLTs:

1. **CLTs need to be confident to carry out a community share issue**. Two advisers mentioned the need for confidence; one had worked with a CLT which had been successful in a community share issue: *'it requires a degree of confidence.'* Another felt that CLTs were not generally confident: '*Communities are daunted by the work involved in creating new community organisations from scratch'.*

2. **Knowledge and/or informed professional support is required.** An adviser who had worked with a group successfully issuing community shares attributed knowledge and advice (from within and outside of the CLT group) to its success: *'Getting a steer from me and a link to [the CLT's solicitor] who ensured it was legal… And one of their directors who is a retired solicitor who contributed.'* Another adviser emphasised CLTs need for models and advice when asked about reasons why CLTs were not using community share issues: *'people wanting to rely on tried and tested methods due to people's natural caution about being innovative… the caution amongst professional advisers, especially legal advisers, who communities will always put on a pedestal due to their fear of being sued.'* One adviser highlighted the fact that raising finance through a community share

issue was a significant other job to do with associated costs. Another that groups wish to keep things simple.

3. **Housing can be contentious**. Unlike some other community projects, such as a community shop or pub, housing can create divisions within communities and have a greater number of objectors. One advisor links contention in the development of affordable housing to the issue of confidence: *'Fundamentally, they lack confidence… caution reinforced by the responsibility they feel in seeking to be representative in all that they do and/or in the knowledge all the time that they are open to challenge in their community especially from those who were/are against what the group is seeking to achieve'.*

4. **The perception of some stakeholders in a CLT project**. For some important stakeholders in CLT developments (for example the local planning authority) there are clearly recognised routes to delivering affordable housing for local people. Doing this through a CLT can be a contentious issue in itself for some stakeholders, and doing this using a community share issue would add another level on unconventionality to a project: '*there was some nervousness that the local authorities and other partners involved in the projects would think that CLTs were even more 'odd' than they already thought they were, at least in relation to their housing activities'.* It was also felt that the uncertainty over whether the community share issue would be successful could cause problems: *'in the tight timescale of partnership projects with mainstream house builders and housing associations, then the uncertainty of a successful outcome to the share issue, is another complicating factor in determining pricing levels for CLT homes.'*

5. **Focussing on other methods of achieving affordability.** It was felt by one advisor that using a community share issue to achieve affordability for the CLT homes would be ignoring the real problem of over inflated land prices: *'we have concentrated… on forcing down land price as the means of securing the right level of affordability, and this has been successful so far… anything that dilutes the pressure to drive land price down is, in a sense, letting the problem off the hook!'*

CLTs that have Issued Community Shares

Three CLTs were interviewed that have raised community finance. Two were successful in reaching their target, raising £60,000 and £175,000 respectively, one did not meet its target, it raised £36,000 before returning investments to members. The CLT that successfully raised £60,000 offered no interest on the investment, only a social return, and the investors were mainly local people. The CLT that managed to raise £175,000 offered a 5% financial return to a wider group of investors (than mainly local people) – offering a higher rate of interest will be a significant contributing factor to being able to raise a higher sum. One that was successful in meeting its target did not continue with the project because by the time the finances had been assembled the property that was due to be purchased was sold to another buyer - the CLT felt that one of the lenders took too long to make a negative decision rather than the community shares element taking too long. All three CLTs said that they would recommend raising finance through community share issue to other CLTs, even despite the fact that one CLT failed to meet its target – the community share issue mechanism itself was not deemed to be the reason for the failure. Five themes emerged from the interviews:

1. **The importance of leverage**. For two of the CLTs having share capital as an asset on their balance sheet was vital in terms of leveraging in loan finance. It was felt that without the share capital the lenders, who were lending 70% of the development finance in both cases, would have refused to lend. Both CLTs understood that the share capital was a necessary part of the finance mix.

2. **The importance of team work.** One of the CLTs attributed success to the way that their board members were a cross section of the local community which they were deeply embedded in. This CLT issued the shares itself (rather than establishing a separate legal entity for the share issue), the board shared the work, and community shares were part of the plan from the outset. This contrasts against the experience of a less successful community share issue, where the CLT had to set up a separate legal entity to issue the shares (which it believed confused people), and most of the work fell upon one person who was not convinced of the viability of a community share issue in the outset.

