CHAPTER 5

Making it stack up

‘The Trust has galvanised the community. We’ve sent a clear message that if there are things to be done then we can get on with it and do it ourselves’

Tom Johnston, Director, Glendale Gateway Trust

CASE STUDY

Making it stack up: Lyvennet Community Trust

Lyvennet Community Trust was formed in 2008. In July 2012 it completed the development of 20 homes, including 8 self-build properties. More details of the scheme are available in the Introduction to this handbook. The funding cocktail used by the Trust will be typical for many CLTs, and is outlined below.

1 Early feasibility work

Lyvennet Community Trust used grant funding to accomplish two key preliminary steps: registration of Lyvennet Community Trust as a company, and establishing a business plan. Company registration, in January 2009, cost £1,000 and was covered by a grant from the local parish council. Support for the development of this business plan, a key document used throughout the project with grant funders, banks and the local community, was provided by a grant from the CLT Fund Technical Assistance Fund.

2 Pre-development work

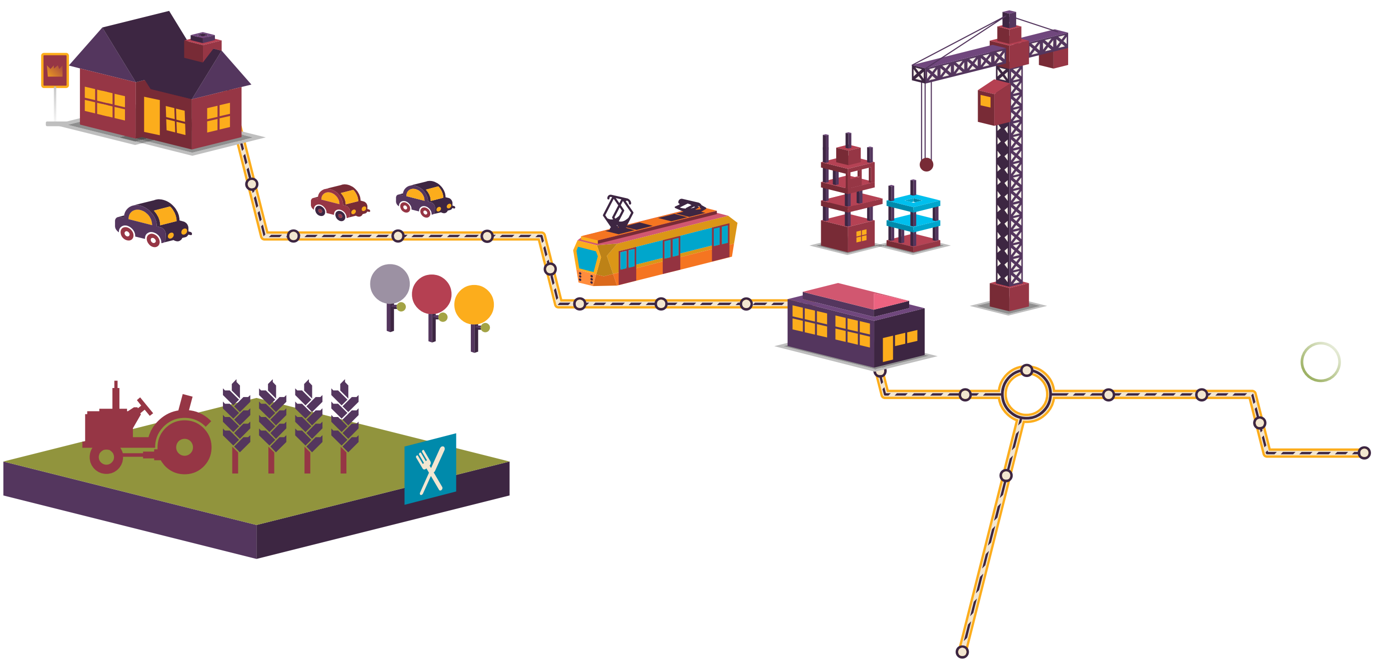
The Trust used loan finance from the CLT Fund and the local authority to cover pre-development work, as outlined below. Site purchase and full planning was funded by the CLT Fund Investment Fund.

COSTS		FUNDING
Predevelopement		
Initial site layout and design by architect	£26,100	£30,000 – CLT Fund Pre-Development Investment Fund loan. March 2010 £30,000 – Eden District Council loan. April 2010. (This was subsequently commuted to a 50:50 loan-grant arrangement)
Asbestos, topographical, bat and ecological surveys on site	£5,100	
Site valuation	£3,200	
Technical support with Tenant Services Authority and HCA applications	£4,400	
Planning application	£4,200	
Legal work associated with obtaining charitable status	£3,500	
Site development work, including the services of an Independent Financial Verifier	£3,500	
Charity Bank fees: 1% arrangement fee on initial £1m mortgage and loan	£10,000	
Site purchase and full planning		
Site purchase	£252,000	£300,000 CLT Fund Investment loan (Charities Aid Foundation). December 2010
Full scheme design by architect	£33,000	
Initial input from design engineer	£11,500	
Legal fees associated with site purchases	£3,500	
Total cost	**£360,000**	**Total funding: £360,000**

3 Development of the scheme

The build costs of the Trust's scheme were funded by a mix of grant and loan finance, as well as some cross-subsidy of the affordable housing units using the proceeds of sale of other units.

