Helping Communities Build: A review of the Community Land Trust Funds and lessons for future support

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HELPING COMMUNITIES BUILD

A review of the Community Land Trust Funds and lessons for future support

Authors: Dr Tom Archer, Dr Stephen Green with Charlie Fisher | **January 2019**

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CONTENTS

Foreword	4
About CAF	4
Executive Summary	5
The context for the study	5
CLT Fund investments, housing outputs and affordability outcomes	5
The barriers to housing development and responses	6
The value of the CLT Fund	7
Improving future financial support	8
1. Introduction	
About social investment	9
1.1. Community Land Trusts and community-led housing	9
1.2. The CLT Fund	9
1.3. The purpose of the study and methods employed	11
1.4. Structure of the report	11
2. Financing CLT and other community-led housing schemes	12
2.1. The current funding and finance landscape	12
2.2. The Community Housing Fund	12
2.3. International approaches to financing community-led housing	13
3. CLT Fund investment, housing outputs and affordability outcomes	15
3.1. The scale and distribution of investments	15
3.2. Investment activity	16
3.3. Housing outputs and affordability outcomes	17
4. The realities of CLT development; barriers and group responses	19
4.1. Introduction	19
4.2. Pre-development	20
4.3. Development	22
5. The value of the CLT Fund	25
5.1. Introduction	25
5.2. Pre-development finance	25
5.3. Development finance	27
5.3. Measuring impacts	29
6. Conclusions and implications for future funding and finance	30
6.1. Assessing the value and contribution of the CLT Fund	30
6.2. Improving future financial support	31
References	34
Glossary of technical terms	35

FOREWORD

Community Land Trusts (CLTs) – housing projects built by and for local communities in need – are playing an increasingly significant role in tackling the UK's ongoing housing crisis.

Community-led housing schemes empower people, enrich local communities and improve the lives of residents. They can breathe new life into a village by offering affordable homes below market rate to families that are priced out of the area they live and work in. To give a real-world example, the CLT Funds managed by the Charities Aid Foundation through our pioneering social investment arm CAF Venturesome recently invested in a scheme in St. Ives, Cornwall. The scheme will build six houses in the centre of a town where 80% of properties are second homes, leaving little accommodation for local people struggling to secure affordable housing.

It's true that the CLT model remains under-utilised; currently, only 826 affordable homes have been built in England and Wales via these schemes. However, there are 5,810 community-led homes in the pipeline in England alone and much more can be expected of CLTs in the future. Community-led housing could achieve a great deal more if two obstacles in its path were removed: community groups access to affordable land and providing finance at an early, pre-development stage. These are two issues that crop up consistently and prevent CLTs from playing a bigger role in helping to solve our housing crisis.

So what can be done? This report, whilst acknowledging successful community-led schemes, also strives to identify how support for CLTs can be implemented more effectively in the future. Demand for housing in this country is only going to increase. Clearly there is a key role for locally-led schemes that provide quality affordable housing.

We are passionate about CLTs and are proud of the achievements of the CLT Funds we have managed. There is immense value in patient, flexible finance, made possible by philanthropic capital, provided alongside expert support.

We are incredibly grateful for the support of our funders: the Esmée Fairbairn Foundation, the Nationwide Foundation, the Tudor Trust, and individual philanthropists, who provided much needed finance for the CLT sector, alongside our own investment. Thanks to their support we have been able to offer 57 social investments, totalling over £4.4m to 33 community groups.

But even if we are proud, we are certainly not satisfied; there is more work to be done. Our current CLT Fund runs until August 2019. Whilst we predict that 570 new homes will be built as a result of the two CLT Funds we have established and managed, this really is just the beginning and much more is possible.

As we enter the final year of our CLT Fund, this report uses expert insight and data research to analyse where community-led housing is heading and what funding and support it needs to grow further. CLTs are a galvanising force for good in our local communities. With the right support, they can play a much more significant role in addressing the UK housing crisis, whilst enriching the lives of so many people in all corners of our society. We are certainly committed to continue supporting them, and will engage with our partners to shape the right funding environment for these initiatives to flourish.

Sir John Low, Chief Executive, Charities Aid Foundation.

About CAF

Charities Aid Foundation (CAF) is a leading international charity registered in the United Kingdom, with nine offices covering six continents. We exist to make giving go further, so together we can transform more lives and communities around the world. We are a champion for better giving, and for over 90 years we have been helping donors, companies, charities and social organisations make a bigger impact.

We are CAF and we make giving count.

CAF Venturesome, part of CAF, is an impact-focused social investment fund supporting social enterprises and charities to sustain and grow their impact. Since 2002, we have made over 580 social investments totalling £48m+.

EXECUTIVE SUMMARY

The context for the study

Across England and Wales increasing numbers of people are seeking to solve housing problems through organisations which are led by local residents. Whether this is to address a shortage of affordable housing, or to improve the quality of the existing housing stock, such 'community-led housing' is experiencing a renaissance, buoyed by government's recent commitment of £163m of funding. Community Land Trusts (CLTs) are one model for this form of action, being initiated and led by residents to provide stewardship of land, and to manage housing and other assets for a community's benefit. The CLT Funds, managed by CAF Venturesome, have provided a unique and longstanding source of repayable finance to such organisations, developed with philanthropic capital from The Charities Aid Foundation (CAF), the Esmée Fairbairn Foundation, the Nationwide Foundation, the Tudor Trust and individual philanthropists. This finance was provided in two separate funds, the first running from 2008-2014 and the second from 2014-2019. The similarities between the funds, and the combined analysis of them in this report, means that for ease of explanation they are referred as the singular 'CLF Fund' throughout.

Commissioned by CAF, this report assesses 10 years of the CLT Fund's activity, analysing evidence from the Fund's investment database, a survey of the Fund's investees and numerous in-depth interviews with representatives of investees and other community-led housing groups. This provides a unique insight into the role and value of the Fund in providing repayable finance to such groups, and has enabled us to explore how a more effective system for funding and repayable finance may be built in future.

These are timely contributions, as the government's Community Housing Fund opens for applications, and as CAF Venturesome considers options for the future of the CLT Fund after 2019.

CLT Fund investments, housing outputs and affordability outcomes

The CLT Fund has provided £4.4m of pre-development and development finance to CLTs since 2008. It has made 57 investments in CLT housing schemes, to 33 individual groups, and has directly contributed to the creation of 105 new affordable housing units, with an additional 419 in the pipeline. The Fund has made 45 pre-development investments, at an average value of £34,600. These loans have been made 'at risk', only being repaid when a group's scheme starts on site. Four fifths of these loans have been repaid and recycled back into the Fund, or they are still being used to bring sites forward. For those schemes that did not come to fruition, for instance if planning permission was not secured, then the loans were transferred to grants. Such write-offs have run at slightly lower levels than expected; 13 per cent of the capital provided for pre-development, compared to the 16 per cent envisaged.

£4.4 M	57	524	Investments were
of finance offered since 2008	social investments in CLT housing schemes, developed by 33 individual groups	affordable homes completed or in the pipeline	NATIONWIDE (See MAP – Figure 2)

Source: CAF Venturesome

The Fund has also provided nine development loans to groups at an average value of £240,000. These investments have often been made in the form of a junior loan, taking a second charge on any property, and thereby enabling groups to secure a larger de-risked loan from a senior lender. All of these loans have been repaid, with several more in the pipeline.

Current figures suggest that there are 290 CLTs in existence in England and Wales[1], though data from 2016 had this figure at a much lower level (170). We therefore estimate that the CLT Fund has supported at least 11 per cent of the total CLT sector. However, only a proportion of such groups are likely to be active in developing housing schemes. Assuming the accepted rule of thumb - that around half of existing CLTs have, at any one time, moved beyond incorporation to the planning and development of housing[2] - then we can estimate that the CLT Fund has supported 23 per cent of the groups at a more advanced phase. **Furthermore, we suggest that 13 per cent of all the 826 affordable units developed to date by CLTs in England and Wales have received some CLT Fund investment.** This is significant coverage as, firstly, some developing groups do not need the type of repayable finance offered by the CLT Fund, in light of other grants and support provided by funders, private developers and other agencies.

Secondly, the total capital employed by the Fund is relatively small, in a sector where individual scheme costs can run to several millions of pounds.

CLT Fund investees have focused on developing affordable ownership models (60 per cent of the planned and completed schemes), whilst also developing affordable rented properties (35 per cent) and social rented properties (5 per cent). Different approaches to affordability have been used by groups, though most investees are providing homes comparable, at least, to the government's Affordable Rent product (set at 80 per cent of market rents). In many places groups are providing an enhanced level of affordability as a response to issues encountered in high-cost areas, whilst innovating around discounted sales prices and systems for ensuring long-term affordability.

The barriers to housing development and responses

This research supports recent findings[3] that CLTs face multiple hurdles and obstacles in developing housing schemes. And whilst we might understand the stages of the development process in slightly more granular terms, the CLT Fund's focus on 'pre-development' and 'development' activity means they have sought to help groups at critical junctures in a scheme's development; in identifying, appraising and accessing sites for development, in planning and securing permissions for their schemes, and in securing sufficient finance to build them.

The survey of CLT Fund investees, undertaken in 2018, provides insights from those with experience in developing an estimated 56 different CLT schemes, and 22 named schemes that have received CLT Fund support. Here respondents identified two major barriers to CLT developments:

- **securing affordable land for development, and**
- **raising funds for pre-development activity.**

At present, groups receiving CLT Fund investments have had the greatest success in securing land from local landowners, through section 106 (S106) agreements and through accessing rural exception sites. The use of publically-owned land has also been apparent, with sites or property purchased at nil (or low) cost. Considering their experiences in the pre-development phase, investees noted several major challenges. Specifically, these related to the:

1. Identification of, access to and acquisition of sites,
2. Building credibility and productive relationships with local authorities,
3. Meeting significant pre development costs, and
4. Having sufficient organisational capacity to manage the organisation, whilst planning and developing their housing schemes.

1 (NCLTN, 2018)

2 (CAF Venturesome, 2016)

3 (Archer et al, 2018; Heywood, 2016; Moore et al, 2018)

These barriers overlapped and combined with the challenges experienced in securing finance to meet development costs. Investees reported challenges relating to:

1. Accurately planning scheme finances and understanding lender appetite,
2. Accessing finance for specific tenures or housing products,
3. Accessing finance of a specific type and duration,
4. Finding suitable project managers and contractors, and
5. Ensuring end-affordability for residents and the financial sustainability of the organisation.

In light of these varied and often compounding barriers, funded groups have responded creatively - learning as they went. In meeting financial challenges, groups have innovated by crowdsourcing additional finance, switching tenures to increase scheme viability, collaborating with housing associations to reduce exposure to financial risks, and working with public bodies to parcel up sites for community-led housing.

Interviews with organisations not receiving CLT Fund investment were revealing, highlighting how schemes were being planned which combined a CLT with other organisational forms (such as housing co-operatives). Such approaches, when part of larger developments, might help address some of the barriers to development[4]. Similarly, the role of enabler hubs or infrastructure bodies was seen as important in overcoming some of these barriers. Experience in Cornwall and other areas has revealed how these organisations can play differing roles in different schemes to unlock them in ways which suit the specific local desires and the capacities of groups.

