



New co-operative and community-led homes

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Community
Housing
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Group



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New co-operative homes

People all over the country are talking about co-operative and community-led housing. People in communities, people in existing co-operative housing organisations, people in local authorities, people in housing associations, people in the English and Welsh Governments.

There are lots of different names for the type of housing we are talking about here. It is variously known as co-operative housing, mutual housing, community-led housing, custom build housing and sometimes by other names.

It's all the same thing! We are referring to it here as *co-operative housing* because it's generally about housing developed in accordance with internationally defined co-operative values and principles. In particular, we are discussing housing that:

- is developed by, with and usually for a democratic community membership organisation
- is controlled (and in some cases owned) by a local democratic community membership organisation



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Using this guide

This simple and basic guide is aimed at helping community groups, housing associations and co-ops, local authorities and others in the initial stages of considering how to develop new co-operative homes. It won't answer all the detailed questions needed to make a co-operative housing scheme happen, but it will help to make early decisions about what type of scheme can be developed, and signpost to where further advice is available.

It would usually be expected that a guide of this nature would include examples of the models that the guide is about. We haven't done that. That's because a key message of the guide is that developing co-operative housing is about making bespoke models that work for local communities. Examples exist of most of the models discussed, and we, and others, can put you in touch with them. But if people try to replicate them exactly as they are, chances are they won't work in other circumstances. Hence we have not included examples.

Challenges and rewards

Developing a co-operative housing scheme requires dedication and commitment over a long period. Usually it takes several years from when people have the initial idea of a scheme to when people actually move into their new homes.

And people are likely to meet challenges along the way. There can be false starts. Sites can be identified and it may not be possible to get permission to build. Negotiations with people who own land or buildings might result in them wanting more money for them than would make a co-operative housing scheme work, and they could decide to sell to others. It may be difficult to get the funding or loans needed for what you want.

Successful schemes are developed by people who stick with it over a period of time, and who can adapt their vision to fit with the available circumstances, whilst remaining true to what made the scheme co-operative in the first place.

When we started producing this guide, we envisaged that it would be a *route map* for how to create a co-operative housing scheme – ie. that it would be a step by step guide where if someone followed all the steps, they would end up meeting their co-operative housing ambitions.

Hmmm. It's not actually like that. It's probably more akin to one of those computer games where players have to pick up different elements at different levels of the game, and if you don't, you have to go back for them.

But our experience is that the long term benefits to communities of co-operative housing are well worth the journey. Co-operative housing is more than a project, a scheme or a development – it's a **movement for change**. In various different ways, it can offer:

- a community-led alternative to the polar opposites of traditional renting and individual home ownership
- a community based method of providing homes and local community networks
- a recognition of the skills of local communities to help themselves manage their own housing solutions, and help them to uncover those skills.

Why would you want to do it?

The CCH promotes co-operative housing because we know it makes positive difference for people and communities. Its benefits can include:

- democratic ownership and management of homes leading to people taking responsibility and feeling a sense of belonging, identity and ownership
- building real and mutually supportive communities – a tapestry of human interaction that characterises the sector
- high satisfaction rates amongst co-op housing residents
- comparable quality of service provision to other providers
- helping members of co-operative housing organisations reshape their lives and livelihoods, get skills and get into work
- the transformation of neighbourhoods previously affected by a lack of trust and sense of community
- providing some of the benefits of individual home ownership within a supportive safety net
- meeting individual needs and aspirations through community based businesses

Doing it your way

There are many different ways to develop co-operative housing. That's what makes it successful. It's about people working out how to best meet local housing needs, considering the local environment and resources available and using their own bespoke methods to develop a co-operative housing scheme that is right for them.

Co-operative housing can be for everyone. It can be for people on different income levels. It can be for particular groups of people. It can be about providing different tenures (ie. renting, owning, or asset sharing). It can be about building new homes and it can be about buying and adapting existing residential or other buildings.

There are different models out there to meet different needs, and we discuss them below. But it should be a case of local people identifying what they want to achieve and then developing the model that will best help them get what they want. In most cases, models need to be adapted to meet local needs and no two co-operative housing schemes are quite the same.



The policy context

We live in interesting times. Former certainties about housing markets were called into question in the global financial crisis of 2008, and national and local Governments, financial institutions, people and communities are still adjusting to the new “normal”. Across all walks of life, ordinary are seeking new approaches and new relationships with institutional organisations.



Co-operative and community-led housing is a part of that change. The case for it was made in the independently researched Commission on Co-operative and Mutual Housing's publication "Bringing Democracy Home" in 2009.

"Bringing Democracy Home" Commission on Co-operative and Mutual Housing" 2009 ISBN 978-0-9564332-0-6 - available on CCH website

Co-operative housing organisations are part of an international movement where over 1 billion people are members of several thousand co-operative businesses.

In the midst of uncertainty and suffering, co-operatives provide hope and clarity of direction for citizens around the world. Uniquely amongst models of enterprise, co-operatives bring economic resources under democratic control. The co-operative model is a commercially efficient and effective way of doing business that takes account of a wider range of human needs, of time horizons and of values in decision-making. The co-operative sector is worldwide. Co-operatives develop individual participation, personal self-confidence and resilience, and create social capital. Co-operative institutions create long-term security; they are long-lasting, sustainable and successful.

**Blueprint for a Co-operative Decade – International
Co-operative Alliance January 2013**

In the UK, the media has focussed on the troubled Co-operative Bank, but this hides the positive success stories in more than 6,000 UK co-operatives owned by 15.4 million people, over 1 in 5 of the British population. This sector creates and sustains more than 205,800 jobs, contributing £28.9 billion in turnover and £9.7 billion in assets to the UK economy.

“Co-operatives are a reminder to the international community that it is possible to pursue both economic viability and social responsibility.” *Ban Ki-moon, UN Secretary General*

Strong co-operative and mutual housing sectors exist in various countries across the world. Of the 35,000 member organisations of the European housing body CECODHAS, 30,000 of them are co-operative, particularly drawn from Norway, Sweden, Austria, Germany, Poland, Italy and Spain who have extensive co-operative and mutual housing traditions.

All political parties support principles of community self-help and national Governments in England and Wales have established frameworks that can assist the development of co-operative housing.

Several local councils and housing associations are keen to see the development of co-operative housing, and a key part of developing a co-operative housing scheme is likely to be working out what local partners are needed and framing visions in a way that will bring in their support.

Some initial questions

First – some basic issues about the scale and type of co-operative housing project you are considering:

If you considering a very small co-op – ie. one shared rented house in an existing building ...