COSTS		FUNDING	
Build costs	**£1,345,000**	**Bridging finance loan – Charity Bank. March 2011**	**£975,000**
Loan repayments	**£345,000**		
Professional services	**£182,600**		
• Architect	£65,400	**HCA National Affordable Housing Project Grant (50% payment on start on site and 50% on completion). March 2011**	**£660,000**
• Design engineer	£50,200		
• Quantity surveyor	£40,800	**Cross-subsidy proceeds from sale of initial self-build plots. May 2012**	**£10,000**
• Planning and regulation fees	£10,300	**Income from two shared ownership properties**	**£195,000**
• Accountants	£5,400	**Big Society grant**	**£32,000**
• Code assessor and waste plan	£4,700	**Community fundraising**	**£8,000**
Interest charges	**£108,000**	**Community fundraising**	**£8,000**
Contamination reports and remediation	**£24,000**	**Rental income**	**£500,000**
Repayment of bridging finance	**£975,000**		
Total costs	**£2,949,800**	**Total funding**	**£2,980,000**
		Total surplus	**£30,200**



5.1 Project feasibility

At the outset it is critical that a community group develops an understanding of how a project is going to deliver on the aims of the group, the costs of the project, and also some of the other hurdles they may have to overcome to achieve their aims. There is little point in pursuing a hopeless cause with relentless optimism. A balanced view and a pragmatic approach will quickly reveal what chance a project has of success. It is also critically important that a group is aware of what is needed to run and maintain the project when it is complete – these are long term projects that have to be sustainable well into the future. What is needed is a feasibility study.

A feasibility study is a piece of research that demonstrates whether or not a project is:

- **needed and desirable**
- **possible to achieve**

The first thing to establish is a clear definition of what the project is intending to achieve – an agreed set of project objectives.

A preliminary feasibility assessment may then quickly reveal whether these objectives are likely to be achievable. This preliminary feasibility assessment can help show at a high level how the objectives can be achieved and how the project will operate.

Groups may already have in their midst all the skills and expertise they need to gather the information for this preliminary assessment, or they might need to seek additional support. For some groups finding things out themselves has the added benefit of building skills, knowledge and confidence from the start.

If this **preliminary feasibility study** suggests that the project is viable, a more **detailed feasibility study** is likely to be needed to provide professionally verified market information and accurate estimates of all costs and income. This will help provide a route map to securing funding and implementing the project. At this detailed stage significant resources may be needed in order to appoint professional advisers.

Agreed set of objectives

For any project to be a success, everyone involved in it needs to know what they are doing and why they are doing it.

Objectives may be developed and agreed through a process of community involvement (see Chapter 2: Starting out), or developed by an authorised committee on behalf of the community. At the start objectives may be general: for example, “to encourage young people to stay in the area” or “to grow more food locally”; or they may be more specific: say, “within 3 years to build 2 two-bedroom homes that are affordable to local young people earning local wages” or “to develop a community allotment where local people can start growing their own food by the next growing season”.

It is important that the objectives are focused enough for it to be clear what action needs to taken and when.

Preliminary feasibility study

A preliminary feasibility study is usually only carried out once a project is clearly defined, with a site or location identified and an authorised steering group in place to take the project forward. Of course, if the group has the skills to carry out this task themselves, or access to relevant resources, they may choose to carry it out earlier in order to prevent wasted time or resource later down the line. The steering group should then report findings back to the board/community to ensure that all parties are involved in and understand the position of the project.

The feasibility study needs to test the following key questions:

- Is the project 'do-able' (taking into account any potential restrictions and restraints such as time or resources)
- Are there any immediate barriers to progress or any obvious risks? Can they be overcome?
- Can the project be sustained over the necessary timescales?

This sort of study will involve collecting background information and assessing a range of issues. The level of detail required will depend on the stage the project has reached, availability of resources and information. However, it should be as comprehensive as is reasonably possible in the circumstances as the more thorough the study, the better chance that unexpected future problems can be avoided.

In reviewing a new site the kind of questions that should be asked include:

- Is this the best location for the proposed purpose and objectives?
- What is the availability of local facilities, such as local shops, schools, play facilities, doctor's surgery or other healthcare facilities, employment opportunities, public transport and leisure facilities?
- Is the site available? Who owns it and are they willing to sell or lease it? Are there any restrictive covenants that restrict its use for the intended purpose?
- Does the site have capacity for what will go on it? Does it have the right physical characteristics in terms of its size and shape and slope? Is it overlooked by neighbours?
- Is the site accessible?
- Given that planning permission is likely to be needed for the site, then what planning policies are relevant to the location and site? Does the proposed project fall within them?
- Are there any environmental issues? e.g. habitats for protected species.
- Does the local community support the project?
- What is the monetary value of the site?
- What is the likely cost of developing the site, including land price, potential remedial work, build costs, fees and other on costs?
- What are the likely running costs of the project likely to be into the future? Are they sustainable?
- Is the community organisation taking on the project capable of taking it forward? Or will they be in future?
- Where might you go for additional help and support?

This preliminary feasibility study may reveal that the original objectives cannot be achieved within a reasonable cost or timescale, but that with some changes it still might be possible to deliver it. This information may need to be referred back to the community or governing body for a decision on how to proceed. Even if the initial study is positive, it is worth reviewing the objectives again to ensure the detailed feasibility covers everything needed to make informed decisions.

Keswick CLT appoint their architect. Courtesy of Keswick CLT

Detailed feasibility study

If the preliminary assessment indicates that a project is worth taking forward a more detailed appraisal will be required, particularly for larger and more complex projects. This is necessary both to get professional verification of preliminary findings and also to explore key issues in detail.

The detailed information gathered and presented in a feasibility study report helps to:

- List in detail all the things needed to make the project work (including their costs)
- Identify any logistical problems and other problems and the solutions
- Develop strategies to convince a bank or other investors that your scheme is worth considering as an investment
- Serve as a solid foundation for developing a **business plan** that will show how the CLT and the project are sustainable into the future.

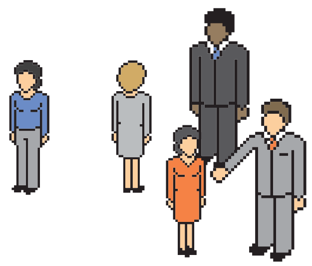
A feasibility study report should contain comprehensive, detailed information covering the following areas:

- **Description of the project** – the scheme or service to be offered, how it will be delivered, including who will be involved in delivering it, and who is leading it.
- **Market feasibility** –evidence of the need the project will meet, competition in the market, potential users and projections of sales.
- **Technical feasibility** –how the scheme will be delivered (e.g. design, materials, labour, transport, technology needed, planning policy and requirements).
- **Financial feasibility** – projections of how much start-up capital will be needed, sources of capital, returns on investment, funding body requirements and rules, cashflow during the build process etc.
- **Organisational feasibility** – the legal and corporate structure of the CLT (which may include background information about the directors and what skills and expertise they bring to the business).
- **Conclusion** – an honest assessment and discussion of whether and how the project will succeed. This is as much for the governing body to make a decision to proceed or not, as it is to attract the partners and investors who will enable the project to happen.