The value of the CLT Fund

In light of these barriers the CLT Fund has played an important role, both at the pre-development and development stages. The significant contribution of the Fund is in part reflective of its longstanding position in the CLT sector, having supported the growth in CLT groups in England and Wales from just 25 in 2008 to 290 in 2018.

The Fund's early intervention in this sector, and unique financial offer, provides important lessons about the role of philanthropic capital in enabling creative interventions which carry risks other commercial and social lenders are not willing to bear.

Analysing responses from our in-depth interviews highlighted the key strengths of Fund as currently operating. Specifically on the pre-development loans, investees found value in:

1. The 'at risk' and unsecured nature of loans
2. The flexibilities in how the money could be used and light-touch monitoring, and
3. The quality of advice and support provided by the CAF Venturesome team.

The structure of these loans is perhaps the most important aspect in understanding their value. Securing finance for pre-development work without existing assets can be difficult, and offering loans in such a way as to only require repayment if and when a scheme starts, gives groups 'confidence...[and]... courage'.

Questions remain, however, about the continued value of such repayable finance in context of a large government grant programme, and whether such finance is still required.

The significance of the CLT Fund's development loans was also clearly articulated by interviewees. Investees have valued two features of this funding:

1. The structure of the loans, and how this enabled them to secure additional finance, and
2. The flexibilities in how the loan could be used.

The development loans had, for a number of groups, played a key role in securing additional finance, made possible by the fact that these loans took a second (rather than first) charge on property. Through this approach funder collaborations have emerged, as senior lenders combined their finance with the CLT Fund's investment to make the financing of schemes 'stack up'.

[4] (Fisher et al, 2016)

Other CLT Fund development loans have been used to seize a window of opportunity to acquire a site, enabling groups to rapidly demonstrate to landowners that they had finance behind them and should therefore be taken seriously. Whilst the research reveals a number of important impacts flowing from CLT Fund investments, the true range of social, economic and environmental impacts cannot be known until there is a standardised system in place to measure the inputs, outputs and outcomes of schemes. This research reveals how localised, case study approaches are being used to capture impacts, whilst highlighting how existing measures could be used to understand the cost/benefit of housing schemes, and their effects on the well-being of residents and local people. However, the capacity of groups to assess the extent to which their schemes have affected people's lives will continue hinder data collection.

Whilst generally valued by investees, the CLT Fund has not met every group's needs. The processes for dual-funding schemes with other lenders could be improved to reduce the bureaucratic burden on groups, and providing longer term investments would be welcomed. And whilst some groups have used the development loans to purchase sites many have not, leaving interviewees arguing for 'a revolving fund for land acquisition'. The pre-development loans, whilst acknowledged as a valuable resource, have carried high interest rates that investees have found difficult to bear. Furthermore, by tying the loans to specific schemes, groups have continued to struggle to meet the generic costs of running their organisation and to explore the potential of additional schemes.

Improving future financial support

On the basis of these findings we offer a number of recommendations to CAF Venturesome about how a future CLT Fund might be improved. We also outline potential changes to the wider funding and finance system for community-led housing that would address some of the fundamental barriers groups face.
We suggest that a future CLT Fund could adopt the following changes, to strengthen its support for CLTs and other community-led housing groups:

1. Reducing interest rates, particularly on pre-development loans. This is particularly important in an era where revenue grants for groups have increased. Achieving this may be difficult but CAF Venturesome can look at alternative fee/charging structures.
2. Ensuring pre-development investments, and their interest rates, are reflective of the size and likely success of the proposed schemes, and that they support organisational as well as scheme development,
3. Reducing the costs of professional services, and using in-house financial expertise to help groups get ready for future financing
4. Widening the scope of funding beyond CLTs and setting out a preferred approach to assessing affordability, and
5. Focusing on alternative tenures and schemes unfunded by the government's Community Housing Fund.

In addition to these specific changes to the CLT Fund, a set of improvements are suggested to enhance the wider system of funding and finance for community-led housing groups. These include:

1. Creating a range of financial products, from grants through to equity-based loans, that help groups to plan and operate effectively, and expand to multiple schemes,
2. Developing longer term finance to help groups iron out cashflow difficulties,
3. Innovating with loan guarantees and other financial aids to reduce borrowing costs and remedy short term financial problems,
4. Developing a large fund to make site acquisition possible and affordable, and
5. Improving funder collaboration to meet emerging gaps in funding, enhance data collection, and standardise monitoring and application processes.

1 INTRODUCTION

About social investment:

Social investment is the use of money to achieve both a social and financial return. A growing number of social organisations such as Community Land Trusts (CLTs) are using this source of repayable finance to help accelerate their future plans. It is not a grant or donation; it is repayable, often with interest. It can be an affordable, flexible source of finance, where other lenders may be unable to help, alongside your other funding options.

1.1 Community Land Trusts and community-led housing

Interest in localised ownership and control of housing has reached levels not seen in England since the 1960s. This has been a reaction to the poor affordability and exclusion from housing for some groups, in some places. It has also been fuelled by a desire to improve the condition and management of the existing housing stock. Thus, 'community-led' approaches have emerged as a potential solution to such issues. This change has taken place in an era of fiscal austerity, where neither the State nor the market seems able to deliver sufficient affordable housing in large parts of the country. In response, people have formed groups to build, renovate and control housing, testing different mechanisms for bringing sites forward, new approaches to achieving affordability and seeking alternative models to retain control of that housing for the long term.

This is a diverse sector within which there are different types of organisation; CLTs, housing co-operatives, co-housing groups and self-help housing organisations, to name but a few. A CLT is defined in law, as an organisation established to secure benefits for a local community by acquiring and managing land and other assets. Any profits from its activities must be used to secure benefits for individuals who live or work in that community. Membership must be open and those members must ultimately control the trust (HM Government, 2008).

In 2016, studies estimated that there were 170 CLTs active in England and Wales (Heywood, 2016), with the broader community-led housing sector comprising nearly 1,200 groups and organisations owning and/or managing over 170,000 housing units.

However, recent data suggests that the proportion of such groups that are developing housing is low. Less than 20 per cent of CLTs in England and Wales were thought to have an associated housing stock (World Habitat, 2017). What is clear is that the number of CLTs has grown exponentially in recent years.

The UK's National CLT Network suggests that in mid-2018 there were 290 CLTs in England and Wales, with these numbers increasing six-fold in the last six years. CLTs are said to have contributed 826 permanently affordable homes to date, with a larger pipeline of schemes being developed (NCLTN, 2018). Data collection in 2017 suggested that between 2018 and 2022 an estimated 243 housing schemes are being planned by CLTs and other community-led groups, with the potential to deliver 5,810 new units (Power to Change, 2017).

This research, therefore, coincides with a rapid expansion in this activity, yet the sector faces persistent barriers to development. The following report provides insights into the subtleties of the barriers faced by groups, and the role of the CLT Fund in addressing these. It concludes with thoughts on how a future fund, and wider financing system, could be built to better address the barriers identified. The report uses several technical terms relating to the development and financing of housing schemes. A glossary is provided on page 40 to explain these technical terms and any acronyms used.

1.2 The CLT Fund

The first CLT Fund was initiated in 2008 to provide repayable finance for CLTs wishing to build affordable housing. It was created with social investment from The Charities Aid Foundation (CAF), the Esmée Fairbairn Foundation, the Nationwide Foundation, the Tudor Trust and individual philanthropists provided in the form of philanthropic capital (i.e. risk bearing for social impact return). With CAF Venturesome managing this Fund, the initial pilot phase aimed to support the growth of CLTs in England and Wales. With just 25 CLTs in existence in England and Wales in 2008 the importance of such philanthropic capital comes into focus, enabling investment in an uncertain, emerging and untested field, where other social investors just could not justify the risk.

This first phase was designed as a pilot, acknowledging that the financial mechanisms used were untested and being applied in, what was then, an embryonic sector. Building on this a second CLT Fund was initiated in 2014, which will until 2019.

The similarities between the funds, and the combined analysis of them in this report, means that for ease of explanation they are referred to as the singular 'CLF Fund' throughout.

The CLT Fund has been designed to connect with, and follow on from, the National CLT Network's Start-Up funding, which provides early feasibility support and small amounts of funding for technical advice. This was intended to provide groups with a pathway from early group activities and assessments of feasibility, through to the development of housing.

The CLT Fund offers:

- Pre-planning finance from £20,000 to over £60,000. These are unsecured loans offered at risk, with the loan potentially being written off if planning permissions are not granted. The Fund previously charged a 25% fee on the loan if the scheme went ahead, but this was later changed to an annual interest rate of 10 per cent.
- Development finance from £200,000 to over £400,000. These loans which take a second-charge to enable leveraging of secured finance, with an annual interest rate charged around 7.5 per cent.

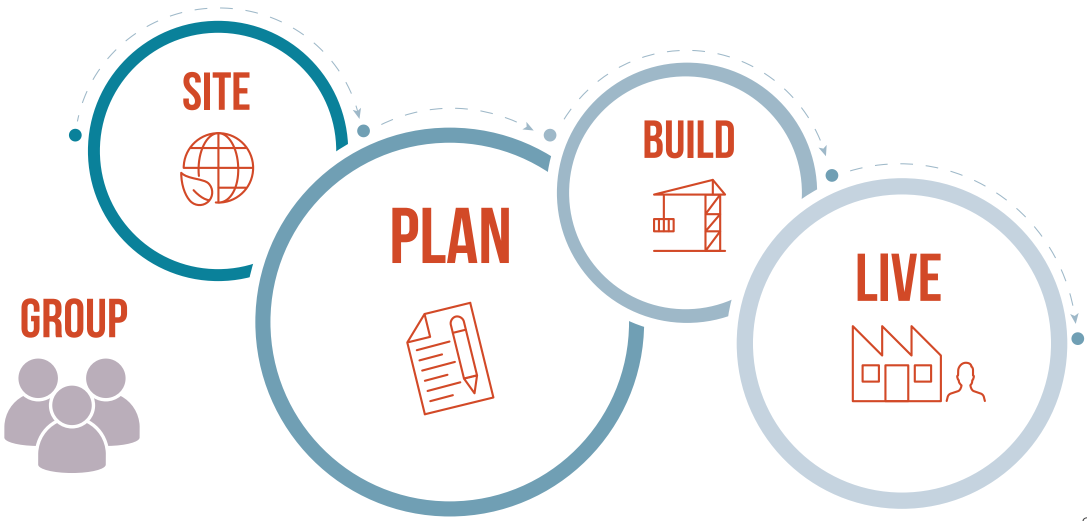
Reviews of the CLT Fund in 2016 suggested that the Fund had supported approximately 22% of CLTs in existence, and 44% of the CLTs that were at an advanced stage of development.

This marked a significant contribution to the sector's growth, especially given some groups have no need for the CLT Fund' repayable finance. Many groups receive support from housing associations and other advisors, and receive the bulk of the finance from other sources, such as the government's Affordable Housing Programme. Section 3 below updates the picture of the CLT Fund's contribution to the wider CLT sector, showing that the Fund continues to play a significant role, particularly with groups approaching the planning and development of schemes.

The Fund is due to close for applications in August 2019, and this raises important questions for CAF Venturesome about how successful this financial support has been, and what model to adopt for their future investments in the sector.