... then the model used by Radical Routes may be right for you and some of the points we make in this guide may not be applicable

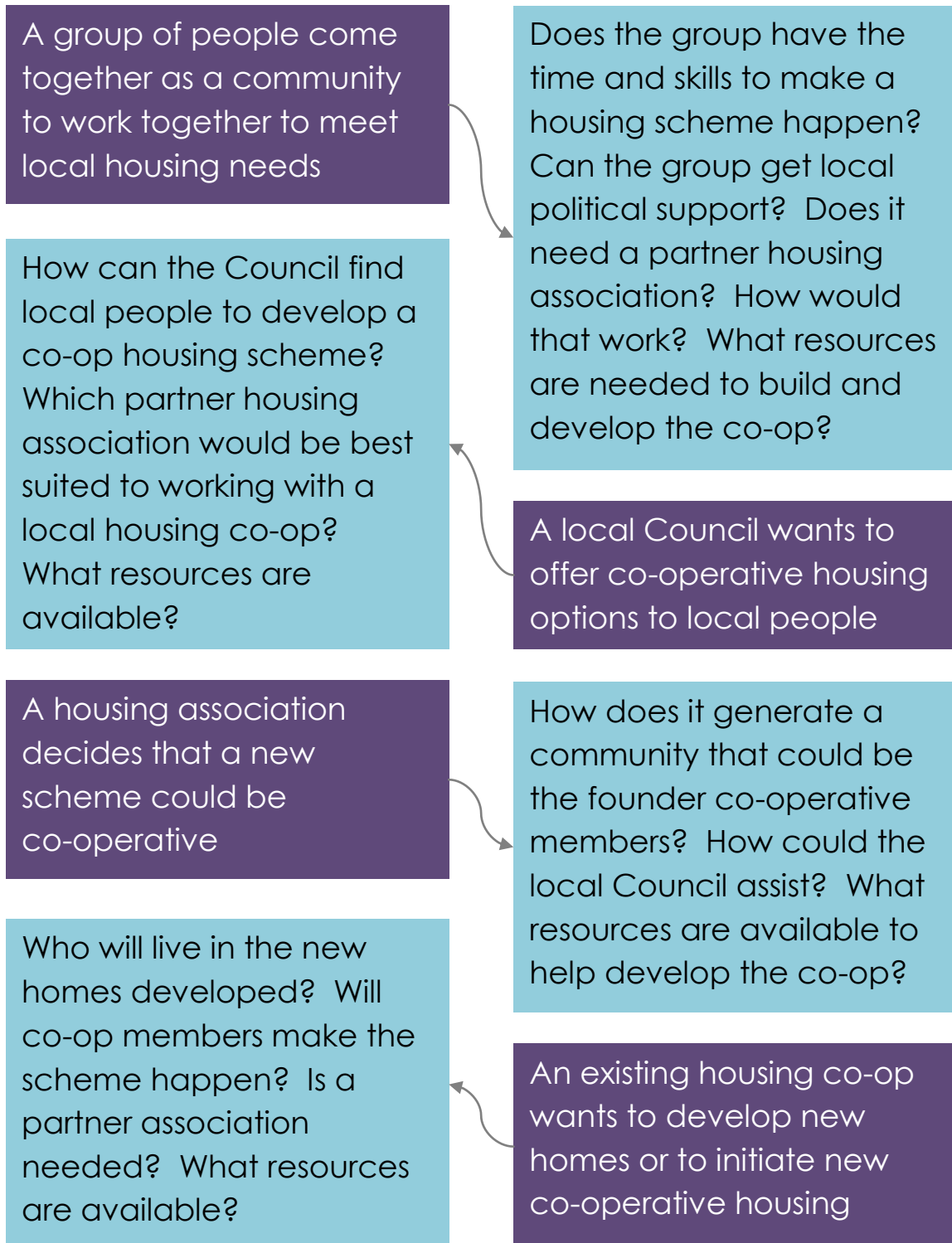
If you think you already know what model and type of co-op you want ...

... then you probably best to talk to one of the national organisations that represents that model (shown at the end of the guide), but you may still wish to consider some of the points in this guide

If you are an individual , a community group, a local authority, a housing association or an existing housing co-op exploring possibilities ...

... please read on

New co-operative housing can be initiated in different ways. But each approach usually requires similar components if it is to be successful, and in most cases similar questions need to be asked:



Making a viable housing scheme

We have defined the components of a viable co-operative housing scheme as below. These are the things that would probably be needed in all but very small co-operative housing schemes, although they can happen in different ways and in different sequences.



A co-operative housing group

Making a successful and sustainable co-operative housing group may be the most challenging part of developing a co-operative housing scheme. It's about inspiring a group of people to act as a community, work together, take responsibility for their futures, and function as a team. And this is likely to be over several years – initially during the set up period, and more importantly, after the homes have been built and initial enthusiasm might have waned. Right from the outset, there needs to be the means for the group to be renewed and refreshed with new people over time.

Who will be the first members and where do you find them?

The first challenge is to identify founder members. In many cases, these will be the first people to live in the homes built. The earlier they are identified and become part of the community group, the better and stronger the group that moves into the homes. Where they could come from depends on:

- who has initiated the co-operative housing scheme (ie. a local community group, a housing association or a local council)
- the intended tenure of the homes and the incomes needed for someone to live there
- where the money to build the homes has come from and whether any grant funding comes with requirements to house people in housing need

Possible sources for the founder members might include:

- word of mouth or spreading the word through local community networks
- the local Council's or a housing association's allocations or housing advice systems

If informal means are being used to identify founder members, it is important that at some point a more formal system is developed where the homes are fairly and transparently accessible to anyone who might want to participate.

If using local Council or housing association systems to identify founder members, it is important that:

- it is clearly advertised well in advance that the housing scheme will be co-operative and that successful applicants are expected to become and participate as co-operative members in the co-op development programme and in the running of the co-op.
- the needs of the developing community group are taken into account when identifying founder members. Where grant funding requires that people in housing need are housed, that housing need needs to be balanced with the willingness of applicants to participate in co-operative housing.
- as many of the founder members as possible need to be identified well before they move into the new homes. This may mean that the Council or housing association will have to “pre-allocate” homes.

Who develops the initial vision for the scheme?

Who are recruited as the founder members of a group will be dependent on the initial vision for the scheme – in particular the income levels of the people who it is intended will be housed.

There is a lot of chicken and egg involved in developing the initial vision for a co-operative housing scheme! It could be that a community group, made up of people of differing income levels, has come together with a vision for a shared housing scheme. It could be that a local Council is seeking to meet some identified

local housing need through a co-operative housing scheme. Or it could be that a housing association decides that a new scheme it is developing could be co-operative.

Whoever comes up with the initial vision, there is a need for flexibility.

Funding realities may mean that changes are needed (eg. it may be that the homes can only be accessed by people in particular circumstances, with particular income levels or with access to mortgages or resources.

It's good, but not always easy, to work out who can live in the homes at the earliest possible stage.

It's unfortunate if people have participated in the early development of a scheme only to find out later that they can't be part of it because of their circumstances or income levels.

If the initial vision comes from the Council or a housing association ...

... flexibility will help the community group generated take ownership of the vision and develop it in the way that is right for them.

A sustainable community housing scheme needs a reason to co-operate.

It needs decision-making powers over real issues - a reason to come together when the excitement of developing new homes comes to an end.

Developing the group

It is not possible to give people power. People can only *take* power. The best that external organisations can do is create the conditions in which people will choose to take power.

Co-operative housing depends on people actively taking on responsibility for decision-making. Without that, you cannot have co-operative housing.

A co-operative housing group needs a group development programme so that it can deliver the responsibilities it takes on. This programme will help the group to develop the skills it needs as well as enabling it to shape how the co-operative housing organisation will operate. The programme will need to be bespoke to the responsibilities that the group will be taking on and to local circumstances, but the following areas are likely to need to be covered:

- What will the co-operative housing organisation look like?
- Committee skills and officer roles
- What does “governance” mean and how is it done well?
- What does it mean to be a legal organisation?
- Delivering high quality housing and other services
- Duty of care and health and safety
- Managing the money
- Business planning and risk management
- Group dynamics and resolving conflict
- Negotiation skills
- The housing development process

The CCH and others have developed accreditation frameworks for good governance which allow groups to self-assess against a governance checklist as they develop. If they wish to, the CCH framework enables groups to get external independent confirmation that they have what they need to govern.