3. **The importance of knowledge and advisers**. The two CLTs successful in issuing community shares contained relevant professional advisers on their boards (a solicitor and a social enterprise advisor). One contracted additional advice too (legal advice and advice from a co-operative development body). The CLT which failed to reach its target did not contract advisers beyond the initial establishment of a legal entity and had no relevant professional skill on their board. One CLT said that it would be useful to have sector specific guidance on issuing community shares for CLTs, e.g. a handbook.

4. **The importance of membership.** Of the CLTs and their advisers involved in this research who did not issue community shares, none mentioned member development, despite CLTs being inherently democratic structures controlled by the local community. One CLT successfully issuing community shares stated that they wanted the community to be part of the solution from the outset, shares in this CLT were held by local people. Another CLT successfully issuing community shares found benefits from having a committed membership despite only 20% of the members coming from the local area. For this CLT, the number of members attending their AGM was a disappointment, but they stated that a benefit of using community shares for them was having a large number of supportive people involved who were prepared to invest flexibly. In contrast, the CLT which did not reach its target set up a separate community benefit society to issue community shares and found that prospective members became confused by this,

the CLT found it hard to explain the relationship between the two entities – although one of the reasons they issued shares was to increase community participation in the project.

5. **The importance of social return and communicating the social benefits.** Returning to the point of housing being a contentious issue, one CLT successfully issuing community shares attributed success partially to a wide understanding within the community of the need for affordable homes for local people. The issue was readily understood by this community. This was not the case for the CLT which did not reach its target, this CLT had difficulties explaining the community share issue and directly resulting social benefits to the community.

Attitudinal Survey with Housing Associations, Local Authorities and Active CLTs

Two detailed models emerged from the meetings with the four Housing Associations. The starting point for the discussion was to broker a community shares model that would provide more for the community, increase member involvement and engagement in the CLT, offer greater autonomy and control for the CLT, and offer leverage for bringing in loan finance if necessary. From the Housing Association's perspective it was important that any solution brokered was cost neutral to them – i.e. that the addition of the community shares element to the project did not mean that the project was more expensive for them to deliver.

Model 1 – Raising Community Finance for the Land Purchase

- The CLT raises finance through a community share issue to purchase the land. For example £80,000.
- The CLT then enters into an arrangement with a Housing Association as in current CLT/Housing Association partnerships (where the Housing Association brings the development finance, builds the homes and selects tenants for them based on the allocation criteria developed in partnership with the CLT and Local Authority).
- The Housing Association recognises that the CLT is paying for the land acquisition by paying the CLT a higher ground rent.
- The ground rent would comprise:
    a) Capital repayments (the £80,000) – so investor/members could at some point withdraw their investment
    b) The interest that the CLT would pay annually to investor/members. This should not be a generous dividend but should provide compensation to the investor/member for being apart from their money. It could be 2 or 3%.
    c) An income stream for the CLT to cover its costs and to spend on community projects. This might equate to double the ground rent that is currently being paid to CLTs by Housing Associations (currently £4 a week per unit).

A model of how this could work in practice is set out in appendix 3.

Model 2 – The CLT Buying the Scheme from the Housing Association

- The CLT agrees to work in partnership with a Housing Association as in the current partnership agreement, but plans to 'buy out' the Housing Association (at cost) by raising its own finance and contract with a Housing Association for management of the homes. There would be a break clause in the contract between the CLT and the Housing Association (currently some Housing Associations in partnerships with CLTs accept break clauses in contracts and some do not).
- The finance required would be raised through grants, loans and community shares.
- The CLT would need to register as an RP (registered provider - essentially a Housing Association itself) if it owns homes which have been funded by Homes and Communities Agency grant.
- A variation on this model would be the CLT raising its own development finance to buy a proportion of the scheme (say 30%) or even to staircase to full ownership
- The rents being paid to the CLT by the tenants/shared owners would pay for the management services and service loans and interest payments on shares, as well as providing towards a fund for repayment of share capital to investor/members over the years.
- When the debt has been repaid the income from the rents after management services have been paid will belong to the CLT to use on community projects.
- The CLT has greater control over the land and homes.