Financial viability assessment

The CLT will need to assess the financial viability of the project. To be viable, the value of any completed development must at least equal the net cost of its development. This applies whether a developer is selling a completed home, or is providing it for rent long term. How the value of a project is calculated is complex and sometimes disputed (for example, what is the value to a community and to other stakeholders of keeping a local shop open?). Some guidance is available on how the public sector might value a project from the Royal Institution of Chartered Surveyors but it can vary somewhat from place to place and project to project. In many cases it can be simpler to focus on the obvious financial cost and value of a project.

For affordable housing projects,the CLT Fund has developed a financial appraisal toolkit to establish the feasibility of new build development for a range of different tenure, dwelling type and procurement options.



CLT Fund Financial Appraisal Toolkit

The experiences of a number of newly established CLTs highlighted the need for a straight-forward **financial appraisal tool** to assist with the financial planning element of affordable housing projects and to establish the feasibility of different tenure and dwelling type options.

The financial appraisal tool that has been developed for this purpose is in the form of an **Excel workbook** and is accompanied by a series of context setting and 'how to' guidance notes.

A member of the CLT's Board, Committee or Steering Group might take responsibility for managing the financial appraisal tool or they may prefer to use it under the guidance of a suitably qualified advisor or consultant.

The toolkit was last updated in March 2012 and includes the Homes and Communities Agency's Affordable Rents tenure. It is designed to quickly arrive at an estimate and outline plan but the user needs to be aware that the assumptions are not based on their specific situation. Over the course of time the CLT will need either to validate these assumptions or replace them with their own.

The toolkit includes a sensitivity analysis, where the CLT can increase or decrease costs and income streams by small percentages.

The toolkit can be found at **www.cltfund.org.uk/tool**

5.2 Business planning

A business plan brings together in one document all the aspects of a scheme that need to be in place to make it a success. It provides a tool to attract partners and investors, a means of communicating with all project stakeholders and a vital reference to check progress against and to re-plan if needed.

In order for a CLT to succeed in developing an asset, such as affordable housing, a strong business plan will be necessary in order to ensure the long-term viability of that asset. A business plan ought to take into account a variety of short and long-term activities and costs. For example, in addition to the actual construction costs of building the proposed homes, the cost of land, legal fees, professional fees (e.g. an architect, quantity surveyor) and abnormal costs will all have to be absorbed into the plan. During construction of the homes, it will be necessary to raise working capital to meet these costs, which may be obtained from the security of the land value. This may be through grant subsidy or a credit institution. The plan should also include consideration of the long term costs and activities with managing and maintaining the asset.

Obtaining credit from a bank will require a commitment as to how the trust will repay this capital as well as sufficient security. This will need to be supported by **cash flow forecasts** taking into account the aforementioned overheads and a contingency for any cost overruns caused by unforeseen circumstances which may delay the scheme. It will also need to account for the payment of interest on any loans. The business plan needs to demonstrate clearly that the development is financially viable and able to develop income streams which can meet loan repayments.

The money for **loan repayments** will be largely derived from the completion of the homes, turning them into physical assets which will generate income. It is therefore necessary to consider the tenure options of the homes. This will be influenced by the indication of need, tenure preference and level of housing affordability indicated in the housing needs survey, as well as the financial viability of the scheme. Market sale or sale of part-equity homes upon completion can contribute to the repayment of working development capital. If providing rental housing, a long-term financial forecast will be even more pertinent, balancing the level of rental income against the loan repayments, interest payable on the loan, and allowance for property maintenance and tenant voids (period when the homes may sit empty). A CLT business plan for affordable housing would typically provide an overview of a scheme taking these costs into account and forecasting its income over an extended period of time, aiming to eventually pay off the loans and generate a surplus through relevant income streams.

The basics of a good business plan

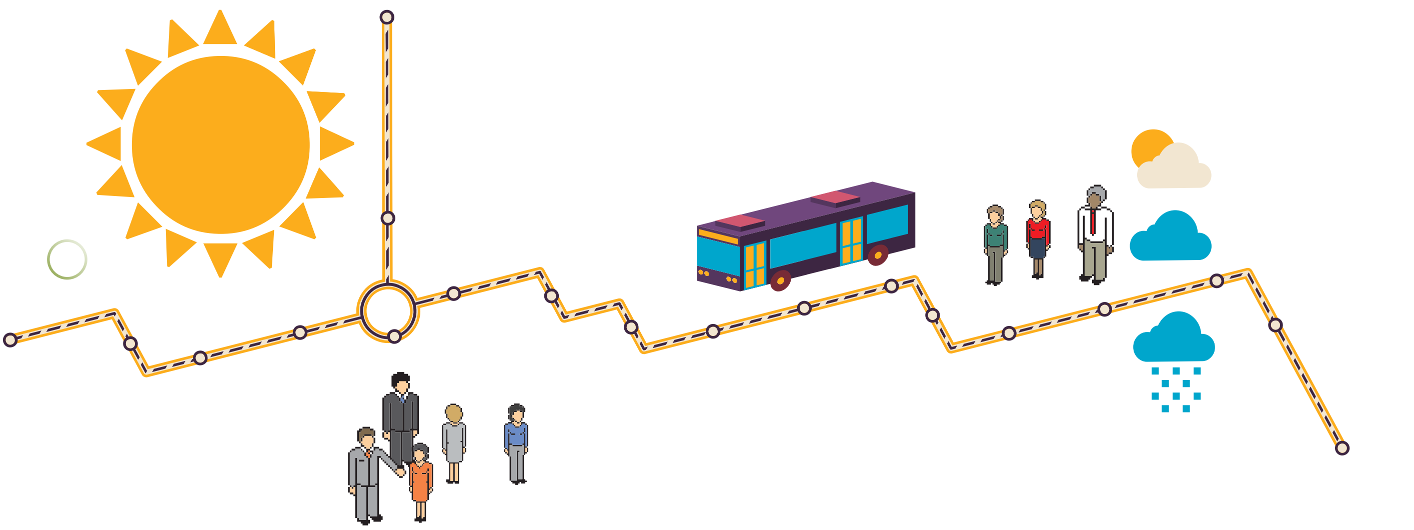
A business plan should be no longer than 30 to 40 pages in total, including any appendices of supporting documents. The shorter and more concise it is, the better. Make it easy to read, using reasonably large type (at least 10 pt). Keep paragraphs short, and use bullet points, diagrams and tables to convey information clearly and simply.