Consultancy support

It is possible that a consultant will work with the developing co-operative housing group, facilitating the development programme and providing general advice to the group and to any housing association partner. The following qualities may be beneficial in a consultant who is supporting a co-operative housing development programme:

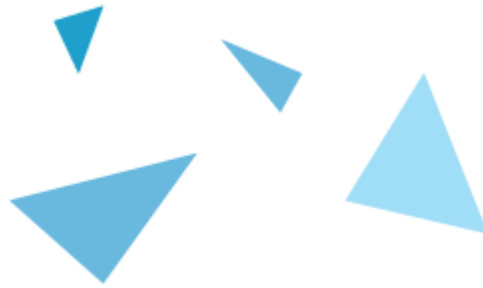
- previous experience of providing successful services to co-operative housing developments or similar
- knowledge of co-operative housing governance and finance or similar
- knowledge of co-operative housing management (dependent on intended co-op responsibilities)
- understanding of co-operative housing models and legal structures and issues
- effective training & development skills for community groups
- previous experience of working with housing associations and local authorities
- general knowledge of the co-operative housing, finance and housing association sectors
- general knowledge of the housing policy environment
- ability to facilitate group development

However, it is important that co-operative housing schemes do not become led by someone who may seem like a well intentioned consultant. The co-operative group will have to manage on their own when the consultant has gone.

It is also important to be wary of consultants (and others) offering their particular off the shelf model. In our experience, whilst there are common features between co-operative housing schemes, no two schemes are the same. The value of co-operative housing is that it enables local communities and stakeholders to develop bespoke housing schemes that are right for them in their local environment.

Visiting existing schemes

It is always helpful to visit existing co-operative housing schemes (bearing in mind that you won't find one that will be quite like yours). The CCH (and the other organisations that support community-led housing) can direct you to ones that you may find useful.



Working with the Council

Local Councils have a statutory responsibility to produce a housing strategy for their local area, setting out how people in housing need in the area will be housed. They usually consult widely on that strategy. Some local Councils include reference to co-operative housing in their housing strategy, or aspects of it. Even if they don't, the last few years have seen increasingly more Councils express interest in supporting the development of co-operative housing schemes. The CCH is usually willing to field requests from Councils for information and presentations about co-operative housing.

Local Councils work in various ways to support housing schemes. Often they work with identified partner housing associations, and they may be able to help find a housing association to support a co-operative housing scheme.

If a housing scheme fits in with their local housing strategies, local Councils may also be able to provide some resources. This is likely to be officer time, but some local Councils have provided some funding. We have heard of local Councils supporting co-operative housing in the following ways:

- They should be able to identify if and how a proposed co-operative housing scheme matches local housing need
- They can help identify potential sites for development and help explain the local planning context and requirements
- They can use their housing advice service to identify potential founder members for a co-operative housing scheme
- They can facilitate and support partnerships between community groups and housing associations
- If they own Council housing or have access to reserves or borrowing, they can use these to provide low cost loans
- Local Councils can adopt active strategies to support co-operative housing, identifying to their housing association partners that they want a scheme to be co-operative

The first step for a community group to engage with the local Council might be to approach local councillors or the relevant strategic officers in the Council. Local councillors may be more likely to respond positively to approaches made by their local constituents.

Even where a local Council supports a co-operative housing scheme and wishes to dispose of land, buildings or other assets at sub-market prices in order to make the scheme viable and affordable, there are rules it has to follow about disposal of assets at [best consideration](#)¹. It may be possible, however, that the social value a co-operative housing scheme will bring can be taken into account.

In some cases, local Councils seek to maximise the income they can get from disposal of assets by seeking the highest competitive bid for them. This is understandable in the current financial climate. However, such an approach makes it difficult to realise the social value of co-operative housing schemes, and it is usually difficult for co-operative housing schemes to compete alongside the private sector for sites. The CCH is able to advise local Councils about how they could develop co-operative housing, but we are not in a position to assemble competitive bids for sites.

There has been discussion about transferring the strategic housing function in some areas, and some of the public housing grant giving function, to Local Enterprise Partnerships - regional partnerships between business and local authorities that will have oversight role over local economic development.

¹ Local authorities are normally expected to sell assets at the best market value. However, there are exceptions - the link explains this.

Housing association partners

Housing associations can play important and often essential roles in developing co-operative housing. As the main organisations that have been publicly funded to build homes for people on low incomes since the 1980s, housing associations have assets and resources that can help. They have skills relating to developing homes, building the partnerships needed to make a scheme happen, ensuring schemes achieve planning permission, and assembling finance for housing schemes.

Most are also “Registered Providers” (in England) and “Registered Social Landlords” (in Wales). This means they are registered with the respective Governments or their agencies and may be able to receive public funding to build new homes².

Working with a housing association partner could make developing new homes a lot easier.

The CCH has worked with housing associations, and staff within them, who are good at understanding community dynamics and facilitating the growth of autonomy and self-responsibility within co-operative housing organisations.

However, the limited examples of co-operative housing within housing associations mean that it is rare that housing associations employ staff with experience of the sector, and often there is a need to help association staff understand what co-operative housing is about. It is also important to understand that housing associations have to comply with requirements placed on them by their lenders and with regulatory standards and other Governmental regulations which sometimes may not seem appropriate to community groups.

² In England, local Councils and other “for profit” organisations are also able to receive public funding under certain circumstances.

Building a partnership between a community group and a housing association is about give and take – compromise to achieve the best fit that will enable development of the co-operative housing scheme.

| Issues the community group may wish to explore with a housing association partner | Issues a housing association may wish to explore with a community group partner |
|--|---|
| <p>The association's:</p> <ul style="list-style-type: none"> • development skills – do they build homes the community group likes? • track record of co-operative housing development • track record of involving its tenants (perhaps speak to the association's tenants about this) • openness and transparency (generally and about development costs & fees) • flexibility about options for models of co-operative housing management • willingness to involve the community group in design of the homes • governance and viability rating³. | <p>The community group's:</p> <ul style="list-style-type: none"> • commitment, persistence and enthusiasm • governance and decision making processes • access to and backing of the local community • relationship with the local authority • appreciation of the trade-offs involved in housing development, and willingness to work together and compromise • long term aspirations for owning or managing assets • previous community organisation, fund raising experience and skills • approach to equal opportunities and diversity |

There are a small number of mutual housing associations in England and Wales⁴ who have been set up in accordance with

³ available at www.homesandcommunities.co.uk/ourwork/regulatory-judgements (England) and www.wales.gov.uk/topics/housing-and-regeneration/services-and-support/regulation/financialviabilityjudgements (Wales)

⁴ these include four Community Gateway Associations ([Greenfields Community Homes](#), [Phoenix Community Homes](#), [Preston Community Gateway](#), [Watford Community Housing Trust](#)), [Rochdale Boroughwide Homes](#) and [WATMOS Community Homes](#) in England and four Community Mutual associations in Wales ([Bron Afon Community Homes](#), [NPT Homes](#), [RCT Homes](#), [Tai Calon](#))

co-operative values and principles. They may be particularly inclined to support co-operative housing schemes.

Where a housing association initiates a co-operative housing scheme, it is important that it facilitates the growth of the co-operative community in the right ways. Whilst the aim in this scenario is to develop “bottom up” community control, it is ironically a “top down” approach (ie. the housing association deciding that a scheme will be co-operative from the outset), although no more “top down” than assuming that it will be owned and managed conventionally by the housing association.

It's an approach that can and has worked, but these are some pointers that will make it work more effectively:

- The founder members of the co-operative need to be identified at the earliest possible occasion. It is much harder to inspire people to co-operate once they have moved into their homes.
- Initially, it's likely that the potential co-operators will be bewildered to be told that the scheme will be a co-op. Chances are their initial motivation will be to live in an affordable home. It being a co-op will be alien to them.
- Stick with it. If the co-op development programme is done right, the incoming members will become inspired and become a community by the time they move in. However, at various stages it will make sense to assess whether the scheme will succeed as a co-operative.
- The co-operative needs to have something to co-operate about. It has to be in a position to make its own decisions about real issues that make a difference to the services the members receive.
- The role of the housing association is to facilitate the co-operative to make its own decisions.