The focus group with CLTs further refined the development of these models. Findings were:

1. **Need to 'keep powder dry' for other projects.** Because there are alternative sources of finance available for CLT led housing projects there was a concern that using money raised from the community on a housing project would mean that there was less available for other projects. It was felt that local capacity to invest was finite and, since most CLTs plan to carry out other projects in the future, it might be more sensible for CLTs to save raising local investment for projects where alternative sources of finance are not available, in particular if something local needed 'rescuing'.

2. **The potential of cross subsidy.** It was also recognised that generating surpluses from activities with a good prospect of financial return (such as housing) could cross subsidise less profitable activities – the harder ones to attract funding into.

3. **Other kinds of housing.** Community shares could be more relevant for the purchase and renovation of existing housing, or sheltered housing - housing that housing associations can't fund.

4. **Too much risk.** One CLT thought that the responsibility of managing large amounts of members' money would hold them back from carrying out a community share issue – that there would be too much responsibility involved.

5. **Housing is not attractive.** It was felt that it would be easier to raise finance for a pub rather than a housing project, even if the financial return was lower or less secure. There can be a perception that affordable housing benefits a small number of people – specifically, the residents – whereas shops, pubs and the generation of renewable energy benefit everyone. The choice of site would also be relevant, if it was controversial then it would be difficult to raise investment for.

6. **But the social benefits are beginning to be understood.** Local community members didn't understand the social benefits of the housing projects before, but now that homes are on site and the project has progressed it was felt that they do. It has been difficult for the CLTs to communicate that the homes being developed are for local people.

7. **Size of community matters.** CLTs often operate in small communities and it was felt that some communities were just too small to be able to raise significant amounts of capital from. Other communities would be of a scale to do this though. One CLT felt that it was too small, and as a rural community wealth was tied up in assets and that people did not have money to invest – although there were pockets of affluence.

7. **Support will be required**. Special advisers such as the Wessex CLT project, accountancy support, 'sales' and marketing support (to communicate the benefits) and legal support. This support could be found within the CLT's membership or paid for as an external service. Resources such as case studies and flow charts to support considering different options would be useful. It would also be useful to join with other CLTs for mutual support, to share information and to work together to achieve economies of scale on purchasing products and services connected to raising community share capital.

8. **Lack of time and energy is not the biggest barrier**. Some CLTs felt that they would have the time and energy to put together a share offer document, promote it locally and administer the scheme, others did not.

9. **Online tools are useful if secure**. Sophisticated investors will probably be used to managing shares and bonds online. Rural broadband is problematic so the online tool would probably not be the main method of investing for the average local community investor.

10. **The financial return on Model 1 is too small**. The increased ground rent was seen to be not enough to make a community share issue worth carrying out given the amount of effort that is likely to be involved.

11. **Model 2 has more benefits**. The income from tenants paying rent is not insubstantial. In one community the Parish Council own two flats and the surplus on this income from this amounts to about £10,000 a year that can be reinvested into community projects. A community share issue may become a necessity if a community is seeking to raise the finance to buy the scheme (or a proportion of the scheme) from the Housing Association because mainstream lenders will usually only lend up to 70% of the required finance.

12. **Housing is expensive and there are tried and tested methods of funding it.** Even a small housing project of 6 homes can cost over £750,000. Communities can see this as a formidable target, even if only part of the total is being sought.

Conclusions

Some themes weave through much of this research. These are lack of confidence – or the requirement to build confidence; the need for specialist support; the challenge of the scale of the project – how local people can make an impact on a project costing upwards of £1million; and the issue of need – where it is necessary to raise finance through community shares then the community group can engage with this method of financing, but where there is no necessity, i.e. if alternative sources of finance are available, the CLT favours a more readily available and well understood form of finance (such as a loan secured on the properties).