Some points to consider when putting together a business plan are laid out in the template overleaf:

Basic business plan template

Cover Sheet and Table of Contents	Include a title and basic information on your cover sheet, such as the company CLT name, address, telephone number and contact information. Lay out the content of your document with clear section headings and page references on the contents page.
Summary	This may be the only part of the business plan that some people will read. Take care over it. In only one or two pages, this should provide a clear, concise account of what is being proposed, how it will work and who is proposing it. This should appear first and be written last, to ensure the full picture is presented. Make it clear what your organisation's purpose is, how this proposal sustains its operation and why people will want to support it and/or pay for it. If the plan is intended to go to investors, include the amount of money required and how it will be used and repaid.
Introduction to the project	State clearly and simply what the objectives of the project are, and lay out the programme for delivering it. Explain how the development and delivery phases of the project will be managed and operated, and how it will work once it is completed. Spell out the impacts/benefits the project will bring. Say who your key delivery partners are. This is essentially laying out your basic business model.
Your organisation and delivery team	The audience for this business plan will want to know that your organisation is capable of delivering what is outlined in the business plan. Potential partners, grant givers and investors will care a lot about who is on your team. Team members may include people from outside your organisation, where you need to bring in additional expertise to augment your skills base. Provide details of what key skills, qualifications, successes, and experience all parties bring to the proposed project an Appendix. Also include in an Appendix some information on your legal structure and governing body, as well as the most recent annual report and accounts.
Market research and promotion	The plan needs to include evidence that you know who your target audience is and needs to explain how you are going to reach and maintain contact with your target audience – e.g. mail shots by post or email, online, by phone, through an external agent. You need to show that what you are proposing is not only needed, but wanted and that people will use it. In the case of affordable housing, a summary of the findings of a housing needs survey serves this purpose (detailed findings could be included in the Appendix), backed up by reference to the outcome of any community engagement exercises, polls or surveys you may have carried out. A description of how the proposed project fits in with local authority, parish and neighbourhood plans is important, and how you have arrived at your affordable rent or purchase prices. Why your organisation, rather than a housing association, is providing the housing should also be explained. Depending on what it is you are proposing, for example, setting up a community shop, you will need to show that you have done research on your competitors and what they charge. A market survey should be based on a defined catchment (likely to be local or regional, rather than national, for most CLTs) of relevant customers, based on the nature of the services/facilities that are being offered. Make sure you have kept references to all of your source information in case you are asked to back up your claims or need to update your business plan.

The site and scheme	Set out the characteristics of the site (size, shape, access, ownership, infrastructure and planning) and details of the scheme, including design, layout, and standards.
Clear and realistic financial projections	Financial statements and projections provide a picture of your understanding of the business cycles your organisation may face. Here you will provide the outputs formulated by the Financial Appraisal tool. The financial information should be supplied in a standard format and presented clearly. If your organisation is already up and running, include financial figures for the previous 12 months, a balance sheet and a cash flow statement. Then project all three statements forward for at least three years. Make sure the figures are realistic and can be justified. Explain how you have arrived at them, for example, quotations from professional and suppliers, comparative estimates, actual historical costs, published rates/industry standards. If you have made assumptions, such as the rate of inflation, spell this out in a note. Also, do a break-even analysis that shows how much revenue you need to cover your initial investment.
Risk analysis	Demonstrate that you have thought through how to ensure that you have sufficient resources and flexibility to weather the trickier times. Identify what barriers or difficulties you might face, briefly outline the worst-case, average-case and best-case scenarios for your business and how you will deal with them. A risk analysis table that rates risks against degree of impact and likelihood, and show how these risks can be mitigated, is a useful tool.
Sources and uses of funds	If you are trying to raise money from investors, they will want to know how you plan to spend it and why you plan to spend it that way. Include this section to outline your estimated one-time start-up costs like site selection and surveys, new equipment, office furniture and logo design. Most entrepreneurs underestimate just how expensive starting a new business can be, so do your research before asking for funds and include a contingency in your budget.
Appendices	A good business plan conveys the basics of a business very concisely up front. Put supporting documents toward the back. Related material might include profiles, credit histories, local plans, blueprints, examples of surveys, press coverage, copies of leases and contracts, letters of intent from future users, partnership agreements and letters of incorporation.



national CLT network

5.3 Funding and finance for CLT projects

Set-up costs

At an early stage of formation a CLT will need to meet the costs of the following

- Community engagement – holding meetings to introduce the wider community to the CLT and get members on board. There may be stationery, photocopying, venue hire costs associated with this;
- Forming the CLT as a legal entity – see the National CLT Network CLT legal toolkit;
- Bringing in specialist skills needed to help with feasibility studies and business planning;
- Other legal and financial advice.