- The housing association needs to be flexible about how the co-operative decides to do things. It can't just tell the co-operative that it has to do things in the same way that the association does them. That would defeat the point of setting up a co-operative.

Possible roles for housing associations

There are various roles that a housing association can play to support co-operative housing. The co-operative group and the association need to negotiate what roles will be played and how (even where the group is initiated by the housing association).

| Possible roles for housing associations | Co-operative housing initiated by | |
|--|--|---|
| | Community or local Council | Housing association |
| Conceptualising the scheme with local Council | | Yes – but needs to be flexibility to enable change |
| Facilitating development of co-operative group | Housing association could provide some support | Housing association will need to provide facilitation support |
| The housing development process | Housing association could be paid to provide support | Housing association would be paid to provide support |
| Owning the homes | It may be necessary for a housing association to own the homes (at least for a period of time) for finance or other reasons | |
| Legal agreement with co-operative | Needed if the homes are owned by the association | |
| Housing management | The co-operative may decide that some housing management services would be best provided by a housing association but this should be negotiated with the co-op | |

There should be clarity from the outset regarding what fees the housing association charges for development and other services.

Existing housing co-operatives

The CCH is coming across increasing numbers of housing co-operatives who want to explore building new co-operative homes. In several cases, housing co-operatives have substantial assets, either in their existing homes and/or as cash in the bank, which would enable them to raise finance to build new homes.

Existing co-operatives with assets could use their assets to develop new homes, either as part of their existing co-operative or through supporting the development of a different and/or new co-operative housing organisation.

If existing co-operatives just use the money they have in the bank, even in partnership with other co-ops, this would not lead to the development of more than a tiny number of new homes. The CCH estimates that there is the capacity across the housing co-operative sector as a whole to raise finance that could build over 5,000 homes. This is mainly because most housing co-ops have not developed homes for some time and have either paid off their housing loans or are close to doing so. This means they have assets which they can use to borrow money against. Some may own land on which new homes could be built and reduce the cost of developing them.

Various organisations (the CCH, housing co-operative service providers, and potential housing association partners) can advise co-operatives on the following:

- whether they have assets that could be used to raise finance by examining their accounts
- how best to conceptualise a new build development that would fit in with the ethos of the co-operative
- who they can work with to develop a new scheme

A realistic scheme proposal

Making a realistic scheme proposal involves identification of:

- a development site or buildings which are able to achieve planning permission for the intended co-op housing scheme
- a development model and funding plan setting out what is needed to raise the finances for the scheme
- a long term business plan for managing the scheme that includes costs for long term maintenance

[Locality](#) is currently developing a finance tool that may help in the assessment of viability of new co-operative housing schemes.

The development site/buildings

Identifying sites or buildings to develop co-operative housing schemes can be challenging, particularly where land is usually in short supply. In urban areas, existing buildings (or land where existing buildings were) could be developed into new homes. In rural areas, it may be a case of working with local landowners and/or local council who support the idea of co-operative housing to develop homes on greenfield or specific *exception* sites. The local Council may be able to help identify potential sites or buildings, and there are various lists and websites identifying land or development opportunities that are currently publicly owned⁵.

Obtaining planning permission for the co-operative housing scheme will be an important hurdle on greenfield sites or where change of use is proposed. In England, it may be helpful to be aware of recent Government policy changes which are aimed at enabling local communities to have more control over planning decisions. [Neighbourhood planning](#) groups enable local people to get involved in shaping local neighbourhood plans.

⁵ including sites and/or buildings owned or being sold by the Homes & Communities Agency. The Welsh Government also holds a similar register.

Community Right to Build provisions enable local people achieve planning permission through local referenda particular where local homes are needed in rural areas.

A housing association partner will usually be well versed in the processes to achieve planning permission, but strong support from local communities will always be helpful.

The development model - where does the money come from?

The crunch issue is where the money comes from to build the homes in a co-operative housing scheme. There may be a number of potential sources for the necessary funding:

- loans from financial institutions
- loans through local Council borrowing facilities
- loanstock and community shares from private investors (individuals or organisations)
- personal investment from the co-operative housing members (dependent on the type of scheme being developed)
- grant or loan funding from national or local Government, charitable or other institutions
- land, buildings or other resources from public or private sources (some provided at less than market value)

Institutional loans

The majority of the development costs are likely to come from loan funding, probably from financial institutions. This loan funding is usually split into two categories:

- short term funding (eg. five to seven years) that enables the homes to be built
- long term funding (eg. of perhaps thirty years) that enables the costs of the development to be fully repaid over time from rents and/or other sources

Most of the financial institutions that have traditionally provided funding for housing schemes now only provide short term funding. In so doing, they want to know where the organisation would obtain long term funding so that their loans can be paid off.

Many lenders will only lend to landlords who are registered with either the Homes and Communities Agency in England (where they are known as *Registered Providers*) or the Welsh Government in Wales (where there are known as *Registered Social Landlords*) and who have a track record of raising development loan finance.

Most developing housing associations raise development loan finance in various different ways. They may then have the means to lend to co-operative housing schemes, but to do so they may want or need to own the homes (and have a lease or some other agreement with the co-operative) until the co-operative housing organisation can raise its own finance. Such arrangements would need to be clearly defined at the outset and the relationship between the partners given careful thought.

Smaller *ethical* banks are particularly keen to lend to small scale co-operative housing schemes that have viable business plans, and some can provide both short and long term financing.

With most housing schemes costing significant amounts of money, it should be noted that the interest rate at which lending is made can have a significant impact on the scheme costs. Financial institutions will usually base the interest rates they charge on their perception of risk in the loan (ie. the likelihood of them being repaid). *Traditional* financial institutions tend to view co-operative housing schemes as higher risk and therefore if they were lending to them would charge more for their money. However, this may not be the case with some ethical financial institutions.

Loanstock and community shares

A model used by some co-operative housing organisations is to raise *loanstock* from private individuals or organisations (ie. providing probably what will be small sums of withdrawable share

capital that will earn a dividend to the investor). This is usually to top up their financing requirements (ie. in addition to what they are borrowing from finance institutions) and is usually done on the basis of the individuals and organisations lending because they wish to support the scheme rather than just for a financial return⁶.

Member personal equity

Some co-operative housing schemes are being established to enable the members and residents of the schemes to invest their own equity and resources in the scheme.

This could be either through them investing at the outset (ie. either through personal savings or a mortgage or a mixture of both), or through gradually buying equity as their personal circumstances enable them to. The models that enable this approach are discussed below, but where this approach is taken, this income would be factored into the co-operative's financial modelling.

Public grant and loan funding

The English and Welsh Governments (and the Greater London Authority in London) currently provide some housing grant funding for co-operative and community-led housing development to provide a contribution to build costs. Some resources are also being provided to help in the development and training of community groups in co-operative housing.

In England:

- the Homes and Communities Agency (HCA) and the Greater London Authority (GLA) in London provide funding to enable development of affordable *community-led* homes
- the HCA and GLA also manage Community Led Project Support funding which can be used to help community groups achieve planning permission for housing schemes

⁶ Information on loanstock is available in Radical Routes guide on setting up a housing co-op available at www.radicalroutes.org.uk/publications-and-resources and information on community shares at www.communityshares.org.uk

- some resources have been provided to enable community groups bring empty homes back into use
- HCA *local champions* can advise on available support⁷

In Wales:

- the Welsh Government (WG) is providing support to *pioneer* schemes as part of their commitment to develop 500 co-operative homes during the current administration
- the WG has also provided funding to enable training and development of community groups through the Wales Co-operative Centre

Government support is only intended as a limited contribution to make housing schemes more affordable, and existing Government programmes are time limited.