The models developed attempt to address the barriers identified. They aim to mitigate risk to address low levels of confidence. They are secure in terms of an investment for the individual member/investor and the CLT as they rely on the stability provided by the Housing Association, who have a large number of units in their management and can manage any risks implicit in letting homes (e.g. being unable to let homes or sell shared ownership homes). The models attempt to be clear and simple so not to make the project seem complicated to community members or other stakeholders. That the models have the support of Housing Associations and Local Authorities, as well as the Wessex CLT Project, will engender confidence in the model.

The models partly address the issue of needing professional support to carry out a community share issue as they would be using a template developed by this research project. This research has also raised awareness of support available for community share issues from Wessex Community Assets, the Community Shares Unit, and other sources. It is clear from the research findings that CLTs attempting to raise finance through a community share issue will be more successful if they are supported by professional advisers, and many would not contemplate a community share issue without an advisor in place.

The models also address the CLTs' concerns about the scale of the project being a deterrent since they allow the CLT and its members to invest at an appropriate level to the size of the community. This is either the cost of the land in model 1, or proportions of the cost of the scheme in model 2.

The findings from the CLT focus group indicate that, even with these barriers addressed through the models, CLTs currently do not have enough confidence to embark on a community share issue to part finance their housing project. CLTs do not feel they have the knowledge and skills to undertake a share issue, and examples of CLTs that have done this are not readily available. CLTs need to see a replicable proof of concept. This can be provided by working with pilot projects to develop processes and best practice, and to demonstrate how a community share issue can work for a CLT. Also, case studies and information about CLTs that have raised finance already through community share issue can be developed and disseminated more widely throughout the sector. Specialist support services for CLTs seeking to explore a community shares element to financing their project can be made available through the national CLT Network, and this would ensure that CLTs nationally would be aware of the possibilities of community shares, and would know where to get support and advice.

The models do not address the contentiousness, or perceived relative unpopularity of a housing project in comparison to other kinds of community led project. A fundamental part of being a CLT is developing affordable homes for local people, something that is perceived as being contentious within communities and so any model will need to address this. Whether this perceived unpopularity has a basis in fact is yet to be proven and the CLT sector must address this. This could mean that, for the average community, it is unlikely that a community share issue for housing will receive the same level of community engagement as a share issue for a community pub or shop might. The research did highlight the need for CLTs and those connected to CLTs to raise levels of understanding of the social benefits of CLT housing, in particular the message that homes are being developed for local people. This message is hard for the general public to understand and accept until physical evidence is available, i.e. local people moving into well designed homes in the community. The CLT sector is still maturing and once there are more examples of CLTs meeting need in their community, the task of communicating the benefits of CLTs will become easier.

The models do not address that many CLTs are focusing on achieving affordability in other ways, e.g. through campaigning for lower land prices through asset transfer or other means. This can be viewed as positive as it means that there are options for the CLT to consider when making a business plan, and it does not preclude community shares from being part of a finance mix alongside lower land prices, accessing grant finance, and any other methods of achieving affordability.

The availability of alternative sources of finance – the issue that there is often no necessity for a community share issue - is also not addressed by the development of these models, although if a CLT chooses to buy the scheme from the Housing Association, as in model 2, then it would probably be necessary to assemble a variety of different forms of finance. The availability of other sources of finance should be seen as positive as it means that CLTs can choose the method most appropriate for their project. There will be some housing projects, though, that are difficult to raise development finance for - particularly schemes that do not qualify for Homes and Communities Agency grant funding. These could be self-build homes or the renovation of existing buildings. It could be that a community shares approach to finance is more appropriate for these kinds of project given the difficulty of sourcing mainstream loan and grant finance.

In many instances of community groups raising significant sums through a community share issue a main motivation can be seen to be necessity (e.g. a pub that needs saving, or the village shop that is about to close). If there is no necessity then a community group would need to look at the wider benefits of a community share issue and take a strategic approach to its own sustainability as an organisation and the sustainability of the community it is operating in – i.e. does the future income stream to the CLT mean that it is worth the effort of raising the community share capital? This move towards strategic thinking does not seem to be a natural step for community groups that are focussed on activities and reliant on volunteer effort. CLTs can be supported to think about the wider benefits of raising community share capital by the process being made to seem more simple through the development of resources and the offering of specialist support, and confidence can be engendered through seeing and talking to other CLTs that have raised finance through issuing community shares.