A key issue is the changing context for community-led housing in the UK. Since the CLT Fund was devised, a more nuanced model of CLT development has emerged (Archer et al, 2018). This has sought to clarify the development journey for groups and help funders assess their role and function in the funding landscape. These stages (see Figure 1 below) overlap, with certain tasks associated with each stage, and Group functions continuing throughout.

Figure 1: The community-led housing development process



Source: Archer et al, 2018

It is helpful to think about this model in conjunction with the CLT Fund's distinction between pre-development (what we might frame as Group, Site and Plan functions) and development (Build and certain Live functions). For the purposes of aligning with the CLT Funds' two strands, we use the terms pre-development and development throughout this report. The flexible use of CLT Fund investments - groups have a good deal of freedom in how they can use their loans - has meant that the investments have provided support for Group, Site, Plan and Build.

1.3 The purpose of the study and methods employed

This study aims to provide evidence to help CAF Venturesome consider future options for the CLT Fund. It also aims to enable other funders and community-led housing stakeholders to understand the barriers and opportunities for further development of this sector.

The study has employed a mixed methods approach, drawing on data from the following sources:

- The CLT Fund's investee database including investment and housing output data from 2008 to mid-2018;
- An online survey of CLT Fund investees; carried out by CAF Venturesome in the summer of 2018, using a similar survey to that employed in 2016. Respondents to the survey provided general responses for the schemes they had developed or were developing (an estimated 56 schemes in total). Respondents also provided scheme by scheme information for up to four of their most recent developments, providing insights into 22 specific schemes;
- Semi-structured interviews with CLT Fund investees and potential investees. This derives qualitative insights from groups involved in over 50 schemes in different stages of development from completed through to pre-planning. Interviewees were drawn from groups operating in the East Midlands (1), London (2), the North West (2), the South East (2), the South West (4), the West Midlands (1) and Yorkshire and the Humber (2);

  The interviews were conducted via telephone, with the exception of one face to face, with key data coded and organised in an analysis matrix. A further four interviews were conducted with stakeholder organisations, including other funders and policy makers.

The data captured provides excellent coverage of the total investments made through the CLT Fund, and given the prominent role of the Fund in supporting CLTs throughout England, enables us to make general assertions about the CLT sector at large.

1.4 Structure of the report

The remainder of the report is structured as follows:

Chapter 2 summarises the current provision of financial support for CLTs and other community-led housing schemes in England, alongside insights from financing systems in other countries.

Chapter 3 sets out details of the investment activity of the CLT Fund between 2008 and 2018, and provides key findings on housing delivery and affordability.

Chapter 4 explores the experiences of CLT development from the perspective of investees and potential investees. This focuses on barriers to development and existing responses.

Chapter 5 assesses the CLT Fund's value in helping groups overcome the barriers to development, and how groups assess its strengths and weaknesses.

Chapter 6 provides conclusions from the research, and sets out a number of recommendations for CAF Venturesome should a new CLT Fund be developed. The chapter also offers proposals for improving the wider system of funding and finance for community-led housing.

2 FINANCING CLT AND OTHER COMMUNITY-LED HOUSING SCHEMES

2.1 The current funding and finance landscape

In 2016 a full mapping of funding sources for community-led housing was undertaken (Archer et al, 2018)[5]. This revealed a mixture of dedicated funds and funders supporting community-led housing, and more still supporting the sector through generic funding programmes. The study revealed funders providing large grants to groups of over £400,000, through to small grants of £500, with social lenders offering up to £5m of investment on individual schemes. It also showed that the CLT Fund provided the only social finance dedicated to pre-development activity for site acquisition, preparation and securing planning permission, though other generic lending and blended finance was also available to groups.

This work also identified a series of gaps in the funding and finance landscape, and set out certain recommendations for action. The research concluded that funding and support for 'group' functions was not fit for purpose. It argued for improvements in the structure and size of grants for work at the 'site' and 'plan' stages, where the amount of grants available was often inadequate (particularly for schemes of more than 20 homes) was offered with restrictive conditions, and limits on use to acquire land or property. Furthermore the report argued that additional funding was required to ensure support and enabling bodies were financially sustainable, with these organisations requiring at least four years of grant funding to achieve sustainability. Added to this, the report called for improvements to retail mortgage lending, particularly for products with a perpetuity arrangement, and for a review of development finance generally.

Whilst recent reports offer much needed clarity on the size and scope of grants required at each stage of a group and scheme's development (Ward and Brewer, 2018), a more systematic approach to funding is yet to emerge, and as will be discussed later in the report, familiar barriers to the sector's growth remain.

2.2 The Community Housing Fund

This funding and finance landscape is changing rapidly as a result of the UK government's Community Housing Fund (CHF). This £163m Fund is providing a mixture of revenue and capital funding for community-led housing, to be allocated by March 2020. This has been largely welcomed by funders and lenders, including CAF Venturesome, who understand the important role that government can play in this sector. Focusing on additional supply of affordable housing, and creating a 'self-sustaining body of expertise' (MHCLG, 2018, p.5) to carry the sector forward, groups are able to apply for revenue grants to cover initial start-up costs, professional fees and costs associated with developing planning applications, business planning and project management. There is also a capital grant scheme, which provides funding to cover expenditure associated with acquisition and/or remediation of land, construction costs for new homes, and costs associated with the conversion/refurbishment of existing properties. Added to this, local authorities can access capital funding for associated physical infrastructure to unlock community housing development.

[5] The funding landscape map is provided as an Appendix to this report. Accessed at: https://www.powertochange.org.uk/research/targeting-funding-support-community-led-housing/

The scale of this funding, and the fact that it is provided as grants, will have repercussions on the demand for, and provision of, finance by other funders and lenders. A number of features of the CHF are worthy of note:

- Applications for both revenue and capital grants will require match funding, as part of assessing value for money;

- Applicants for capital funding are required to become registered as Investment Partners with Homes England. Should they wish to secure grants to develop and become the landlord for low cost rental properties, then they must have Registered Provider status. Both these registrations carry conditions and requirements;

- The prospectus specifies a number of tenures/housing products it wishes to support, which includes those that the government currently funds in other ways; Shared Ownership, Affordable Rent, Social Rent, and Rent to Buy. The prospectus suggests that Homes England will not be 'prescriptive' about the tenures it funds, potentially opening the way to fund discounted sales. However it is not yet clear how such applications will fare in the assessment process. There is also a strong steer to groups to consider mixed use and mixed tenure schemes, to increase the financial viability of their schemes;

- The focus of the programme is on delivering homes that would not otherwise have been built. This measure of additionality has practical implications, for instance, for groups simply providing housing through a S106 agreement. As the guidance states, any funded homes would 'need to be additional to those that would be delivered under the S106 agreement alone' (MHCLG, 2018, p.8).

The above conditions and assessment criteria are likely to shape demand for funding and finance outside of the CHF itself. At this early stage, we suggest it may drive additional demand for match funding to complement revenue and capital provided via the CHF. In addition funders and lenders will see demand for financial support to develop alternative tenures, or from groups unwilling or unable to register with Homes England (or work with a partner who is).

Finally, where groups do not meet the value for money or deliverability criteria of the Community Housing Fund, they are likely to seek other funding to take their schemes forward. All this suggests demand for alternative finance will remain.

2.3 International approaches to financing community-led housing

Internationally, there is much to learn from large state-sponsored grant programmes, such as that run by The Canadian Mortgage and Housing Corporation from 1973, which led to the development of 65,000 housing units by the year 2000. Capital grants, loan and loan guarantees for development, were allied with an infrastructure of support in the form of Technical Resource Groups, which accommodated various development professionals - highlighting the key link between finance and technical development expertise. In the U.S the 1992 National Affordable Housing Act opened the door to federal funding for CLTs, which stimulated growth in these models. A diverse set of funding sources has emerged in the U.S (CLT Network, 2018) covering grants and loan finance for Group activities such as community organising, through to technical assistance on planning matters, and onto development finance. Unique approaches such as loan matching services have also been developed (CapNexus, 2018).

Recent research has shed light on the current support for CLTs and other community-led schemes in North West Europe (FMDV, 2018). In France there appears to be minimal start-up funding for groups. However, there are loans which cover pre-development work, offered by Caisse des Dépôts - the public investment arm of the French State. Municipalities also offer loan guarantees which can help secure finance for pre-development activity related to site acquisition and planning activities, alongside certain tax incentives. Furthermore, housing providers can access long-term reduced (or 'concessional') loans, and in certain regions there is support for social impact bonds on housing-related activity (a form of investment where repayments are related to the impact created). Despite these innovations, the CLT sector in France is embryonic, and the ease of access to these sources of finance is unclear, given that they are geared toward different types of housing providers.

In areas of Belgium, such as Brussels, regional and municipal funding provides similar grant and loan guarantees, which cover pre-development activity. Researchers suggest the strength of funding models lies in providing post-development finance as groups manage properties through the Live stage. There are dedicated funding programmes and collective savings schemes to finance this type of activity. Lessons could also be learned from Sweden where co-operative housing is a mature sector. Here state-investment is relatively low, though there are tax reliefs on any loans taken by members.

Commercial lending is well-established, and support and infrastructure bodies play a key role in de-risking new schemes by covering the rent on vacant properties for several years (Co-operative Housing International, 2018).

The FMDV research, the author's previous research and the insights above regarding the financing mechanisms operating in other countries, highlights a range of alternative financial products that are worth further investigation in England and Wales;

Table 1: Alternative financial products

Financial product	Opportunity
Public grants and loans	Providing access to grants, loans and other financial products so community-led housing groups secure the same terms as 'mainstream' housing providers and developers.
Equity and bond investments	Improving the scale and systems for crowdfunding community-led schemes, and connecting this to finance from commercial and/or social investors to leverage more affordable loans. In addition, there are opportunities to explore quasi-equity funding or social impact bonds, which link repayments to the outcomes or performance of the group.
Loan guarantees	Offering guarantees on loans to groups to reassure lenders in the case of default. This could be time-limited to cover initial void properties. This has the potential to dramatically reduce borrowing costs.
Concessional loans	Loans at very low interest rates, subsidised by public bodies or philanthropic investors, and premised on long term repayment periods. This could help groups deal with cashflow problems in the years after the development has been complete.
Tax incentives	Exploring potential tax reliefs on individual mortgages where the housing is to be owned/part owned by the occupier. Alternatively, tax reliefs on VAT and other taxes associated with building/ renovation work.

Reviewing the financial systems for supporting community-led housing in other countries reveals that the UK's approach is relatively advanced. Nonetheless, as this report reveals, the barriers to developing such housing remain profound and persistent, and the ambition to provide sufficient funding for all stages of the development process remains some way off. This stresses the need for continued commitment and innovation from funders, sector bodies, policy-makers and groups themselves.

3 CLT FUND INVESTMENT, HOUSING OUTPUTS AND AFFORDABILITY OUTCOMES

3.1 The scale and distribution of investments

Between 2008 and mid-2018 the CLT Fund made 57 investments in separate housing schemes, developed by 33 individual groups. These investments had a total value of £4.4m, enabling investees to create a total of 105 new affordable housing units, with an additional 419 in the pipeline. Current figures suggest there are 290 CLTs currently in existence, and hence we estimate that the CLT Fund has supported approximately 11 per cent of these. However, only a proportion of these are likely to be active in developing housing schemes. Assuming the accepted rule of thumb - that around half of existing CLTs have, at any one time, moved beyond incorporation to the planning and development of housing (CAF Venturesome, 2016) - then we can estimate that the CLT Fund has supported 23 per cent of groups at this more advanced phase.