Government funding to support the costs of building homes can only be accessed through organisations that are *registered* with respective Government regulators – *Registered Providers* in England and *Registered Social Landlords* in Wales. These registered organisations include housing associations, and in England, housing co-operatives, local authorities and other organisations. The Homes & Communities Agency has simplified their registration process for new community-led housing organisations. The Welsh Government is exploring how to do the same in Wales.

Being *registered* means that any co-operative housing organisation that receives grant funding from Government (either directly or through a *partner* organisation) has to comply with Government defined regulatory standards, such as who can live in the homes built, what rent levels can be charged, and what service standards are expected. As well as this, to provide comfort to financial institutions lending money to housing organisations, Government regulators also set standards about

⁷ Information on HCA funding programmes is available at www.homesandcommunities.co.uk/community-led-development and on GLA funding programmes at www.london.gov.uk/priorities/housing-land/increasing-housing-supply/build-your-own-home-the-london-way

how registered housing organisations are governed, including their financial and business decisions. The impact all regulatory standards will have on co-operative housing schemes need to be carefully considered.

Some public funding is grant funding aimed at making schemes more affordable and which do not have to be repaid (unless the homes are sold on the open market). Some public funding is loan funding which has to be repaid, such as *revolving* loan funds for self-build or market rented schemes.

Other resources

Other resources that can make housing schemes viable could come from various sources.

Local Councils may release land or buildings, sometimes at sub-market costs, in order to enhance the affordability of a new housing scheme (although there are rules about if and how they can do this).

Local landowners in rural areas have been known to sell land at sub-market prices to support housing development for local people. It should be noted that change of use from agricultural land to housing land greatly increases its value, meaning that local support for planning permission for housing schemes could result in potential benefits for both the local community and local landowners.

And there could be a plethora of local grant and trust funds that may make a contribution for particular reasons – particularly in relation to environmental activities.

A long term business plan

Before putting a spade in the ground to build homes, there needs to be a long term business plan that will enable the co-operative housing organisation to manage the scheme over at least a thirty year period.

The main costs that would need to be accommodated in the long term business plan (dependent on the nature of the scheme) would include:

- costs of repayment of loan finance
- costs of long term maintenance and replacement of components of the homes
- costs of day to day repairs
- any staffing or agency costs
- insurance costs (buildings, public liability, others)
- legal, audit, training, social and administration costs
- contingency costs for homes being empty for short periods

These costs are particularly important for schemes intended to include rented homes. Some management costs would be the responsibility of the individual members if they are full or shared home owners, although those home owners may decide that their personal liabilities might best and most economically be met through the collective means that their co-operative housing scheme provides.

Clearly the aim of the long term business plan is to show that the rental and other income will be sufficient to meet the co-operative housing schemes costs over the thirty year period. This business plan will be needed to raise long term finance for the scheme.

Funding to develop the group

Getting what is known as *revenue* funding⁸ to support the development and training of the co-operative group is not easy. This is particularly the case at the early stages of conceptualising the scheme.

Co-operative housing groups are likely to require skilled facilitation support that can be quite expensive. This might be at least

⁸ Funding to develop the homes is known as *capital* funding

£10,000 to develop and train each co-operative group, although it may be possible to stretch some of these resources over different schemes, and some housing associations may be able to provide some in-house facilitation support.

Both the Welsh and English Government and the Greater London Authority are currently providing some revenue funding. In Wales, the Welsh Government and the co-operative movement has provided funding to the [Wales Co-operative Centre](#) to provide resources to support new co-operative housing development. In England, funding is available to community groups to help them develop housing schemes to the point of achieving planning permission. The CCH and the other community-led housing network organisations may be able to advise on where other sources of revenue funding may come from.

As a scheme develops a viable business plan, revenue costs to support the development and training of the co-operative housing group can sometimes be *capitalised* – ie. they can be added into the costs of the housing scheme. This will add a comparatively small sum to the development costs of the scheme, but the co-operative management of the scheme is likely to recoup these costs over time.

Ways and means

The models available

The primary message we want to give about models of co-operative housing available is ... **don't choose a model!** Work out what you want to do and fit the model around your aims and aspirations. The beauty of co-operative and community-led housing is that it is a highly localised method for communities to develop the bespoke solution that is right for them. We have yet to come across two co-operative housing schemes that are the same. They've all been developed to meet the needs of local people.

Be aware that there have long been consultants, organisations, solicitors and others operating in the co-operative housing sector who want to persuade you to choose a particular model for various reasons, regardless of whether that model is right for you.

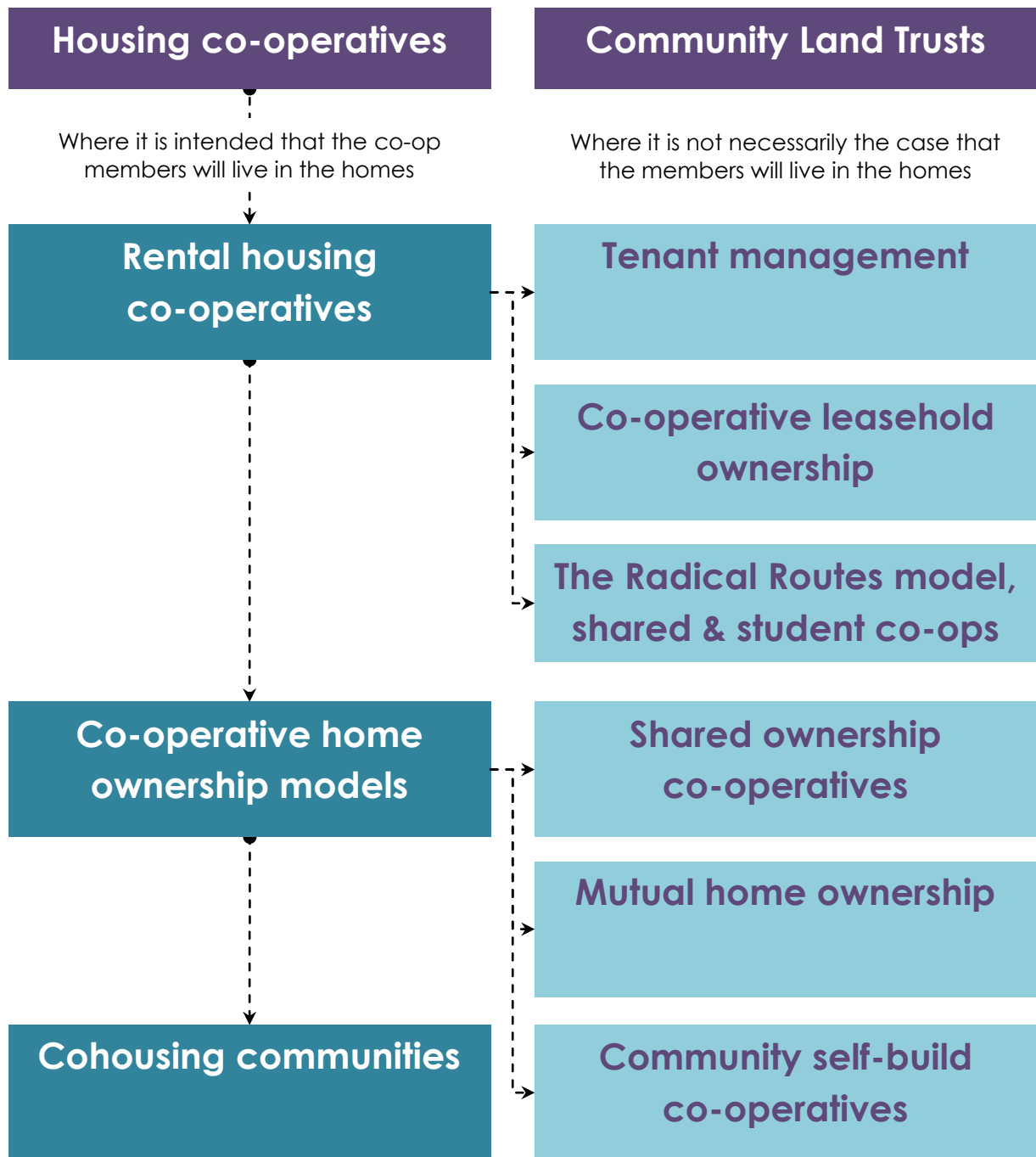
The truth is that, whilst there are potentially lots of detailed differences between how a co-operative housing scheme is implemented, there are few fundamental differences in the principles behind all of the co-operative housing models.