The value of a community shares approach in developing an engaged and committed membership is only raised in the feedback from CLTs that have already raised community share capital. This could be indicative that CLTs are focussing on their activities rather than organisational development, or possibly because of the identified barrier that housing is not attractive (it is easier to get members for a village shop or pub). However, the issue of member engagement should not be dismissed since all CLTs wish for broad membership across the community. Providing a solid investment opportunity with social and financial return could be an encouragement to members, and would then engage the member in the activities of the CLT.

Previous research (Community Investor Research, September 2010, by Wessex Community Assets[ii]) suggests that local community investors are motivated by a high social return rather than a financial one, whereas social and ethical investors (who are not local to the community) are motivated by a balance between the social and financial return. This means that although a financially robust, reasonably secure investment proposition has been developed for CLTs to use (models 1 and 2), this may not motivate local people to invest. The research findings support this concern. However, the wider social and ethical investment community may be motivated to invest in CLTs. Local community members are primarily interested in social return. The findings from the CLT focus group are that CLTs perceive that the social return to the community from the housing project will not be valued as highly by local people as a community project such as a shop, pub or orchard. This could be a matter of perception only and that once a CLT is able to demonstrate the social benefits of the affordable housing it develops, then the perceived social return is higher – so the potential for a successful community share offer is greater.

It could be that social return is perceived in terms of tangible immediate benefit to the member/investor – most people in a community could buy supplies from the community shop, have a drink in the community pub, or pick apples in a community orchard, but a much smaller number will directly benefit immediately from the housing development (except in some exceptional circumstances, e.g. the local school is saved from closure by more children being able to stay in the community due to their families being housed). This would mean that the social return of a housing project may always be seen as lower than the social return of other kinds of project to a proportion of the community. This does present an opportunity for developing an investment offering aimed at social and ethical investors but still providing a return to the CLT. This could be done through a fund which could be set up to manage investments into a number of CLTs. Both models 1 and 2 are financially robust business models and could offer social and ethical investors a reasonably secure investment that is also ethically sound. The model could be similar to model 1 but with investments being gathered by a fund, invested into several CLTs to pay for land purchases, and the Housing Association partner then paying the CLT a higher ground rent that can provide an income stream for the CLT to invest in the community, and an income stream that can repay the fund the capital to enable it to honour withdrawal requests, pay investors interest, and cover the running costs of the fund.

Another finding from CLTs that had successfully issued community shares is that it is important to work as a team if taking this approach to financing. This should be reflected on in general work to support good governance of CLTs, and any support and resources designed for CLTs raising community share finance.

Recommendations

Below is a table of the barriers found to be preventing CLTs from using community shares to finance their schemes:

Barrier	***Conclusion/Recommendation***
Lack of awareness	For advisers to work with CLTs to raise awareness; develop and disseminate case studies and other materials on CLTs which have successfully raised community shares
Lack of knowledge/professional support	To design and develop expertise in community share issues alongside other support services that are specific to the CLT sector and promote these from within the sector
A housing project is too big to consider for community shares	To explore and, if successful, promote models where CLTs are able to acquire a proportion of the housing project rather than seeking finance for the entire scheme
There are other sources of finance available	To demonstrate the added value of combining a community share issue with existing sources of finance
Lack of confidence/ risk adversity	To encourage CLTs that have already developed confidence and a track record (perhaps on a second project) to consider community shares; to explore community share models that minimise risk (e.g. where tranches of ownership can be purchased post-development and at a pace to suit the CLT)
Housing is too contentious	To work with communities and the CLT generally sector to demonstrate the added value of a community share issue on a housing project
The negative perception of other stakeholders	To provide evidence of CLTs successfully issuing community shares; for advisers to work closely with other stakeholders to ensure they understand the process
Focus on other methods of achieving affordability	This can be done in parallel to work promoting the use of community shares for CLTs