Furthermore, we suggest that 13 per cent of all the 826 affordable units developed to date by CLTs in England and Wales have received some CLT Fund investment.

The geographic distribution of investments has been uneven, reflecting variations in group activity in certain regions/sub-regions, and the presence of supportive infrastructure. For example, the historically high levels of CLT activity in Cornwall, alongside a well-established CLT infrastructure body and local authority funding schemes, has meant significant demand for CLT Fund finance has originated there. This contrasts with the North East where the Fund has made no investments to date.

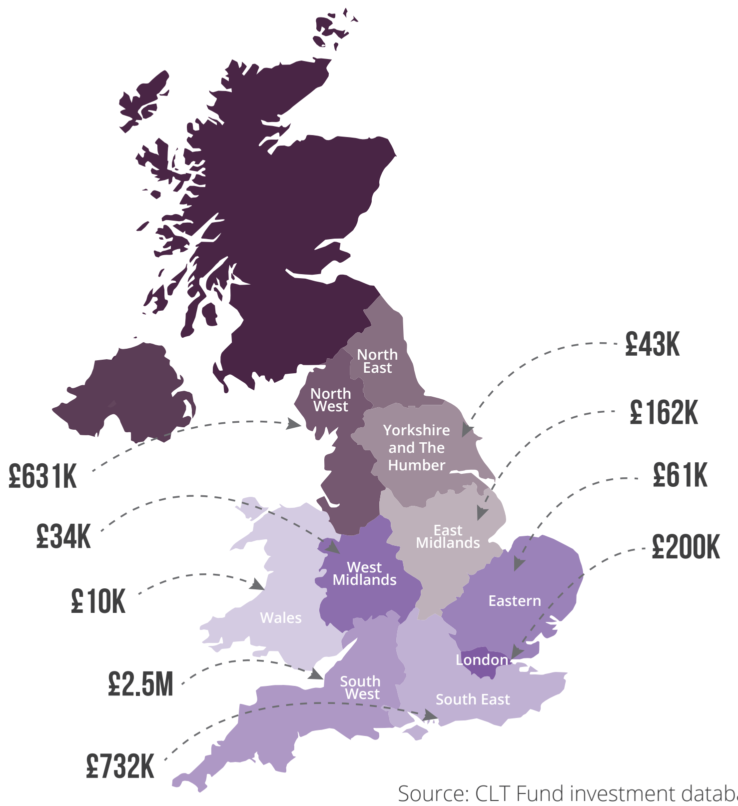
Figure 2: The location and scale of investments and housing output

£4.4M Total finance offered

57 social investments in CLT housing schemes, developed by 33 individual groups.

524 affordable homes completed and in the pipeline.

REGION	NUMBER OF INVESTEES
East Midlands	1
East of England	1
London	2
North East	2
North West	7
South East	6
South West	34
Wales	1
West Midlands	2
Yorkshire and The Humber	1



Source: CLT Fund investment database

Investment activity

The two elements of the CLT Fund are essentially two different financial products, meeting the needs of groups at different stages of their development. Below we summarise the key activity within these two strands of the Fund.

Pre development:
Since 2008, 45 pre-development loans have been offered. A significant proportion of these are still 'current' and awaiting repayment; a total of 16 loans. A further 15 loans have been repaid in full and recycled back into the fund, with the 14 remaining loans either not taken-up (5) or transferred to a grant (9) because planning permissions were not secured and/or the scheme did not start for legitimate reasons. Such reasons relate, for example, to costs becoming prohibitive or unforeseen issues emerging with the site. The average size of pre-development loans since 2008 has been £34,600.

It was initially anticipated that 16 per cent of the value of pre-development loans would be granted, due to groups not securing planning or starting on site. The value of loans transferred to a grant has actually been slightly lower than this at 13 per cent of the total value of loans made. It should also be noted that some grants to groups did eventually result in development schemes, though in a different form than was expected when the loan was approved.

Development loans:
The CLT Fund has offered 12 development loans to date, typically constituting 20 to 40 per cent of the total development finance for a scheme. There are currently no outstanding loans, though a pipeline of schemes is evident. Since 2008, there have been no defaults on development loans, and nine have been drawn down, repaid in full and recycled. The three remaining loans were not drawn down. The average size of these development loans was £240,000. It was anticipated that 5 per cent of these commitments would be written off due to groups defaulting (CAF Venturesome, 2016). With no defaults and all current loans repaid, it suggests that CLTs are largely successful in developing housing once they secure planning permission, and that this type of finance perhaps carried less risk than was originally anticipated.

The flow of investments can be depicted visually to show the status of loans in terms of whether they are still current (i.e. due to be repaid), whether they have been repaid and recycled, whether they fell-away (i.e. were never taken up), or whether they have been converted to a grant (see Figures 3 and 4 below).

Figure 3: The status of pre-development investments

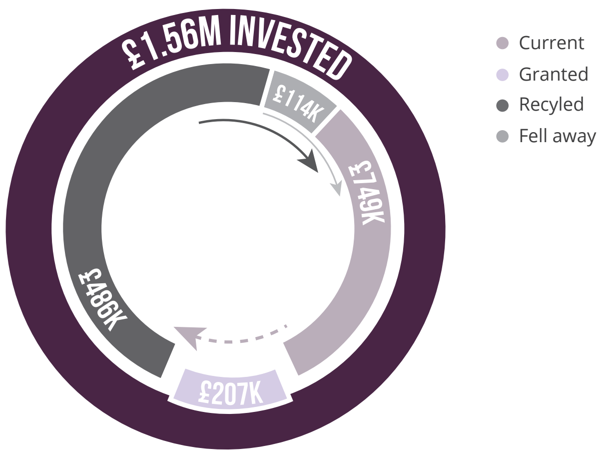
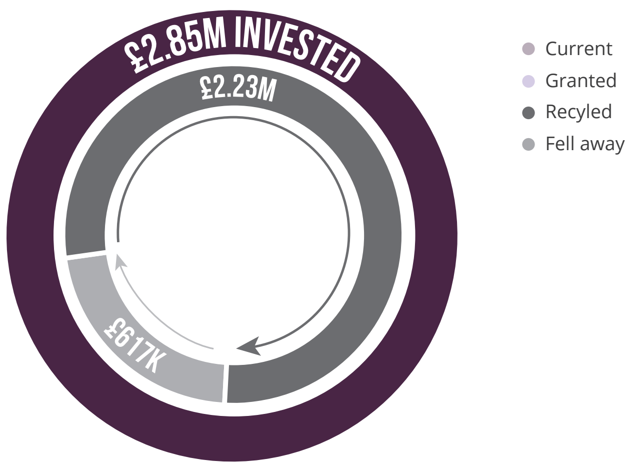


Figure 4: The status of development investments



Source: CLT Fund investment database

3.3 Housing outputs and affordability outcomes

For CLT Fund investees the vast majority of their current and future affordable housing is in the form of ownership products, including shared ownership (see Figure 5 below). In addition to the 524 affordable homes either developed or in the pipeline, there are 73 open market sales (within 8 schemes) completed or planned, constituting 14 per cent of the total.

Looking at the tenure breakdown of the homes either completed or planned shows a preference for ownership products.

Homes provided for 'affordable ownership' (which includes Shared Ownership) constitutes nearly 60 per cent of all completed and planned housing, and of the remaining 40 per cent for rent, only 5 per cent are achieving/will achieve social rent levels. The reasons for focusing on ownership are likely to be varied, and include; the desire to ensure perpetuity and avoid the Right to Buy, maximising sales receipts to ease cashflow issues, and/or limiting the CLTs ongoing responsibilities. These considerations, and the difficulty in making rental models viable in some areas, are key issues. As one interviewee in this study summarised:

'We just can't do as much rental as we'd like…there is a need for more grant'

Figure 5: The tenure of investee homes (completed and planned)

Source: CLT Fund investment database

Of course, 'affordable' in this context has multiple meanings, and the community-led housing sector has no standard definition of affordability. The UK government has its own definition, which includes rented housing which is restricted to 80 per cent of market prices[6]. By contrast, the community-led housing sector, and in particular CLTs, has become a test-bed for alternative affordability mechanisms.

CAF Venturesome's survey of investees provides valuable insights into the levels of affordability being offered to residents, and how this is achieved. Survey respondents were asked 'In general, how do you aim to achieve affordability for your scheme(s)'? Respondents were allowed to choose several definitions from a list of response options (see Figure 6 below).

Figure 6: Affordability definitions used by CLT Fund investees

Source: Investee Survey

Base: 15 respondents considering all previous schemes (~56 schemes). Question 'In general, how do you aim to achieve affordability for your scheme(s)? Please select all that apply'.

When assessing applications for funding, CAF Venturesome does assess the nature and quantity of the affordable housing proposed.

However, local variations in housing markets and differing measures of affordability mean that applicants understand this concept in different ways. Interviewees revealed subtleties in how they calculate affordability, and this shows significant discounting and creative use of covenants and resident/member capital to reduce and maintain low costs.

For example, survey respondents indicated the following:

'Rents tied to LHA; SO per cent range (25-75 per cent) affordable for average local incomes' [Shared ownership]

'Houses sold at fixed equity. Sweat equity savings through self-building. Social rented units'

'We ensure affordability in perpetuity on affordable sales by using the resale price covenant'

When asked to specify the discount they are offering/will offer on market prices, all were offering housing at rents and prices less than 80 per cent of the market. Four respondents identified their discount as being 70 per cent or less of market rents/prices. Some variation was evident by property size, as one survey respondent stated:

'The per cent discount varies from 36 per cent to 72 per cent of open market value...currently [it is] 60 per cent for 3 beds, 73 per cent for 2 beds and 71 per cent for 1 beds'

Furthermore, investees are making decisions affecting affordability which may be hidden in general calculations. One interviewee noted how one of their schemes provides Shared Ownership housing, but does not charge the rental component, subsidising this to make that housing more affordable. In these ways investees are innovating as a means of remedying the deficiencies in such models in high value markets. The evidence above suggests that CLT Fund investees are providing homes comparable, at least, to the government's Affordable Rent and in many places providing an enhanced level of affordability, by responding positively to issues encountered in high-cost housing market areas.