A useful source of funding for these costs is the **CLT Technical Assistance Fund**. Administered by the National CLT Network and funded by Tudor Trust, Esmee Fairbairn, Charities Aid Foundation and Nationwide Foundation, it provides grants of up to £5,000 for consultancy support or to cover set up costs, including the following:

1. Community engagement and membership (this **excludes** costs for stationery, photocopying and other administration costs);
2. Legals and governance – legal fees, including establishing the CLT as a legal entity, securing an option to purchase the land, land purchase, entering into an agreement to lease and a lease or an alternative disposal method, land access issues, Section 106 agreement negotiations. This also includes capacity building for the Board;
3. Financials –feasibility study, business planning, valuation fees, conveyancing and other specialist fees;
4. Procurement – building methods including contracting a professional team

Some of these costs may be categorised under ‘pre-development’ costs as opposed to ‘set-up costs’. To be eligible for this funding the scheme must contain at least 50% housing, be located in England or Wales and meet the legal definition of a CLT. For more on the qualification criteria and terms and conditions of the Technical Assistance Fund, please contact the National CLT Network on 020 7067 1039 or visit **www.cltfund.org.uk**

Alternative sources of funding to cover set-up costs *could* include:

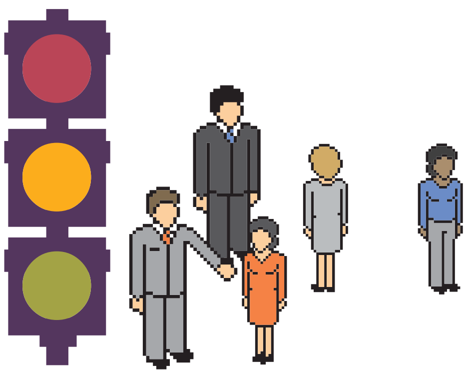
- Parish council
- Local authority
- A local charity
- Seedcorn funding for the Community Right to Build
- A CLT’s own fund-raising efforts

Funding development

The costs of a development need to be looked at in terms of both capital and revenue. Capital costs are those costs incurred in developing the home. Revenue costs are those associated with managing and maintaining a rented property.

Capital costs usually include:

- Land purchase.
- Build costs, including general contractor’s overhead and profit, cost of defects warranty, etc.



- On-costs, which comprise:
  – Professional fees: architect, surveyor, engineer, site investigation, CDM assessor, etc.
  – Statutory fees and costs: planning permission fee, Building Regulations fee, highways bond, services connections and bonds, etc.
  – Finance charges through the development period
  – For housing for sale, sales costs, e.g. agent's fees.

Some of the pre-planning application costs can be met by the **CLT Investment Fund for pre-development finance**. This includes funding for surveys, architectural fees, procuring construction and raising further finance for the project. To apply for this funding the CLT needs to have developed an outline concept for the housing development, including identification of a target market, a potential site and a project budget. For more information see below.

The main way for a CLT to fund capital costs is through private finance (loan, debt, mortgage) from a lender such as a bank.

However, this will not usually cover the total capital costs of the scheme. The CLT will therefore need to explore other sources of finance, including:

1. Subsidy – in the form of a capital grant from the Homes and Communities Agency, loan, free or 'cheap' land from a local authority;
2. CLT Investment Fund for development finance to top up the private finance;
3. Community share issues.

CLT Fund

The CLT Fund was established in 2008 to assist in the development of CLTs and is funded by the Tudor Trust, the Esmee Fairbairn Foundation, the Charities Aid Foundation and the Nationwide Foundation. It provides grants and loan capital and is split into four tranches, to reflect the different stages in establishing and developing a CLT:

1. **Feasibility Fund** – one day of guidance and support from an expert in Community Land Trusts.
2. **Technical Assistance Fund (TAF)** – Grants of up to £5,000 for CLTs to help them buy in professional or technical advice.
3. **Investment Fund – pre-development finance** – support for organisations that have definite ideas about their development but lack the finance to undergo the planning process and associated preparation. If the scheme proceeds the sum borrowed must be repaid plus 25%. If it fails to proceed, the loan can be written off.
4. **Investment Fund – development finance** – The CLT Fund offers development capital loans for building affordable housing of up to £300,00 to top up commercial development capital already secured from banks and other investors. At this stage we would expect to see a business plan, designated land with planning permission and architectural drawings of an affordable housing project. Interest rates for development capital loans are typically 7% and secured by at least a second charge over the land and building.

For more information on the qualification criteria and terms and conditions of the Fund, please contact visit **www.cltfund.org.uk**

Private finance

Ethical lenders such as Charity Bank, Triodos and Unity Trust Bank are sympathetic to providing loans to organisations which seek to provide wider social and environmental benefits, including CLTs. Often a bank or building society loan will only fund **60 – 70%** of the schemes overall financial requirement. They may also require security equal to twice or one and a half times the amount lent. This means having access to the open market value of the homes and so the terms of Section 106 agreement will be key (including issues such as mortgages, tenure mix, and method of disposal).

Development finance will generally be provided on the basis of proof that a viable plan is in place to repay the loan when the scheme reaches completion, perhaps using sale of equity stakes, grants or re-finance with a long term loan. The long term loan could then be repaid from rental income from the homes to rent, rent charged on the share of equity retained in the CLT's ownership in a shared equity scheme, income from a rent charge/ ground rent, or income from workshops or other non-housing uses.

The rental income available to repay loan repayment will in all cases be the 'net rent', that is the rent after meeting the ongoing costs of management and maintenance. For homes to rent this includes the cost of insurance, void losses and sums set aside to meet cyclical and planned maintenance (see Section 5.4 on revenue costs).

The 'income profile' for the net rent will usually show it increasing annually by inflation as rents rise, or by inflation plus 0.5%-1% if rents can be forecast to rise with wages or inflation plus economic growth. Do bear in mind that some costs may also increase with inflation.

The sum that can be borrowed, and hence the viability of the scheme, will be greatest if:

- interest rates are low;
- the borrowing period is long (if the interests rates are also low);
- payments are on a conventional, fixed loan basis.

Funds can be borrowed at either fixed or variable rates, just like a mortgage. Traditionally, funds have been obtained by CLTs at 6.5% over 25 years. These rates can change quickly and some banks can be cautious about lending to housing schemes if there is broader economic uncertainty. Borrowing at present is not easy, due to the general squeeze on the availability of credit.

Funding over longer periods is often preferable but is not always immediately available. A way around this would be for the CLT to borrow initially for a 10 year period and then to re-finance for a further 25 years at which time the existence of a 10 year track record should make it easier to secure an offer. The aim would be to find a charitable or public source willing to lend at a low rate for a limited period enabling the debt to be reduced and the rental stream to rise.