Based on the research findings the following recommendations are made:

- A comprehensive support package to be offered to a pilot CLT with the aim of trialling a community shares approach as part of a broader finance package also including grants, loans, and possibly finance brought by a Housing Association. The package will be designed to identify and address the barriers identified by this research; thereby assuring potential pilot community of the carefully thought out and supportive nature of the initiative. If it is successful, the learning from the pilot project will be disseminated through the National CLT Network.
- To develop and disseminate case studies and presentations on the experience of any existing CLTs that have successfully issued shares and on the process of raising finance through a community share issue.
- To use the pilot project, if successful, to design, develop and promote support services and resources on community share issues that are specific to the CLT sector that can be made available through the National CLT Network. This could include a community shares module in CLT training, community shares workshops at sector specific events, and a directory of specialist advisors that can support CLTs in this area of financing.
- For the CLT sector to improve messages about the social benefits of CLTs by publishing case studies detailing the outcomes from CLT led housing (i.e. local people being able to remain in the community they feel connected to); work with local authorities to ensure that a consistent message is delivered to communities about CLT homes being for local people; the National CLT Network to provide training for CLTs and CLT advisors in media, marketing and communications; to provide CLTs with evidence based information on the public's perception of affordable housing in rural areas for local people to counteract perceptions of community led housing being more unpopular that other forms of community enterprise.

References

[i] Page 2: 'Home Truths 2012: South West' – National Housing Federation:
http://www.housing.org.uk/publications/browse/home-truths-2012-south-west

[ii] Page 17: 'Community Investor Research' September 2010 - Alison Ward, Lorna Turner, Paul Sander-Jackson and Sean Wheeldon, Wessex Community Assets:
http://communityshares.org.uk/sites/default/files/resources/wca_community_investor_research_final_report_30_09_10_1.pdf

Appendices

Appendix 1: Semi Structured Interview

Community Shares and Community Land Trusts Research 2013
Semi-Structured Telephone Interview

Thank you for agreeing to participate in this interview, it should take approximately twenty minutes. All feedback will be kept anonymous. Wessex Community Assets has been commissioned by the Community Shares Unit to carry out some research into the experience some CLTs have had raising finance through a community share issue. The purpose of the research is to understand why CLTs choose to raise finance through issuing community shares, why some do not choose to raise finance this way, and what could be done to make the job of raising finance through community share issue easier. Please feel free to ask any questions you might have at any point during the interview. I will not be recording the interview but I will be making notes.

Why the CLT chose to raise finance through a community share issue

1. If your CLT raised finance via a community share issue, why did it decide to do this?
   - What were the most important motivations?
   - Were there any initial reservations?
2. How was the target sum chosen?
   - Did you revise down the target sum, or up, at any point?
3. How does this fit into the wider 'cocktail' of finance required for your project?
4. How much was raised in the end?
   - Do you think if the target sum was different more could have been raised?
   - Did the amount raised meet expectations?
   - If not, why not?
5. Did you get any help (e.g. solicitors, other advisors)?

Why people invested

6. How was the share offer marketed?
   - What did local people think of the community share offer?
   - Do you think if it was marketed differently more or less could have been raised?
   - Are the majority of investors local people or people from further afield?
   - Can investors withdraw their shareholding?
   - Is there any interest payable?
   - What security is available for investors?

Learning from experience

7. What are the benefits of raising finance this way from your experience?
8. What are the negative aspects of raising finance this way from your experience?
9. Would you recommend any other group raise finance though a community share issue?
   - What conditions do you think need to be in place to make a community share issue successful
10. Any other comments?

Appendix 2: Focus Group Handout

Community Shares for CLTs

What is stopping CLTs from raising finance through a community share issue?

- Lack of awareness
- Lack of knowledge and professional support
- Housing project seems too big
- Other finance is more easily available
- Haven't seen examples of community share issues working for CLTs elsewhere
- CLT not feeling confident enough
- Communities too divided over housing
- Makes the CLT look too unusual to others (e.g. local authority)
- CLTs have been concentrating on other methods of making their projects happen

How could a community share issue provide more for CLTs working with the Wessex CLT Project?