[6] See the glossary contained with the National Planning Policy Framework. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740441/National_Planning_Policy_Framework_web_accessible_version.pdf

4 THE REALITIES OF CLT DEVELOPMENT; BARRIERS AND GROUP RESPONSES

4.1 Introduction

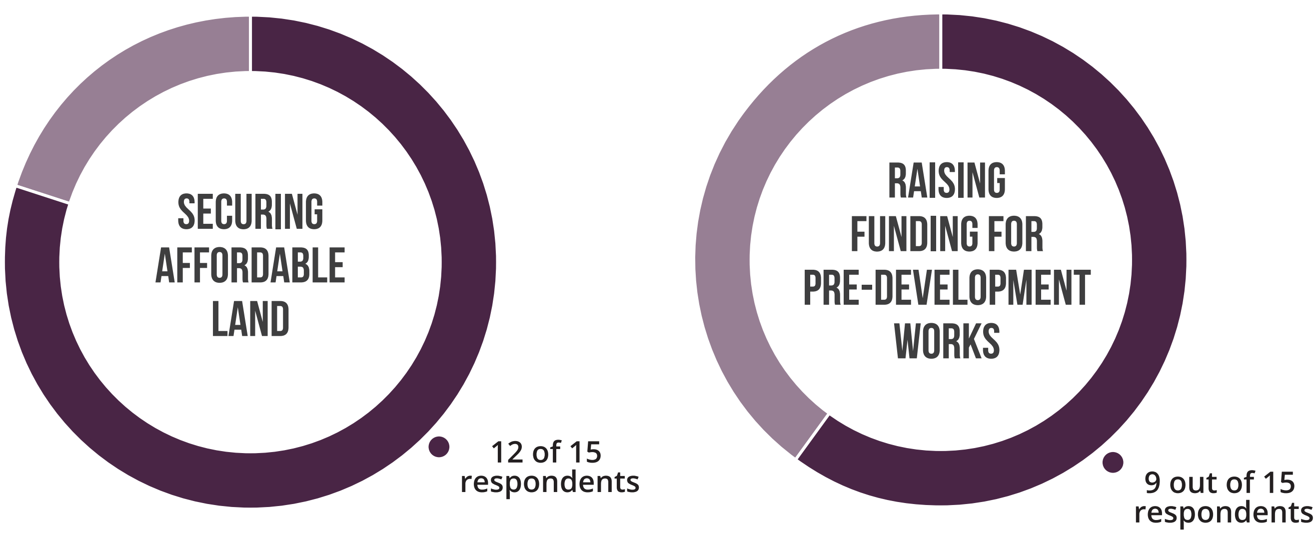
The provision of finance to groups clearly plays a central role in their ability to bring forward housing schemes. However, access to both pre-development and development finance is inextricably linked to other challenges. The following section explores the reality of developing housing schemes, based on the perspectives and experiences of those who have received CLT Fund support, or who may do so in the future. In Section 5 we detail how the CLT Fund's loans have, or have not, helped groups address these barriers, reflecting on the value and role of the CLT Fund in this regard.

The survey of investees provides valuable insights into such barriers.

Reflecting on an estimated 56 schemes planned or undertaken by respondents, two key barriers to development were identified; access to affordable land and raising funding for pre-development. It is interesting to note that raising funding for development was only identified as a barrier by two respondents.

Providing specific information on up to 4 schemes which had received CLT Fund support, respondents offered more fine grained insights into the barriers faced. On these schemes major barriers had been encountered in relation to the speed of responses from local planning authorities, and negotiations over S106 agreements. Almost as prevalent were unanticipated issues with the land (such as the existence of protected species, or structural issues).

Figure 7: The biggest barriers to developing new schemes



Source: Investee Survey

Base: 15 respondents considering up to four recent schemes (~56 schemes). Question 'What do you think are the biggest barriers for your organisation with regards to developing new schemes? Please consider the entire process from start to finish when giving your answer. Please select up to three main barriers'

There are clearly significant challenges in accessing affordable development land. The survey reveals important insights into how land for existing schemes has been accessed. When asked about how land was secured for each of their recent schemes, respondents identified a number of sources (Figure 8).

Reflecting on over 22 schemes either in development or developed, respondents suggested the main route to acquisition was via local landowners, through S106 agreements or rural exception site allocation. Land provision from the local council or other public body was also found to be important. Variations in the willingness of public bodies to work with CLTs are clear from our interviews. As discussed below, for those groups that have/are accessing public land it has taken a relatively long time to develop the relations with local councils to make this possible.

Figure 8: Sources of land for development

Source: Investee Survey
Base: 22 schemes (15 respondents). Question 'Where did you obtain land for the following scheme(s)? Please select one answer for each scheme'

4.2 Pre-development

These broad findings concur with deeper qualitative insights provided in interviews with stakeholders, which revealed that, on a scheme by scheme basis, challenges can vary in subtle ways.The interviews revealed clear barriers relating to:

1. Identifying, accessing and acquiring sites,
2. Building of credibility and productive relations with local authorities,
3. Meeting significant pre development costs, and
4. Having sufficient organisational capacity to manage the organisation and plan their schemes.

Acquiring suitable sites is a more problematic challenge than simply meeting a given asking price. Interviewees highlighted challenges arising from the practical task of identifying potential sites and then quickly and accurately gauging their viability. Where no market housing is being built because of planning restrictions, and therefore no S106 requirements are generated, finding sites is a particular challenge. Finding affordable sites has been a persistent problem, with interviewees, in both urban and rural contexts, describing extreme difficulties in; competitive tendering processes for land; long delays in negotiations around sites; and problems associated with the physical access to identified sites. One interviewee noted how a public body was charging several tens of thousands of pounds to open up the access to a site, whilst also demanding other rights of use. Other interviewees had paid over £100k to secure site access. If we also consider the complexities in acquiring assets from both local authorities and charities at less than market value, site acquisition appears far from a singular problem, but rather a set of interlinked barriers associated with the rights, powers and (sometimes) the prevarications of other bodies.

Linked to this, several interviewees described their organisation's development as a journey towards increased credibility with local planners, asset managers and housing professionals.

This had been an incremental process whereby schemes had been worked up and rejected, but in the process relations with the local authority had been fostered:

'The district council...they have established relations with the housing associations...they were quite obstructive...credibility is a problem'
'after the decision on [name of scheme not receiving support]...the Council said that they would actively help us find a site as they admired our tenacity..12 months after we were being fobbed of...so we threatened them with a public meeting...2 months later they came forward with a site'

The lesson here is that reciprocal relations with public bodies can take time to develop, and may cycle through various ups and downs before a viable scheme emerges.

Significant delays in identifying sites and securing planning permissions not only hinders delivering schemes, but also affects their financial viability. Survey respondents were asked what, if anything, would have helped improve this process, with their answers focusing on the planning system; this includes having more pragmatic highways officers, not having a large turnover of planning officers, and better drafting of section 106 agreements. Showing the vagaries of planning decisions, one survey respondent noted:

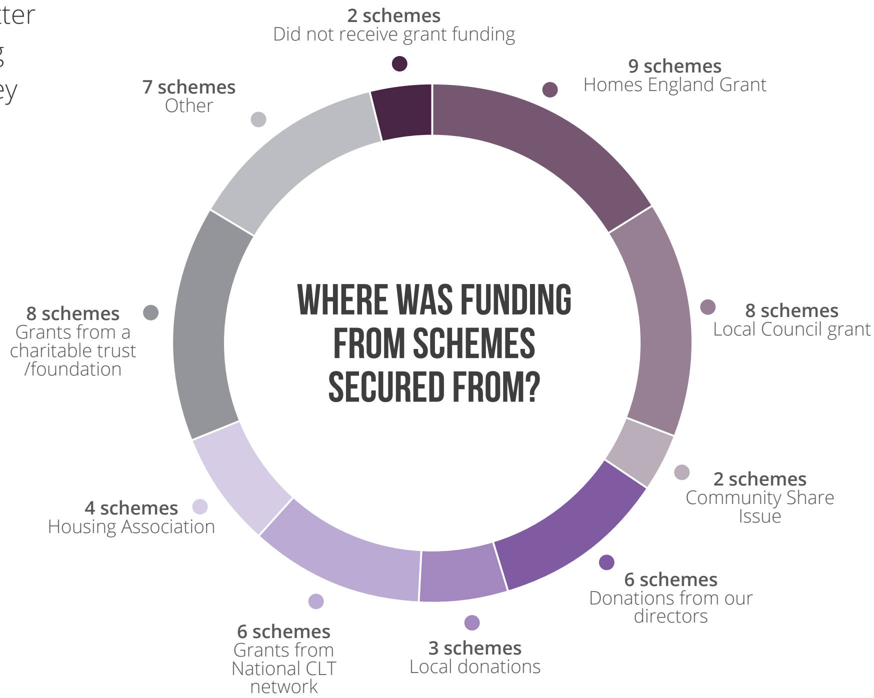
'[There needs to be] Better communication between internal departments within the Council i.e. between property services, planning and the mineral teams. This project had a very positive pre app[lication] response and committee report, which recommended it for approval to the planning committee. However, this was withdrawn at the last minute'.

The financing of pre-planning work has been a struggle for many groups.

Without assets, raising unsecured funds is particularly difficult and interviewees reflected on the importance of the timeliness of small grants and loans from sources other than the CLT Fund. In particular, groups reported that financing their legal costs was burdensome. Interviewees described these in painful terms as 'gruelling', 'ludicrous' and 'out of control', where simple tasks, such as amending options agreement templates, incurred 'wildly inflated' legal fees. This is a particular issue for larger schemes where the complexities of land acquisition and development can multiply.

Most funding streams have a maximum limit which is too low to meet all of the pre-development costs of these schemes, which leaves groups needing to pool funding from different sources. Even for smaller schemes, combining different funding sources can create headaches, and this is indeed a prevalent issue. Figure 9 shows that, in reference to their most recent schemes, investees are drawing on multiple funding sources (in addition to the CLT Fund) to bring them to fruition:

Figure 9: The source of funding for recent schemes (in addition to the CLT Fund)



Source: Investee Survey
Base: 22 schemes (15 respondents). Question 'Where did you receive funding from for your scheme(s)? Please select all that apply for each scheme'

Another key financing challenge was the unpredictability of when funding is released to groups. Several respondents reported that funds could not necessarily be 'draw-down' at the point at which monies were required. For one scheme the slow release of public funding had created'…delays affecting build schedule and hugely affecting cashflow'. This related to delays in the funder's internal processes for agreeing the release of funds.

The lack of organisational capacity that groups often experience can exacerbate these kinds of financing challenges. Analysis of interviews revealed that this was manifest in two key ways, firstly, because pre-development finance has targeted professional costs associated with site appraisals, scheme design, detailed financial planning and so on, little resource has been available to support the organisation's internal capacity. This has meant individuals (often working voluntarily and with no prior experience of housing development) carried a heavy burden, as they managed the organisation, dealt with its governance and learned how to plan a new housing scheme all at the same time. Very often, these tasks required an increase in staffing. As one interview noted, 'we just need a steady operations person' to ensure the organisation is well run, and that basic management and monitoring functions are performed. Wider research in the community and voluntary sector is revealing similar insights into funding gaps and deficiencies for these types of tasks (Dayson et al, 2018).

Secondly, the lack of capacity within groups often limits them to modest outputs - or put another way, it keeps them small. Even well-established CLTs noted that, 'to scale up…we have to cover staff…and this is currently done using surpluses'. Interviewees noted such challenges and reported that they would consider finance to generate internal capacity, 'even if that's done on an equity basis', suggesting that groups would be prepared to accept funders taking stake in the organisation, and by dint of this making repayment in the form of returns on investment. Whilst this was only proposed by two interviewees, both working on larger urban schemes, there is perhaps some latent demand for equity/quasi-equity investments.

In light of these varied, and often compounding barriers, interviewees had responded creatively - learning as they went.