The factors below are the main areas which will determine the detailed differences that will shape your scheme:

- the aims and aspirations of the participants
- the intended tenure of the homes
- the income levels of the potential members
- the local environment
- consequences of the funding needed to build the homes

Over the next few pages, we have set out the models of co-operative housing that we are aware of.

Current models of co-operative and community-led housing

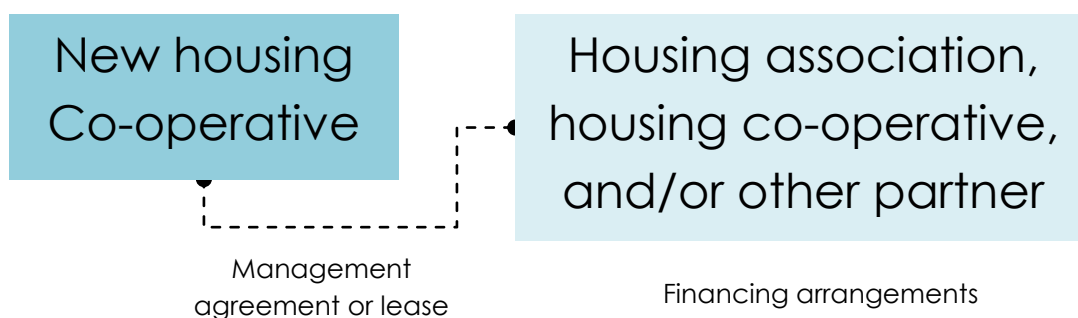


Rental housing co-operatives

There are various examples of rental housing co-operatives. The tenants who live in rental housing co-operatives are (or in some cases, can choose to be) members of the housing co-operatives and participate in governance of the co-operative through their membership.

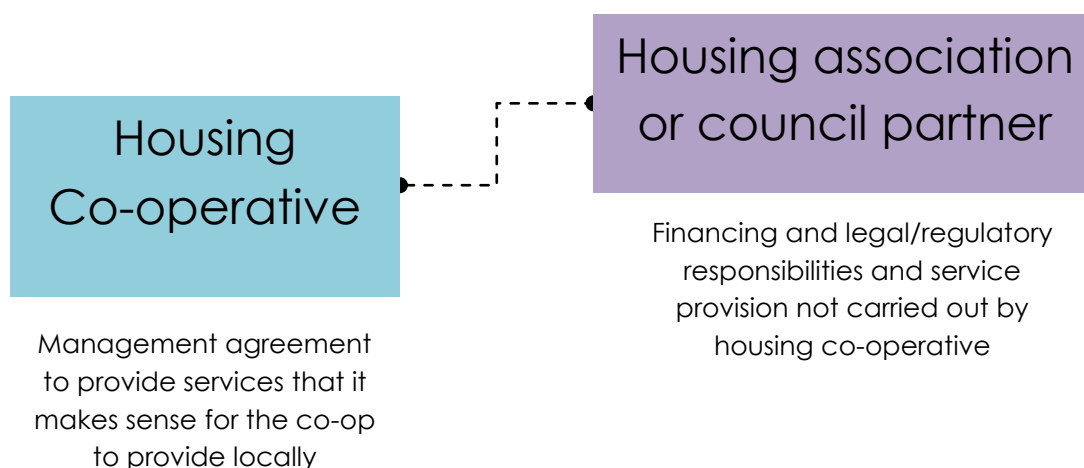
A new rental housing co-operative could own the freehold of the homes that its members live in if the financial arrangements for the scheme permit it. Over 400 existing UK rental housing co-operatives successfully own and manage the homes their members live in. However, except in very small shared housing co-operatives developed in existing buildings, it may be difficult for a new housing co-op to get private loan funding, and difficult to become registered with the Government regulator if the co-op wishes to receive public funding.

It may be easier for the homes developed to be owned (at least initially) through an existing housing co-op, a housing association, a local Council or through a private landlord and for the housing co-operative to manage the homes, either through a legal management agreement (known as tenant management) or a lease. Terms in either agreement could be included that set out how a housing co-operative could subsequently transfer the full ownership of the homes to itself (which would require the housing co-operative registering with the regulator if public grant has been involved).



Tenant management - there are over 200 tenant management organisations (TMOs) managing Council homes in England, and a smaller but growing number in housing association homes.

Ownership remains with the landlord which has a legal agreement⁹ with the co-op to provide management services. The landlord provides a management allowance to the co-op to enable them to provide the services they have responsibility for. The co-op can choose to take on the level of responsibilities that are right for it, with services it does not take responsibility for provided by the landlord. Because the homes remain owned by the landlord, legal landlord and regulatory responsibilities remain with the housing association, which consequently needs to ensure that the co-op delivers a level of service that enables the landlord to comply with its obligations.

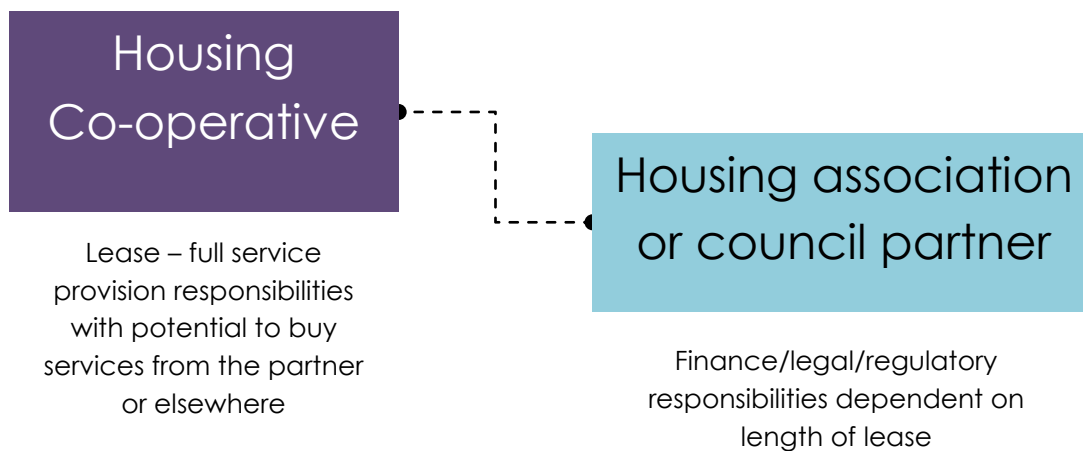


Leasehold ownership – alternatively, the co-operative could be set up as a leasehold ownership co-operative, where the landlord owns the freehold of the properties and grants a lease to the housing co-operative.