It may be possible to agree a 'loan profile' where only the interest is paid in year 1 and repayments rise with inflation. This can help create a positive cash flow from year 1. If the CLT has reserve funds, fixed repayments can repay the same sum at less cost but the CLT will have to fund annual losses in the early years. One way round this can be not to begin to set aside the planned maintenance reserve until year 5, using the rising rent to do so although there are obvious risks to this.

If the CLT development is being funded by a builder or developer on a 'turnkey contract' the CLT will need to raise private finance in time to be able to purchase the homes from the developer or builder at completion.

CLT Investment Fund

The CLT Investment Fund provides short term loans of up to £300,000 to meet any funding gap in the development phase. This can be used to top up commercial loans and grants, typically at 7% and secured by a second charge.

Subsidy

The main source of subsidy is government, either central government (via agencies such as the Homes and Communities Agency, HCA) or local government via local authorities.

Grant funding from the Homes and Communities Agency

The HCA is the national housing and regeneration agency for England. It is the main provider of subsidy for affordable housing. It runs an affordable homes programme to increase the supply of affordable homes by providing grants towards the costs of housing development, thereby enabling housing to be available at affordable levels.

The most recent programme is the 2011-2015 Affordable Housing Programme 2011 (AHP), which makes some provision for community-led groups, including CLTs, to access grant funding. This funding can be accessed by either joining an existing housing association partner who has already been allocated AHP funding, or by applying directly (alone or with a partner) for an **additional AHP allocation for community-led schemes**. This funding is available for affordable rent, shared ownership and equity loan products and for schemes that will be completed by March 2015. For information on these products, please see the Jargon Buster, found at the end of this Handbook.

CLTs are eligible to apply for this additional funding if they meet the HCA criteria for community-led eligibility. These criteria are set out on the HCA's website at **www.homesandcommunities.co.uk/community-led-development**, along with details of the application process and local HCA team contact details.

Grant levels will be agreed on a scheme by scheme basis. The larger housing associations receive an average of around £20,000 per new rented unit. The levels of grant that a CLT may be able to access should therefore be considered in this context. Be aware that grant is now paid part up front, part on completion.

In the first instance a CLT should **contact its local HCA Operating Area Team** (see the previously listed web address for contact details). The criteria in the link above will be the focus of the first discussion to ensure that the scheme is both community-led, and likely to be eligible for HCA funding. The HCA will engage with a group at any stage of their development process. However, in order for more detailed discussions to take place a CLT will be expected to have worked through some of the financial basis of a scheme and carried out a **financial appraisal** covering issues such as scheme size, tenure, costs, rents and income, bank finance, cash flows etc (see Section 5.1), and assurance that the scheme can be completed by the March 2015 deadline. Advice and support is also available from HCA Operating Area teams in putting together evidence of financial viability and value for money.

If all parties are satisfied that the scheme is likely to be supported, the local HCA team will agree in principle to fund the scheme. The local HCA team will at that point work with the group to make sure that they have all the information needed to formally apply. If the CLT is applying on its own it may then be asked to complete a **Partner Qualification Questionnaire** (PQQ) to qualify as an **Investment Partner** (IP) with the HCA capturing the information above. For small CLT applicants the emphasis of assessment will be on project viability and value for money (VFM) rather than organisational track record. The 'capacity to deliver' can be demonstrated through the choice of development partner rather than the history or track record of the bidding organisation. It should be noted that a CLT scheme will be expected to deliver reasonable and broadly similar VFM to other 'comparable' schemes but that every scheme will be considered on its own merits.

Speculative qualification is not encouraged and only schemes that local HCA staff think have a reasonable chance of being delivered in the timescale of the programme (i.e. by March 2015) will be considered. More information on the HCA's PQQ is available on the HCA's website: **www.homesandcommunities.co.uk/community-led-development** but groups should contact their local HCA community-led representative in the first instance.

The Homes and Communities Agency (HCA) has already funded a number of schemes through previous affordable housing programmes and other initiatives. These schemes include:

- Holy Island of Lindisfarne Community Development Trust, Northumberland
- Buckland Newton CLT, Dorset
- Allendale Development Trust, Northumberland
- Worth Community Property Trust, Dorset
- LILAC, Leeds, Yorkshire
- Lyvennet Community Trust, Cumbria
- Bishop's Castle CLT, Shropshire
- High Bickington CPT, Devon

Upon entering a grant agreement with the HCA, the CLT must be aware of the obligations it is taking on and the nature of the agreement it will have to sign. **Legal advice is advisable**: using a firm that is already familiar with the format of the HCA agreement will save cost. A CLT taking HCA grant will, for example, be required to meet design and space standards construction, including the Code for Sustainable Homes, and have regard to other issues such as location and outdoor space, in order to reach a minimum level under HCA Housing Quality Indicators – see Chapter 8 for more information on design and space standards

If the CLT wishes to become the direct landlord of the HCA funded rental or shared ownership properties it must register with the **Homes and Communities Agency** as a **Registered Provider (RP)** ***by the time the housing is available for letting***. CLTs should discuss with the local HCA team the approach they wish to take and what implications this has for the need to register as an RP. Registering means you are subject to the regulatory requirements of the HCA set out at **www.homesandcommunities.co.uk/community-led-development**. It is important to consider the following:

- HCA funding conditions for newbuild require that the grant recipient party has sufficient interest in the land (i.e. the freehold or a minimum 60 year leasehold);
- There is statutory requirement (under the Housing and Regeneration Act 2008), enforced by the HCA's grant framework, that the Landlord of HCA funded rent and shared ownership properties must be/become an RP by point of first letting (this is to protect tenants and public funding);
- Whether bidding for grant directly or via another registered HCA development partner, community groups will either need to be an RP by point of first letting or to transfer to a suitable Registered Provider (housing association, for example) that has a minimum 60 year leasehold interest;
- An organisation can only register to become an RP if it is a provider/intending provider – i.e. that it is the immediate landlord of social housing tenants, and not just a superior landlord e.g. leasing the housing to the RP landlord.