There is evidence that some groups, wishing to reduce ongoing demands, have preferred models that deliver dwellings for sale (with restricted prices) rather than managing rented properties long term, or they have sought close partnerships with housing associations accessing properties as turn-key developments. Accessing sites has again required innovation, and several groups have been adept at obtaining land at less than residential use-value, via asset transfers, S106 agreements, negotiations with sympathetic local landowners and by agreeing with public landowners to parcel up a part of their site for a community-led scheme. However, the spectre of shortfalls in finance was a constant limiting factor in scheme development.

4.3 Development

Interviews with investees provided a rich picture of the challenges associated with undertaking and financing the development activity itself. As with barriers in pre-development, the challenges faced here are varied and often unique to the groups experiencing them. These subtleties are discussed below, however, a number of prominent development challenge emerged from our interviews:

1. Accurately planning scheme finances and understanding lender appetite,
2. Accessing finance for specific tenures or housing products,
3. Accessing finance of a specific type and duration,
4. Finding suitable project managers and contractors and
5. Ensuring the end-affordability for users and the financial sustainability of the organisation.

Turning to the first challenge listed, a recurrent theme in the interviews was how groups had struggled to accurately assess the eventual development costs at an early stage of the development process. One interview noted:

'we took indicative build costs, rather than appraise the site specifically and spend money at risk...we're now saying to Councils, we need to do viability assessments upfront and then we can know what we can offer for the land...we do everything straight away at the beginning... that's has a result of learning..'

This kind of uncertainty appears to be a key feature for small and fledgling organisations, particularly where they are attempting to build non-standard housing on complicated sites. There was evidence that groups were using methods of valuation and financial planning tools that did not align with those used by lenders. For example, groups were often instinctively thinking about net present values, however, lenders focused more on cashflows. Interviewees recounted initial discussions with lenders, who had initially offered salutary messages about their schemes long term solvency. When asked how this could be addressed, interviewees called for improved financial planning tools to be available that aligned with the kinds of calculations that lenders use. As one interviewee noted:

'The NCLTN tool says something is viable, but not when you go out to the market'...'we need to improve the process to establish if a lender will be there when you need it'

The issue of certainty of lending provision presented particularly thorny issues. Lead-in times from financial plans being developed to groups approaching the market for funding can be long in the CLT sector. This poses some searching questions for lenders, given the short timescales of the Community Housing Fund, and whether there is a role for them as providing greater certainty and longer term commitments over financial support.

The interviews revealed how groups were abandoning plans to develop certain types of housing due to problems financing them, even if this type of housing was urgently needed at a local level.

Grant programmes such as the government's Affordable Homes Programme were driving the development of certain types of tenure such as Shared Ownership. Several interviewees reflected on their initial plans for schemes, which included discounted rental accommodation, but then switched to Shared Ownership in order to access grants. Some interviewees had even rejected Shared Ownership, on the grounds of continued responsibility for managing rents and servicing long term finance. Whereas, some groups had seen this an option, though not always their first:

'...we turned to shared ownership as there was 'generous' grant from Homes England...We just can't do as much rental as we'd like...there is a need for more grant'

It should be noted that due to stair-casing rules, Shared Ownership was regarded by some interviewees as problematic as they felt they would not be able to ensure their affordability in perpetuity, and this was contrary to the social objectives of the group.

Linked to limitations on the tenure of schemes, interviewees highlighted gaps or weaknesses in current funding and finance. Some interviewees suggested negotiating discrete loans was time-consuming. Other interviewees noted a lack of innovation around long term finance, citing the borrowing facilities available to housing associations as better alternative arrangement. Clearly, the years just after development are some of the most difficult financially:

'We struggle in years 1-8, 1-5 in particular... with schemes losing money in the first few years'.

In addition to challenges accessing finance, there were practical difficulties in securing expertise to manage projects, with groups having to be creative in sourcing and paying for project manager time, deferring and/or capitalising payment where possible. Identifying suitable contractors to undertake development has also been a challenge, particularly in isolated rural communities.

Finally, interviewees reported that there were challenges associated with supporting potential residents to secure the finance required for them to purchase, or rent, a property. This was particularly the case where a discounted sale model was being used. Interviewees highlighted how, in very high value areas, when properties were 'heavily discounted to £110k, lenders were only offering mortgages based on a 20% deposit', and this greatly reduced access for those who could have benefited. This led interviewees to ask whether a Help to Buy equivalent product could be adopted to overcome this challenge.

This chapter has outlined a number of key challenges, and groups reported that they were overcoming them in a variety of ways. For some, the issue of access to flexible low cost finance was being sidestepped by raising capital through members or local share issues. Other groups were avoiding debt finance altogether, by simply unlocking sites, retaining the freehold, and then demanding that housing associations and other providers take on the financial risk, often in return for future rental revenues. Of those groups who had gone to social lenders for support, but found a lack of appetite to back their plans, two recounted positive experiences in using REACH and Big Potential funding. This enabled them secure advice from financial advisors to help them better prepare for, and access, borrowing facilities. This raises important questions about whether lenders could provide more front-end, intensive support to groups before they actually apply for funding.

The geographic variations that exist in the quality and services provided by community-led housing enablers may exacerbate these problems, exemplified by the experiences of two interviewees. One reported receiving 'no support' from an enabler or infrastructure organisation. However, another interviewee reported that their group had been 'well supported by the [CLT hub]', which had, 'access to council officers'. Rapid developments are occurring in this space which will affect groups' capacity to deal with some of the challenges laid out in this chapter. Certain groups are part of wider networks that are developing potentially valuable hubs with 'housing management [expertise], quantity surveyors, policy documents, contracts, employer agent contacts etc'. How funders, like CAF Venturesome, work with hubs and other support providers is an issue we turn to in the next section.

5 THE VALUE OF THE CLT FUND

5.1. Introduction

Analysing responses from in-depth interviews provides a detailed picture of the role of the CLT Fund in the formation and development of over 50 housing schemes. The value of the CLT Fund as currently structured is presented below, along with broader insights into how the financial needs of groups could be met through improvements to the Fund, or through new forms of support. The following section presents these insights for pre-development and development finance separately.

5.2. Pre-development finance

The value of CLT Fund pre-development loans

Investees and potential investees perceived a number of strengths to the structure and management of the CLT Fund's pre-development loans. The value of these investments to groups relates to:

1. the 'at risk' and unsecured nature of loans,
2. the flexibilities in how the money can be used and light-touch monitoring, and
3. the quality of advice and support provided by the CAF Venturesome team.

Almost all interviews praised the 'at risk' feature of the loans - that loans are only repaid when the construction phase of a development starts. For some interviewees this clearly provided reassurance at a time in the development process where groups face many contingencies. As one interview noted '...it was a godsend... it gave us confidence...gave us courage'. We might consider the counterfactual situation of there being no such finance available, and conclude that many schemes would simply have deemed the risks too great to take a traditional loan. For other groups, whose schemes had stalled or been abandoned, the higher interest rates associated with 'at risk', unsecured loans were justified:

'The interest rates are high, but we accept this... unfortunately some of our schemes have fallen over'.

'It is a fair return, for massive support'

The fact that such loans were offered without requiring security, was a valued feature of the CLT Fund. Several interviewees reported that accessing unsecured loans (necessary because they had no assets) had been acutely problematic, and had made initiating schemes and navigating the planning process difficult.

Other interviewees welcomed the flexibility in how the loans could be used. Some groups had used the funding to pay staff time, others to buy-in professional services, which had been 'critical' to the development of their schemes. Linked to this was a perceived value of the 'light touch' monitoring arrangements adopted by the Fund, with reporting processes generally deemed to be 'not difficult'.

Flexibility was also applied in deciding what types of schemes and organisations CAF Venturesome would fund. Interviewees noted that 'it was great there was flexibility with definitions, for instance, of a CLT...[as we are not]...location specific'. This has important implications for future funding given the consolidation of the broader community-led housing sector (see section 6).

There was some variation in views about the role that CAF Venturesome should play as both a lender and potentially an advisor on the planning and financing of schemes. Evidence suggests that members of the CAF Venturesome team had provided valued support, and at times 'gone the extra mile,' to help groups understand their financial requirements. Indeed, on one scheme an unforeseen change to the finances jeopardised the proposed tenure split, as one interviewee recalled, 'they [the investment manager] worked with us to make it viable...but costs were prohibitive'. There are signs therefore that CAF Venturesome's investment managers have been proactive in advising groups when schemes stall or circumstances change.

Potential improvements to pre-development finance

Despite clear signs of the value of pre-development loans to groups, a number of areas for improvement were identified;

1 The interest rates charged,

2 The effects of historic loans on securing future finance,

3 The tying of the loan to a scheme, and

4 The scope of financial advice provided.

The issue of interest rates was a consistent theme in the interviews, with nearly half of the interviewees saying they felt these rates were higher than desired. One interviewee noted that interest payments are likely to equate to nearly a quarter of their total loan amount, which is reflective of scheme delays but is nonetheless a heavy cost to bear. Other groups provided positive reflections on how their rates had been transferred to a 10 per cent per annum rate, rather than a 25 per cent fee. The rationale for the interest rates being set as they are - reflecting an anticipated rate of defaults - was well understood by some groups. Others however, perhaps anticipating a more favourable funding and finance system in the future, suggested interest rates should be lowered. It was initially anticipated that 16% of the value of pre-development loans would be granted, due to groups not securing planning or starting on site. The value of loans transferred to a grant has actually been slightly lower than this at 13 per cent of the total value of loans made. This is still a relatively high non-repayment rate, but suggests good judgement in allocating funds by CAF Venturesome, and the use of those investments by investee CLTs.

One potential solution discussed by interviewees, would be to adopt a scheme-by-scheme approach to setting interest rates, which better reflect the risk of schemes not going ahead. One interviewee, whose organisation is not a current investee, suggested there are disincentives in the current model for those schemes more likely to succeed.

Reflecting on their conversation with CAF Venturesome's investment manager, who noted that they would only pay back the loan if the scheme was successful, the interviewee concluded

'...but we know we are going to be successful because the council is submitting a [planning] application, so do we want to commit?'

To remove these disincentives a tailored interest rate could be introduced, though this would no doubt create both administrative headaches (to accurately assess risks), as well as challenges in justifying the setting of rates at certain levels for different groups. Another approach could be to flex the term of the loan depending on the nature of the scheme. One interviewee noted that, on schemes where there are sales receipts being generated, perhaps repayment of the pre-development loan could be deferred to this point. The 'at risk' nature of these loans, while clearly valued by interviewees, created a dilemma for groups successful in securing planning and entering the market for development finance. Pre-development loans become an historic debt, and factoring in repayment of this had led to some complexities in discussions with other lenders about development finance. Part of the solution to these issues lie in better funder collaboration (see section 5.3 below), which entails each lender becoming more adept in accounting for other lenders' debts in their own lending practices, and having agreed approaches to combined funding. This could also include commercial lenders, whose responsiveness to the challenges of community housing may be vital to the future of the sector.