- Greater income stream to reinvest into community projects
- Greater member involvement and engagement
- More autonomy and control
- Community share capital could act as leverage for loan finance where needed

How could a community share issue work for a CLT working with the Wessex CLT Project?

Two potential models are emerging from this research that could be supported by the Wessex CLT Project and the partner Housing Associations.

Model 1 – Raising Community Finance for the Land Purchase

- The CLT raises finance through a community share issue to purchase the land. For example £80,000.
- The CLT then enters into an arrangement with a Housing Association as in current CLT/RP partnerships.
- The Housing Association recognises that the CLT is paying for the land acquisition by paying the CLT a higher ground rent.
- The ground rent would comprise:
    a) Capital repayments (the £80,000) – so investor/members could at some point withdraw their investment
    b) The interest that the CLT would pay annually to investor/members. This should not be a generous dividend but should provide compensation to the investor/member for being apart from their money. It could be 2 or 3%.
    c) An income stream for the CLT to cover its costs and to spend on community projects. This might equate to double the ground rent that is currently being paid to CLTs by Housing Associations.

Model 2 – The CLT buying the scheme from the Housing Association

- The CLT agrees to work in partnership with a Housing Association as in the current partnership agreement, but plans to 'buy out' the Housing Association (at cost) by raising its own finance and contract with a Housing Association for management of the homes.
- The finance required would be raised through grants, loans and community shares.
- The CLT would need to register as an RP (essentially a Housing Association itself) if it owns homes which have been funded by HCA grant.
- A variation on this model would the CLT raising its own development finance to buy a proportion of the scheme (say 30%).
- The rents being paid to the CLT by the tenants/shared owners would pay for the management services and service loans and interest payments on shares, as well as providing towards a fund for repayment of share capital to investor/members over the years.
- When the debt has been repaid the income from the rents after management services have been paid will belong to the CLT to use on community projects.
- The CLT has greater control over the land and homes.

Questions:

- Do you think local people would be prepared to invest in a local housing project?
- Do you think local people understand the social benefits of the CLT?
- Do you think it would be possible for the CLT to explain these business models to local people to help them to understand how secure their investment would be?
- What help (professional or otherwise) would the CLT need to have to do this?
- Do you think the CLT has the time and energy to put together a share offer document, promote this locally and administer the scheme (support would be available)?
- Do you think local people would be interested in investing the CLT through a website (there is an online tool available called microgenius)?
- Would the benefits to using these models make them worth doing?
- What are the risks?
- How could these models be improved?

Appendix 3: Community Share Issue Modelling

Community Share Modelling				
Basic Assumptions:				
1	Rural development of 8 affordable homes for rent			
2	Total scheme cost just less than £1m			
3	Land value is £80,000			
4	Subsidy equivalent to £51k per home (i.e. as grant or a combination of grant and additional borrowing from conversions)			
5	WCLTP's fees are 3% of acquisition and works			
6	Ground rent is £4 per week per home			
7	Uses HA's standard development appraisal assumptions			
Financial Assumptions:				
8	Weighted Average Cost of Capital over 30 years for £80,000 is 6.24%			
9	Split of 6.24%:	2% for investors = £1,600 per annum		
		3% for future community projects - £2,400 per annum		
		1.24% to create repayment pot = £992 per annum		
	Base Case (A)	**B**	**C**	**D**
	Land purchase	**30 years repayment**	**15 years repayment**	**No land purchase**
Payback Year	19	19	22	18
Internal Rate of Return	8.72%	8.60%	7.92%	9.02%
Net Present Value	£76,551	£57,526	£13,760	£84,912
	Assumes HA pay £80,000 for land	No land purchase	No land purchase	No land purchase
	All assumptions as per basic assumptions	Assume capital repayment in 30 years so 2% for investors, 3% for future community projects and 3.3% for capital pot	Assume capital repayment in 15 years so 2% for investors, 3% for future community projects and 6.6% for capital pot	Ground rent increased by £624 per home per year to allow for the financial assumptions