All CLTs can apply for RP status as long as they are English bodies that provide or intend to provide social housing in England and meet the criteria established by the CLT. The registration process is intended to be proportionate to the size and risk profile of the entrant. For guidance on what is involved in becoming a registered provider and the registration process see: **www.homesandcommunities.co.uk/community-led-development**

If a CLT is working in partnership with a housing association (or other partner) the partner will often stand as guarantor for the scheme in the event that the CLT is unable to deliver the project. A partner may also assist with management functions and design, depending on the agreement between CLT and accredited partner. A CLT will need to have a memorandum of understanding with its partner detailing these functions (see Chapter 8 for more information on working with a housing association).

Local authority

Local authorities can sometimes provide subsidy for CLTs. In the past this has generally come in the form of free or 'cheap' land or grants/interest-free loans.

Public bodies are obliged to obtain best value when disposing of land or an asset. However, this does not mean that they need to obtain the best cash price from the sale. If they can demonstrate that they can achieve social, economic and environmental benefits equal to or more than the cash value they are foregoing, they are able to do so. Some local authorities have supported CLTs by providing land at nominal costs (e.g. the former North Cornwall District Council sold land at Blisland, Cornwall, for £1). Alternatively, they can take a deferred payment on the land, as at High Bickington.

The other way that local authorities can provide subsidy is in the form of cash grants. To date, local authorities have supported CLTs by providing:

- Interest-free loans;
- Grant for creating serviced self-build plots covering the land cost, services and slab foundation (St Minver CLT);
- Deferred interest on the loan – development finance for site purchase and build costs with interest paid upon completion.

Not all local authorities are willing or able to help in this way but they have the power to do so and can use the following sources for funding:

- Second Homes Council Tax – council tax raised on second homes has in some authorities been ring-fenced to promote affordable housing. In Devon and Cornwall funds from this source have been used to provide CLTs and housing associations with working capital, set-up costs and grants.
- The Community Infrastructure Levy (CIL) – CIL came into force in April 2011. Local Authorities can choose to charge a levy on new developments in their area, which can then be used to support developments that the council, local community and neighbourhoods want. How they choose to use the sums levied is up to individual Local Authorities to decide and should be made public by them.
- New Homes Bonus – Local authorities receive additional funding or a 'bonus' for new homes by match funding the additional council tax raised for the new homes and empty properties brought back into use for the following six years. There is an additional amount for affordable homes. Local authorities are free to decide how they spend the money, taking into account local priorities.

Other funding sources

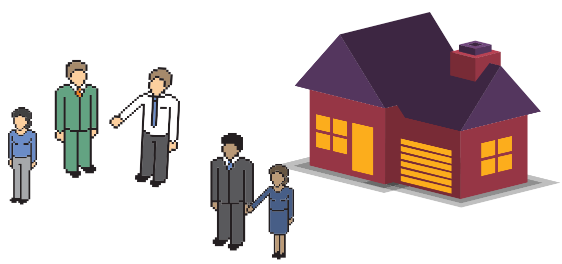
Parish council

Parish councils have the power to raise funds from Public Works Loans Board (PWLB) which can provide finance at low rates for long periods, typically at 4.5% for 40 years. Their ability to access such funds depends on their status and they may have to meet Quality status. A parish precept can be raised as an addition to council tax to repay the loan. One council in Devon for example has raised £700,000 in this way for a combined community and enterprise centre incorporating a new library.

Charitable trusts

Securing support from charitable trusts for affordable housing is difficult simply because of the scale of the funds required. Charities with limited funds are likely to want their support to be for experimentation or facilitation rather than mainstream provision. However, where the scheme is unusual e.g. trying out a new approach to sustainable building or in an unusual location such as a remote island community, charities may be interested in helping to innovate or to solve a problem to which no other solution seems to be available.

Some charitable trusts are looking for opportunities for social investment, to invest money in projects that bring both financial and social returns.



Share Issues

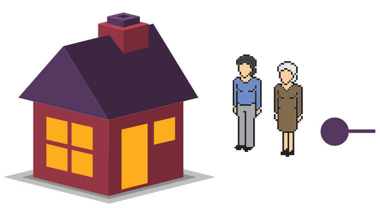
Another approach may be to start a community shares initiative. Community shares are a form of community investment which seeks to raise money from communities through the sale of shares or bonds to finance organisations serving a beneficial community purpose. Share issues range from a few thousand pounds, for example, to start a community shop, to the hundreds of thousands and even millions to purchase land or undertake infrastructure projects.

Some community share issues may not raise large amounts of cash, but they may bring a community together behind a project, giving the organisation credibility and getting people involved as volunteers.

A community share issue is not the same as community initiatives raising £1 shares through a membership Industrial and Provident Society; its focus is on raising investment capital and therefore requires reasonably significant individual investment. Investors into a community share project may receive interest or dividends on the money that they invest. This will normally be incompatible with a bid to achieve charitable status due to the potential for individual gain as well as community benefit. Although there are a few exceptions, this is a subject about which you should always seek professional advice.

When setting up a CLT it is worth thinking carefully about whether a community share issue is likely to arise, as some legal structures are better than others, depending on how much money needs to be raised and its purpose:

- A Company Limited by Guarantee cannot issue shares, but can issue bonds, which are not linked to a company's performance in the way that shares are.



- An Industrial and Provident Society (IPS) can issue shares of up to £2 million, with a maximum individual investment of £20,000. A full prospectus may not be required. A simple, well designed and printed prospectus, plus distribution cost, administration, and solicitor's fees, could cost around £3,000.
- A private company or share limited Community Interest Company, on the other hand, will require the production of a formal prospectus that could cost many tens of thousands of pounds. If very large sums are being raised, this investment may be well worth it.

Whatever form it takes, a prospectus must lay out its offer honestly, presenting a realistic expectation of returns and not exaggerating them, and warning people that there is always a risk of losing their money.

The diagram below shows the different types and purposes of community shares.