Another important area for improvement, in either the structure of CLT Fund or through some other funding mechanism, is providing finance to support organisational development. As noted in section 4, CLT Fund loans are generally tied to a specific scheme, but an absence of organisational level funding (or full cost recovery) can result in the chronic under-resourcing of functions and activities central to running a well-managed, well-governed and sustainable organisation. As one group that had experienced long lead-in times for their first development noted pithily:

'That's the funding gap we've felt most acutely'

In a sector where there are no shortages in funding gaps, this is an important message. Addressing this issue may not be possible through repayable finance, but interviewees were willing to consider alternatives to simple general revenue grants. One interviewee suggested they would consider finance to generate internal capacity 'even if that's done on an equity basis'.

Finally, there is scope to improve the extent of advice that CAF Venturesome provides in assessing and managing their loans. Whilst it is clear investees have valued the hands-on support CAF Venturesome has provided, there is potential for CAF Venturesome to play a stronger advisory role as the pre-development stage ends and as groups seek further finance. This would have the mutual benefit of preparing groups for lending, but also identifying a potential role for CLT Fund development finance. Clearly there are some conflicts of interest to manage here, as well as resource implications for the investment managers, but these opportunities should be explored further.

5.3. Development finance

The value of the CLT Fund development loans

A total of twelve development loans have been offered through the CLT Fund since 2008, with nine of these drawn down by groups. To provide insights into the value of such investments representatives from four of these investee organisations were interviewed. The message from the interviewees was clear and consistent. The value of these loans is in:

1. Enabling groups to secure larger loans, and
2. Providing sufficient flexibility to be used for site acquisition.

One investee organisation interviewed in the study had received development finance from the CLT Fund totalling £250,000, with the Fund taking a second charge on the property. This willingness by the CLT Fund to be the junior lender, and therefore reducing its security on the loan, was a unique and valued feature of the Fund. It had been central to unlocking the scheme, and encouraging a senior lender (with first charge on the property) to invest a substantially larger sum (c. £1.2m). Interviewees noted that in their experience lenders did not like providing finance where there is more than one other lender. The CLT Fund's approach of taking a second charge was not only central to progressing individual schemes, but has led to some important precedents in terms of lender collaborations and opening lines of communication between those actively supporting CLTs and other groups.

It seems evident that to meet the financial needs of groups who are planning schemes in diverse contexts and with varying financial models, CAF Venturesome has had to tailor their role on each scheme. For groups who considered applying to the CLT Fund for development finance, but ultimately did not take this up, the CAF Venturesome team were seen to be 'genuinely supportive and with helpful suggestions'. It is interesting to note that the reasons groups did not take up these loans was mostly because of the availability of lower cost finance, such as member investment or local authority funds. It was not related to process issues with the CLT Fund per se.

In addition to enabling groups to access larger sources of funding, the CLT Fund's investments have had further catalytic effects. By allowing that finance to be used flexibly, the Fund has (in certain schemes) provided critical capital for site acquisition. The benefit of this was not simply in the provision of finance, but in the timeliness of the offer so that groups could seize a window of opportunity:

'[the loan] was very useful...sometimes sites come up and communities don't have a way to buy them...that's what happened here...because the group could get money from the development funding...the landowner took them seriously, because they had the power to buy...that's really important'

The CLT Fund's development finance has, therefore, provided groups with a credible source of finance, enabling them to show landowners that they have all (or some) of the finance in place for acquisition. Finally, it is important to reflect on wider changes to the funding and finance landscape which have affected demand for the type of finance offered by the CLT Fund. The development of a substantial Council-run revolving loan fund in Cornwall, an area where a large proportion of the CLT Fund's pre-development loans were offered, will have reduced demands on the CLT Fund. Many of these groups may have transitioned to CLT Fund development loans had this not been in place, and this brings into sharp focus how - in planning future funds - CAF Venturesome needs to assess and predict changes in funding and finance at both national and local levels.

Potential improvements

Interviewees offered various insights into how development finance might be improved generally, and more specifically how a future CLT Fund might be improved in the future. These improvements relate to:

1. Increasing funder collaboration,
2. Providing longer term loans and working capital,
3. Providing finance for schemes currently underserved, and
4. Creating a dedicated site acquisition fund.

Three interviewees, who have all combined development loans from different lenders, described the challenge of meeting multiple due diligence requirements. For small organisations, with minimal staffing, this burden was clearly significant. Not only did this create heavy demands on time, in undertaking compliance audits and developing appropriate policies, some of the tasks were deemed to be beyond the skills and expertise of Board members. The capacity of volunteer-run organisations to, for instance, undertake complex sensitivity analysis was questioned. As one interviewee stated instructively:

'...[the group has] a blend of lenders [and this] creates a massive due diligence headache...an administrative burden...some kind of linking up between lenders would be welcome'

The scope for funder collaboration in this sphere, and potential benefits of this, could be extended far beyond this narrow set of challenges. Not only does funder collaboration offer the possibility of making processes such as this more efficient - for both lenders and groups - it may also enable lenders to agree specific and dedicated roles in the funding landscape.

This may in turn help them diversify their risks, and draw on the skills and specialisms of other lenders to improve scheme viability. Furthermore, collaboration also offers the potential of standardising processes, for instance, in the capture information from groups on their activities. The value of funders using a standard approach to monitoring impacts would be significant, enabling the sector to aggregate that data and estimate impacts at broader spatial scales.

Interviewees identified other general improvements and innovations that would improve the provision of development finance. Firstly, the potential of long term loans was discussed, enabling groups to spread their development costs over longer time frames. Interviewees reflected on the favourable finance available for housing associations who are able to access loans with '50 or 60 year terms'. This speaks directly to the challenge set out in the previous section relating to the cashflow difficulties schemes experience in their early years. Over 'longer time frames they become much more profitable' and therefore longer term finance would improve the financial sustainability of those schemes, and potentially realise larger gains for the lender (albeit over a longer period). A different approach to providing 'working capital' may also be needed, moving away from development loans with a fixed repayment period, which can entail groups holding onto money for longer than they require and paying more interest, to more flexible arrangements. Linked to this one interviewee noted succinctly:

'...we only need the junior loan at the end of the build project period...the biggest thing we could usefully use is an overdraft facility...right at the end we have this £200k shortfall...we're saying to lenders, just let us go into the red a bit'.

Other interviewees suggested focusing future development finance on the projects that fall between the gaps of other major funding sources. Interviewees emphasised the 'gap for different funding on different tenures'. Three specific gaps in funding were identified. The first of these related to self-build finance. The difficulties in accessing such development loans (either as individual residents or collectively) is well known, and given the use of this model by various CLTs there is perhaps a gap in provision here.

Secondly, there appears to be a gap in funding for groups trying to build low cost rental housing. Evidence from the interviews suggests that many groups are just not able to make the financing of such schemes work;

'We just can't do as much rental as we'd like...there is a need for more grant'

Thirdly, it can be difficult for groups to secure finance for certain S106 development, for instance, where they are not named in the formal agreement. It should be noted that this issue is likely to persist even in light of the government CHF funding announcement. These types of niches could be where funders and lenders wish to focus in future.

The above raises interesting questions about the stark lines currently drawn between grant-makers and lenders in this sector. There is perhaps potential for such bodies (individually or through collaborations) to provide blended grant-loan mixes, which could target tenures and housing products urgently needed in local areas, but difficult to otherwise fund.

A final improvement noted by interviewees relates to site acquisition which, as has been established previously in this report, is one of the foremost barriers to community-led developments. Interviewees provided a clear message on this, suggesting there is an urgent need to:

'Create a revolving fund for land acquisition'.

5.3. Measuring impacts

A key problem when assessing the value of the CLT Fund, or any other programme of support or intervention in this sector, is the paucity of evaluation and monitoring taking place at the local level. This is not uncommon in the voluntary and community sector, but does pose ongoing challenges. A number of investees have undertaken, or are commissioning, their own research into their impacts on local communities. Interviewees noted how they had developed case study approaches, revisiting schemes after one year to assess impacts on such things as local schools and services.

One interviewee described an approach to assessing 'lost impacts', when their tenders to purchase land were unsuccessful and the site sold to private developers - creating a 'what if' scenario. Assessing the CLT's proposals against the planning applications submitted by the developer revealed that the CLT would have delivered more units in total, a higher percentage of affordable units (though a lower percentage of social rent), and through their approach to financing and maintaining affordability they would remove the potential for the Right to Buy, and therefore deliver affordability benefits over a longer time frame. This is an interesting approach that deserves further investigation. Indeed, the costs and benefits of housing development and regeneration activity have been mapped (DCLG, 2010) with associated logic models, and these could provide the basis for simple but invaluable impact measures.

Evidence suggests that groups are struggling to develop effective and manageable systems for measuring social impacts in particular. The impact that schemes have on resident wellbeing could be significant, but this may well remain unclear unless more work is done to understand baseline positions in these communities and then measure change over time. There are measures in place, for instance those used in the National Well-being Programme (ONS, 2018; HM Government, 2017), with sufficient national and regional data to serve as a useful comparator. However, it was reported that capacity to measure these impacts is a key problem, as groups invest their energies in developing schemes and running their organisations, with little energy left for evaluating their endeavours.

CAF Venturesome and other funders need to reflect on their role, and capacity to support and encourage the meaningful collection, analysis and interpretation of appropriate data - by methods that are suitable for small organisations with limited resources. As discussed above, these organisations also have a crucial role in agreeing some standard approaches to monitoring which will enable aggregation of data across schemes.

6 CONCLUSIONS AND IMPLICATIONS FOR FUTURE FUNDING AND FINANCE

6.1. Assessing the value and contribution of the CLT Fund

The CLT Fund has invested a total of £4.4m since 2008, through which it has supported 57 housing schemes developed by 33 individual CLTs. This has created 105 new affordable housing units, with an additional 419 in the pipeline. As noted in Section 3, we estimate that the CLT Fund has supported 23 per cent of all CLTs in England and Wales that have moved beyond incorporation to planning and developing schemes. Furthermore, we suggest that 13 per cent of all the 826 affordable units developed to date by CLTs in England and Wales have received some CLT Fund investment. This is significant coverage, not only because a proportion of this sector does not need the Fund's repayable finance, as they have access to other sources of funding and support, but also because the total capital employed by the Fund is relatively small, in a sector where individual scheme costs can run to several millions of pounds. The CLT Fund occupies a position within a pluralised funding and finance landscape, which contains a relatively large number of grant makers and social investor, and hence has both competed with, and complemented the work of, other investors.

The significant contribution of the Fund is in part reflective of its longstanding position in the CLT sector, having supported the growth in CLT groups in England and Wales from just 25 in 2008 to 290 in 2018. The Fund's early intervention in this sector, and unique financial offer, provides important lessons about the role of philanthropic capital in enabling creative interventions which carry risks other commercial and social investors are not willing to bear.

Despite the sector's growth, and the contribution of the Fund to this, persistent and thorny challenges hinder its development. The survey of CLT Fund investees reveals the ongoing issues they experience in acquiring sites for development, and in financing the often significant costs of pre-development work. The nature of the CLT Fund's loans has helped groups directly tackle these issues.

As development loans have taken a second charge on property, and have been offered with the flexibility to support site acquisition, these loans have become invaluable in making certain schemes financially viable. Similarly the 'at risk' and unsecured nature of pre-development loans has been critical for a number of groups. The flexible use of this money, light-touch monitoring, and advice and support provided by CAF Venturesome, has become a valued part of this package.