The lease could be of various lengths. A lease of over seven years would transfer the assets to the co-op's balance sheet, and this would transfer legal and regulatory responsibility for the properties and tenancies to the co-op. With a lease of under seven years, the assets would remain on the landlord balance sheet. Legal and regulatory responsibility would rest with the landlord and the

⁹ There are existing model management agreements that could be adapted for this purpose. There are various methods for calculating management allowances.

terms of the lease would need to enable the landlord's responsibilities to be met through the co-op.



If public funding has been provided and the lease is longer than seven years, the co-operative would need to be registered with and regulated by the Government regulator. A choice could be made to register the co-operative if the lease is less than seven years. Under a lease, the co-op could issue tenancies in its own right. This would be helpful if it is intended that freehold ownership will be transferred to the co-operative at a later date. A leasehold model would enable the co-op to develop and potentially raise its own funding in the future to buy the properties.

The Radical Routes model – an organisation called Radical Routes has pioneered a particularly effective model to raise finance for small rental housing co-operatives in existing buildings where perhaps 70% of the capital finance needed is raised through an institutional mortgage with the remaining 30% being financed through *loan stock* where individuals or organisations lend sums of money to the organisation.

This approach has been particularly effective in shared housing (ie. where one or two homes are bought and co-op members live communally in rooms in the homes). There has been recent interest in this model from potential student housing co-operatives.

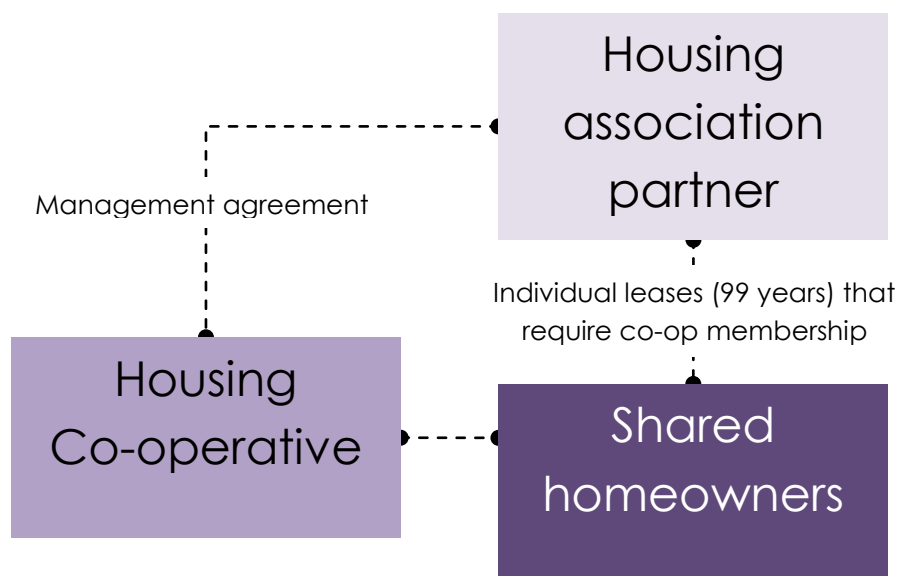
For further information, contact [Radical Routes](#)

Co-operative home ownership models

The shared ownership model – a shared ownership housing co-operative is established where co-op members buy a proportion of their homes dependent on their income levels through standard shared ownership leases, and make *rental* payments to a co-operative in relation to the proportion of the homes they do not own. These *rental* payments could cover:

- (a) the private finance costs of developing the scheme
- (b) the management costs of the co-operative (not expected to be particularly significant)
- (c) additional costs for services (such as gas servicing, energy saving measures or planned maintenance costs) that co-op members agree would be beneficial for them to provide collectively

Under this model, the co-operative or a housing association partner would have individual 99 year leases with shared home owners which would refer to the co-operative and require the shared home owners to be members of it. Where using a housing association partner, the leases would also refer to a management agreement between them and the co-operative to provide management and other services relating to the co-op (as shown in the diagram below).



In this model, it is important that the management agreement to the housing co-operative does not give the co-op a legal interest in the properties developed, although it could be possible that the co-op could buy freehold ownership at a later date if it charged sufficient rent to enable the income to be raised to pay for the housing association's financing and other costs.

Under this model, means would need to be enshrined to prevent leaseholder enfranchisement, especially if public grant had been used to enable the scheme to be permanently affordable. This would need to be done both where using a housing association partner or to a subsequent freehold owning co-operative.

The mutual home ownership model - mutual home ownership is a means by which co-operative housing can enable its members to own equity shares in the co-operative Mutual Home Ownership Society (MHOs). The number of the shares that members buy is dependent on what they can afford, and shares bought would increase or decrease in value according to the value of the co-op's properties. Two models have been developed to enable mutual home ownership:

The CDS Co-operatives model envisages an MHOs as a co-operatively owned "property unit trust", where residents buy equity shares in the co-op. The land on which MHOs homes are built are owned by a Community Land Trust, whilst the homes built on the land are owned by the MHOs, whose members are the people living in the homes built. Each member has a lease which gives the right to occupy their home and to democratically control the MHOs. Each member makes monthly payments to the MHOs which, after the deduction of management, maintenance and other costs pays the loan that enabled the homes to be built. The cost of building the homes is divided into equity shares with a value of £1,000 which members would be able to buy and sell dependent on their personal circumstances.

The Accord model envisages an MHOs which arranges finance to develop its homes, and then rents its homes to members from which the MHOs services the housing loans and pays for the costs of managing and maintaining the co-op. Members would be

offered an annual opportunity to buy shares in the co-op (up to a defined maximum level) enabling them to share in equity gains made by the co-op.

Community self-build – Community self-build is a co-operative method for communities to build their own homes. A community self-build scheme can be initiated by a local community who want to build their own homes on a local site or by a housing association wishing to support the development of a community self-build group. There are different ways to develop community self-build. In some schemes, an agreement is made regarding how many hours self-builders devote to a scheme and those involved can achieve building qualifications from their involvement. In other schemes, the self-builders buy allocated plots of land and then make their own decisions about how they will build or self-commission their homes.

What makes community self-build co-operative are the ongoing arrangements to manage communal elements of the scheme as a community¹⁰.

For further information, go to [NASBA's self-build portal](#)

Cohousing communities - cohousing communities are a form of housing co-operative that are designed to be *intentional communities*. Each household has a self-contained, personal and private home but co-operative members come together to manage their community, share activities and eat together. To facilitate the intentional community element of cohousing communities, it is important that the community is developed at an early stage of developing a cohousing scheme. The design of the scheme is also particularly important with regards facilitating community, as is having a common house within the scheme.

Subject to funding arrangements, cohousing can provide ownership, shared ownership, mutual home ownership and rental tenures. Senior cohousing initiatives are particularly on the

¹⁰ There has also been a long tradition in the UK supporting individuals “self-building” their homes. The CCH supports any such self-help approach, but we have not focussed on individual self-build here because it does not deliver a co-operative housing solution.

increase in the UK (either through inter-generational or similar age range schemes) given the emphasis on neighbourly and mutually supportive relationships.

For further information, go to the [Cohousing Network](#)

Community Land Trusts

Community Land Trusts are community-based co-operatives run by their members that develop housing, workspaces, community facilities or other assets that meet the needs of the community.

Whilst they are owned and controlled by the community, they differ from housing co-operatives in that the Trust's membership is potentially open to all the people who live and work in the defined community area, which could include those who live in homes built by the Trust. They range in size, can be rural or urban and provide a variety of housing tenures as well as other community facilities, including workspaces, energy generation, community food and farming.

The assets of a Community Land Trust are controlled by the community. They endeavour to keep homes or other assets developed permanently affordable. They do this by at least retaining the freehold of assets developed, but they could also act as a landlord to rental homes.