Starting points	Community share offer types			
Pre-start	**Membership offer:** the purpose is to recruit members rather than raise investment capital.	**Pioneer offer:** a high-risk offer aimed at known supporters, to raise funds to spend on getting investment ready		
Start-up			**Time-bound offer:** subject to a target amount and deadline for completion of the offer. Investors refunded if the target is not met.	
Acquisition and transfers				
Early-stage growth				**Open offer:** members can invest and withdraw shares at any time, subject to terms and conditions.
Later-stage growth and consolidation				

This is drawn from Jim Brown's "The practitioner's guide to community shares", recommended reading. Community Share and Bond Issues (Camberwell and Wrigleys) is another useful reference. Both can be downloaded at **www.communityshares.org.uk**

Wessex Community Assets provides useful basic information on its website, which is found at **www.wessexca.co.uk/community-shares**

Funding for mixed developments

If a development is going to be multi-purpose and for community benefit, it may consider registering for the latest round of the Government's Community Builders fund. Please see their website.
www.communitybuildersfund.org.uk/apply/register-your-interest/

5.4 Planning CLT revenue

As well as the cost of managing an asset, account must be taken of the cost of managing the organisation itself. The main costs are likely to be third party liability insurance; book keeping and accounting (if this cannot be done by volunteers or board members); annual returns; an audit if the organization is big enough; travel; training; promotions (e.g. leaflets, a website) and general costs such as telephone, postage and stationery. Writing and managing budgets is fairly straightforward, involving common sense, a logical approach and basic mathematical skills. The basic steps are outlined in table below.

Basic steps to producing a successful budget*

Producing the budget	Start by making a list of all the expenditure headings (items) that may be needed by the CLT or project. Group similar items together under one heading. Then make a list of all likely income headings such as membership, subscriptions, grants, donations etc.
Fill in the figures	Estimate the cost of each item of expenditure as realistically as you can to produce a draft budget. Talk to similar organisations, refer to professional bodies for salary rates, check out prices on the internet. Make notes on how each figure was arrived at. Indicate what assumptions have been made, or if the figure if it is a guess or broad estimate. It's important that everyone understands where the figures have come from.
Revise the figures	Show the budget to others, within the organisation and externally, to make sure nothing has been left out. Double check anything that seems questionable. Revise any notes.
Contingencies and options	Think through what might happen if fund raising falls short of proposed expenditure. What happens if income arrives late? Could activities be scaled down? Could expenditure be phased over a number of stages?
Approval	The budget should be presented to the board or authorised management committee for comments, alteration and approval.
Monitoring and revision	The budget is a very important tool for financial management. Small organisations should compare projected with actual income and expenditure at least every three months. Remember that all unpaid bills including any outstanding taxes must be included in the figures. It may be that income has not been as high as forecast so savings will have to be made, or some activities have not happened leaving money available to be spent on other activities. The budget should only be revised to take account of major changes.

*adapted from information provided on www.cash-online.org.uk

Some typical budget headings are laid out in the table below. Some of these headings may not be needed, depending on the nature and size of the CLT, and some headings may be missing from this list. It's very important to think through all the likely areas of expenditure. Missing something out could be problematic later down the line.

Typical budget headings for running a CLT

Staff costs (paid and voluntary)	Salaries, National Insurance, pension contributions Recruitment Training
Management & administration	AGM and annual report Audit/Independent Examination Accountancy
Office expenses	Book-keeping/payroll Bank charges Photocopying Postage Print & stationery Telephone, internet access, fax, website hosting. Insurance Hospitality Professional fees/consultancy Depreciation of equipment
Premises	Rent & Rates Water & refuse Heat and light Cleaning Repairs and maintenance
General Expenses	Travel and subsistence Large equipment (capital cost) Small equipment and materials Membership subscriptions Publications. Marketing, website, and leaflets

Filling in the figures is most difficult for the first year's budget. At the start, a lot of guesses have to be made because there is no historic information. It makes sense to ask other CLTs about their costs, but remember that no two groups are the same.

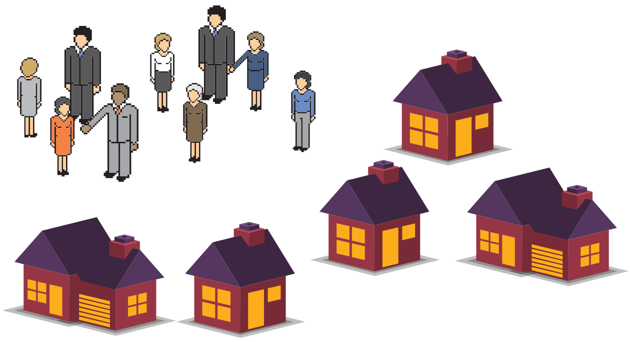
The next step is to list all the likely income headings such as membership, subscriptions, grants, donations, etc. Bear in mind that some income can be restricted – which means it can only be spent on what the funder has stated. A restricted grant to cover staff wages, cannot be spent on office running costs, for example. Unrestricted grants can be spent on whatever the trustees decide so long as it falls within the CLT's constitutional objectives.

In the case of a housing scheme, the income to meet some of these costs must be included in the rent or other income sources on top of the housing management cost discussed under management and maintenance (Chapter 9). Two other possible sources of income that may arise out of a housing scheme are:

- A rent charge applied to all homes including any sold freehold of around £150-£250 per annum, broadly the same as a ground rent;
- A rent on the unsold element of any part-equity homes. Charging a rent as well as selling a share related to income complicates the affordability calculation and means the multiple of income for an affordable mortgage needs to fall to around 3x. However it may be essential if all the homes are part equity as the CLT must have some income. CLTs may charge rent on the unsold equity but in the interests of making the home affordable, this should be less than that charged on conventional shared ownership (typically 2-3%).

A CLT should aim to start out with a reserve provided as part of the scheme cost. If a contingency of 1.5% is set aside and in addition 1.5% is charged for the CLT's development administration, any unspent elements of both can become the CLT's reserves as it begins management to deal with any cash flow shortfalls. A reserve to cover six months commitments is prudent. A small income can also be generated from interest on reserve funds.

A budget on these lines will be needed as part of the business plan to funders (See section 5.2).



Project planning, National CLT Network training event, Gateshead