In some cases, particularly in rural areas, Community Land Trusts particularly aim to provide affordable homes for local people, and having achieved that aim, management of the homes is through a local housing association. In other cases, Community Land Trusts support self-build, housing co-ops or other methods of involving tenants directly in the management of their homes.

For further information, go to the [National CLT Network](#)

These are the models of co-operative and community-led housing we are currently aware of, but it is important to note that new models are springing up all the time, responding to local needs and aspirations.

Methods of management

Establishing a co-operative housing scheme, whichever of the above options is chosen, will also require decisions to be made about how the housing scheme is managed. Again bespoke arrangements are likely to be needed that are suitable for the co-operative and any partner organisations. There are perhaps three possible overarching options:

Voluntary service delivery

Several co-ops (usually smaller ones) use some voluntary service delivery, where co-op members deliver particular services.

Advantages

- a hands on approach may mean that co-op members develop effective localised and personal service delivery
- likely to cost less to deliver the service

Disadvantages

- this approach requires voluntary commitment and long term sustainability and succession may be issues
- there may be conflicts between governance and operational delivery

Staff employment

Some co-ops (usually larger ones) directly employ staff.

Advantages

- the co-op enjoys the professional services of dedicated members of staff

Disadvantages

- staff management responsibility which co-ops have often not been good at
- staff cover issues
- dependent on staff qualities
- not viable for many schemes

Agency or housing association employment

Some co-ops buy services from service providers or a housing association partner.

Advantages

- the service provider is responsible for the staff relationship and provides cover as appropriate
- agencies have access to staff trained in various disciplines

Disadvantages

- if a staff relationship with an agency is not properly designed, staff and tenants may lose sight of the reason for establishing the co-op
- possible VAT implications

In all probability, establishing co-operative housing schemes will consist of permutations between voluntary involvement and staff or agency provision of services. Defining these relationships effectively will be critical to the success of the co-operative scheme. The CCH has developed an accreditation system for organisations providing services to housing co-operatives. All of the organisations providing services to significant numbers of co-operatives have now been accredited.

Access to the homes

Successful co-operative housing schemes rely on the establishment of a strong local community identity and support infrastructure. Where public grant funding supports the development of a co-operative housing scheme, those providing the grant are doing so in order that people who cannot afford to be housed through other means can be housed. Given that there is extreme housing need in England and Wales, it is right and proper that public grant funding for housing enables homes to be built for those that need it most.

Local Councils usually define the categories of people who have the most priority for *social housing*. They are meant to do this having consulted widely in their boroughs. Those who have the most priority are usually families, but there are other categories of people who may be housed. People in housing need may also include people with multiple social problems, who may find it challenging to participate in co-operative housing.

Where a co-operative housing scheme includes grant funded affordable rented housing, negotiations will need to be had with the local Council about who will be housed initially in the scheme and who would be housed in the future:

- 1 Given that the initial membership of the co-operative needs to be identified and a development programme started with them well before the scheme starts, discussions need to be had with the local Council about pre-allocations, possibly as much as 18 months before people are due to move in.

Whilst the homes will have to be let to people in housing need, the local Council will need to agree that statutory homeless people in immediate housing need will not be part of the initial scheme and to the co-op's requirement that incoming tenants are expected to participate in the running of the co-operative and in the development programme. Allocations will need to include some form of "co-operability" test, although in practice this will only highlight to potential members the different nature of the housing.

Non affordable rented housing may well be attractive to those on Council waiting lists who are never likely to be housed in *social housing*. Any affordability could be an added incentive for people wanting to be part of a co-operative (although recent research¹¹ in Wales showed the importance of the community aspect of co-operatives for potential co-operative members).

- 2 consideration will also need to be given to how affordable grant funded rental housing is relet in the future to ensure that new tenants have some interest in living in a co-operative and discussions had with the local Council about this. There are various models being used in England – such as local Councils offering three nominations who the co-op then interview and make a choice from.

It is very important that those developing co-operative housing schemes do not come across in a way that suggests that they do not want to house people in housing need in their scheme. Homelessness is perhaps the most frequently raised issue in local Councillors' surgeries and co-operative housing organisations, especially where they have received public grant, need to be prepared to house a fair percentage of people who may have multiple social problems when they are housed. Co-operative housing organisations should be proud of how well they can help people tackle those social problems.

¹¹ "Research into the potential demand for co-operative housing in Wales" - Wales Co-operative Centre 2013 – available at www.walescooperative.org/co-operative-housing-a-model-for-accessing-homes

Some legal questions

There are various legal issues that need to be considered in setting up a co-operative housing organisation that go beyond what would be appropriate to include within a basic guide. These are complex issues that will require proper advice in the development stage of setting up a co-operative housing organisation.

The co-op will need to be registered as a legal entity either as a Co-operative Society, a Community Benefit Society, a Company Limited by Guarantee or a Community Interest Company. There are advantages and disadvantages to each model. Model rules usually exist for each type of legal structure.

The term *fully mutual* refers to housing co-operatives where all of its tenants are members and all members are tenants or prospective tenants¹². Full mutuality is perceived by some to strengthen co-operative identity. Decisions would need to be taken as to whether a co-operative housing scheme should be fully mutual and what this will mean in practice.

Where rental housing is involved, consideration will need to be given to the type of tenancies issued. A fully mutual co-op cannot issue tenancies that are *assured*¹³, which means that the rights of fully mutual co-operative tenants are based on the decisions that the co-op makes rather than in statute.

¹² In this legal context, the term tenant could also apply to leaseholders, and so full mutuality could also apply to co-operative housing scheme members who occupy their homes on the basis of a lease.

¹³ In its forthcoming Housing Bill, the Welsh Government is proposing to permit fully mutual co-operatives to issue assured tenancies

Who can help you?

| Organisation | e-mail contact | Subject area |
|--|-------------------------------------|--|
| Confederation of Co-operative Housing | info@cch.coop | All forms of co-operative housing and tenant related issues |
| Cohousing Network | jo@cohousing.org.uk | Cohousing |
| Community Gateway Association | karen.perry@communitygateway.org.uk | Links with mutual housing associations |
| Community Land Trust Network | catherine.harrington@housing.org.uk | Community Land Trusts |
| Department of Communities & Local Government | Andrew.Dack@communities.gsi.gov.uk | Advice on Government housing programmes in England |
| Greater London Authority | Tom.Lloyd-Smith@london.gov.uk | Advice on London housing development |
| Housing Associations Charitable Trust | info@hact.org.uk | Community issues in housing associations |
| Homes and Communities Agency | Anthony.Brand@hca.gsi.gov.uk | Advice on Government housing programmes in England |
| Local Government Association | info@local.gov.uk | Local Councils |
| Locality | info@locality.org.uk | Advice on Government community rights funding programmes |
| National Self-Build Agency | info@nasba.org.uk | Self-Build |
| National Housing Federation | info@housing.org.uk | Housing associations |
| National Federation of Tenant Management Organisations | contact@nftmo.com | Tenant management |
| Radical Routes | enquiries@radicalroutes.org.uk | Advice on loanstock and very small scale rental housing co-ops |
| Self-Help Housing | jnf@agents-for-change.com | Empty Homes funding |
| Tenants & Residents Organisations of England | runcornoffice@taroe.org | Social housing tenant related issues |
| Tenant Participation Advisory Service | info@tpas.org.uk | Social housing tenant related issues |
| Wales Co-operative Centre | info@walescooperative.org | Advice on co-operative initiatives in Wales |
| Welsh Government | Clara.Hunt@wales.gsi.gov.uk | Advice on Government housing programmes in Wales |