The Fund has, however, not been able to meet all of the financial requirements of CLTs. The processes for dual-funding schemes with other lenders has created some bureaucratic headaches for groups, and their requirements for long term finance to deal with cashflow difficulties is currently not being met. And whilst some groups have used the development loans for site acquisition many have not, leaving interviewees arguing for a large, dedicated pot of funding or lending which is specifically geared toward meeting these costs. The pre-development loans, whilst acknowledged as a valuable resource, have carried high interest rates that investees have found difficult to bear. Furthermore, by tying the loans to specific schemes, groups have continued to struggle to meet the generic costs of running their organisation and explore the potential of additional schemes. Generally speaking interviewees see the CLT Fund as having played a 'critical' role in the development of their schemes, with the loans often helping leverage larger investment at key junctures in a scheme's development. However, like all other Funders, CAF Venturesome can do more to understand the impacts of their investments, improve collaborations with other funders, and develop financial products which address emergent gaps in funding.

The growth in the community-led housing sector will become manifest in the rapid expansion of housing units in coming years. Between 2018 and 2022 an estimated 243 housing schemes are to be built by 203 CLTs and other community-led groups, with the potential to deliver 5,810 new units (Power to Change, 2017).

To set this in context, if the CLT Fund supports only half the proportion of groups that are actively developing schemes between 2018-22, as it did CLTs between 2008-2018, then it will still invest in over 20 schemes within a four year period.

This raises important questions about future demand for the Fund's repayable finance. In essence, this will be reflective of the adequacy of the government's Community Housing Fund (CHF), which will undoubtedly meet a substantial proportion of these financial requirements. **Nonetheless there will be a continuing need for social investment in both the immediate future to run alongside government funds, and to meet the demands of groups when government funding ends.** It is our view that there will be funding required for groups who, in light of the assessment criteria for CHF, cannot secure such funds for the specific housing types and tenures they want to build. It is here that philanthropic capital can play a unique and critical role, and is the area where a future Fund should focus. The following section considers some of these future opportunities in more detail.

6.2. Improving future financial support

The evidence presented in this report points to the need for improvements in the way community-led housing groups, and particularly CLTs, are supported financially. In the following section we draw together this learning to provide recommendations to CAF Venturesome on how a future CLT Fund might be improved. We also set out broader proposals to improve funding and finance for the sector, with lessons for government funders, grant-makers, and social investors.

Enhancing a future CLT Fund

When the CLT Fund was devised, the risk of defaults on the loans offered was unclear. Applying novel approaches to an embryonic sector meant embracing risk. But defaults have been slightly lower than expected, and now with 10 years' of experience, more accurate assessments of such risks can be made. **Given that the biggest area for improvement of the CLT Fund - as identified by investees - was on the rate of interest charged, particularly on pre-development loans, then reductions in such rates would be welcomed by groups. In an era of increased government grants for pre-development activity, demand for repayable forms of finance may be reduced, meaning any future loans would need to be lower cost and/or complement other funding streams.** Whilst the rate of defaults and the number of loans transferred to a grant has been lower than expected, it is unclear whether a substantial reduction in rates is viable using the current model for the Fund. To offer lower rates, CAF Venturesome may need to look alternative approaches to charges and fee structures, and could explore flexing interest rates based on the uncertainties and likelihood of each scheme's success.

As described above, cashflow has been an issue for a number of groups. Lending schemes which provide the finance outright at the start of a project, and only charge interest when the borrower draws down an amount, could be valuable for some groups. This would bring particular benefits to groups when unforeseen delays occur, preventing the escalation of borrowing costs.

The CLT Fund has specialised in supporting groups at those key stages in the development process we might call Site, Plan and Build, where groups are securing sites, working through the planning system and then financing and managing build projects. **It is in these key stages when groups tend to employ professional services, and funders like CAF Venturesome have a role in securing the best possible support and at the lowest cost**. Interviewees highlighted legal costs, in particular, as being 'out of control' with others asking 'couldn't CAF Venturesome just employ a lawyer and contract them out'. The solution may not be this simple, but with legal costs for some groups running into the hundreds of thousands of pounds, perhaps the Fund could use their spending power to collectively purchase services on behalf of groups, or pre-agree charges for services with preferred suppliers.

CAF Venturesome's in-house financial expertise, and contacts within the financial services sector, presents opportunities to help groups to secure better financial advice.

A number of investees welcomed the support provided through Reach and Big Potential programmes, to identify and prepare them for loan finance. **CAF Venturesome might consider how approaches like this might overcome the challenge - raised by investees - of modelling their finances in a way that ensures lenders will be there when they need them.**

A future CLT Fund would need to consider the range of organisations and development models it wishes to support. The consolidation of various community-led housing models into a single, defined sector suggests the remit of the Fund should be reviewed. **The lines between, for instance, CLTs and co-housing groups are becoming blurred, and the emergence of models which blend together different community-led bodies - such as CLTs to steward land and localised co-operatives to manage housing - suggests a future fund should prepare for this world of plurality.** CAF Venturesome should also reflect on the geographic distribution of past investments by the CLT Fund and consider if, and how, groups in community-led 'cold spots' might be best supported.

The concept of 'affordable' housing is a source of much debate in the housing field, and recent studies show how various measures of affordability can be applied with differing results (Meen, 2018). Funders are also grappling with this issue as they try to judge whether applicants are likely to offer sufficient affordable units in their schemes. **It may be prudent then for a future CLT Fund to assess schemes in terms of the income-groups they support, rather than the tenure or housing product offered.** Furthermore, a future CLT Fund could explicitly help groups in applying certain affordability measures, so they account for local contexts.

The CHF is not a long-term panacea for the challenges that CLTs and other groups face. As noted above, there will be a need for funding for projects which fall between the gaps of this programme. **There will therefore be a need for finance which enables groups to develop alternative tenures, for groups who are unwilling or unable to register with Homes England (or work with a partner who is), and for groups whose schemes do not meet the value or money or deliverability criteria of the CHF.**

In sum, a future CLT Fund could adopt the following changes, to strengthen its support for CLTs and other groups:

1. Reducing interest rates, particularly on pre-development loans,
2. Ensuring pre-development investments, and their interest rates, are reflective of the size and likely success of the proposed schemes, and that they support organisational as well as scheme development,
3. Reducing the costs of professional services, and using in-house financial expertise to help groups get ready for future finance,
4. Widening the scope of funding beyond CLTs and setting out a preferred approach to assessing affordability, and
5. Focusing on alternative tenures and schemes unfunded by CHF.

Improving the wider system of financial support

On its existing timescales it is likely that the CHF will generate significant demand for finance which could be unmet after 2020. For instance, if the 2020 deadline for applications remains, then there will be a significant number of groups who have received CHF revenue grants and have schemes in the advanced stage of planning, but who have missed the deadline for capital bids. The role that grant-makers and lenders should play in this scenario is an important issue.

The wording of the CHF prospectus suggests that only a degree of funding will be available for core organisational costs, allowing funding to be used for 'capacity-building, including seedcorn funding to get started' (MHCLG, 2018, p.8). Whether sufficient flexibility will be applied to allow this funding to cover staff time (e.g. to undertake operational and back office tasks, or speculative work to initiate additional schemes) remains to be seen. Finding the right formula for this funding may be difficult, but without this groups will fail to expand to multiple schemes, or will do so at a relatively slow pace.

There is an assumption that such funding should always be in the form of grants, but as investees reflected above, there may be other models to consider such as providing finance on an equity basis.

The timeframes of the CHF bring into focus the need for longer term, patient capital to complement what could be a short-term grant programme. Investees interviewed in this study reflected on the types of finance available to housing associations, with loans and mortgages offered on 50 or 60 year terms. Whether this type of finance should be left to the market, or whether ethical lenders want to develop these financial products for community-led housing groups, should be considered more seriously. **Other opportunities may arise in providing loan guarantees to reduce interest payments, and develop systems so groups can draw down financial support if loan repayments cannot be met (for a period at least)**. These models might provide reassurances to groups and other lenders to reduce the cost of borrowing. As larger community-led schemes are planned, new funders will emerge to provide low cost finance to groups, for instance, pension funds. Helping groups prepare for this institutional finance will be critical.

The ability to use CHF grants for site acquisition will be welcomed by community-led housing groups, who see this as a fundamental barrier to development. However, in the assessment process some schemes could either be deemed ineligible or the conditions too restrictive for groups to accept them. Therefore, having alternative sources of finance to acquire sites seems prudent. **Investees urged funders to develop revolving loan funds, whereby groups could use the funding to acquire sites and then pay this back when the development is complete, for instance, with sales receipts or after refinancing.** Lenders, like CAF Venturesome, also have a collective role to play in advocating for the best use of public sector land, and encouraging transfers to community-led groups where this best serves a local community's interests.

Finally, the processes for funder collaboration could be improved. The diversity of community-led housing groups, operating in vastly different housing markets and offering different tenures, using contrasting business models and operational forms, has created a response from funders and lenders which is not systematic. **This can be addressed through closer co-operation and structures which enable funders to respond collectively to emerging gaps in financial provision, and align their funding strategically for the sector as a whole, and deliver this in the most appropriate way for individual schemes.** The benefits of this could extend further into data collection and standardised systems for monitoring and applications, and may enable a more co-ordinated approach with hubs and infrastructure bodies. Indeed, closer working with hubs and other enabling bodies could bring mutual benefits, as these organisations broker and pool financial requirements across multiple community-led housing groups.

In short, a number of changes to the current funding and financial system for community-led housing are needed. These include:

1. Creating a range of financial products, from grants through to equity-based loans, that enable groups to plan and operate effectively, and expand to multiple schemes,
2. Developing longer term finance to help iron-out cashflow difficulties,
3. Innovating with loan guarantees and other financial aids to reduce borrow costs and remedy short term financial problems,
4. Developing a large fund to make site acquisition possible and affordable, and
5. Improving funder collaboration to meet gaps in funding, enhance data collection, and standardise monitoring and applications.

These changes would meet many of the requirements of investees and other groups spoken to in this study. However, they also offer the potential for a more strategic gain; to create a better system of finance for community-led housing, which can support the sector with or without the continued investments of central government.

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GLOSSARY OF TECHNICAL TERMS

Affordable rent: Homes made available at a rent level of up to 80% of gross market rents, including service charges.

Community Housing Fund (CHF): A government programme to provide revenue and capital grants to community-led housing groups to develop affordable housing.

Community Land Trust (CLT): An organisation established to secure benefits for a local community by acquiring and managing land and other assets. Any profits from its activities must be used to secure benefits for individuals who live or work in that community. Membership must be open and those members must ultimately control the trust.

Co-housing: Communities created and run by their residents. Each household has a self-contained home as well as a shared community space. Residents jointly manage their community and share activities together.

Development finance: Loans to meet the cost of constructing homes.

Discounted sale: Housing which is sold at less than the market price to make then affordable. This is often combined with certain mechanisms to ensure future sales are also affordable.

First and second charge: A lender with a first legal charge over a property has the first call on funds available from its sale. A lender with second charge has less precedence in claims on the funds from a sale.

Housing Co-operative: Housing schemes where residents who live in the homes are the members of the co-operative (or encouraged to become members). They can also include some local community members. The membership controls the organisation and operates democratically.

Investee: An organisation or individual receiving a CLT Fund loan.

Pre-planning finance: A loan which helps meet the costs of getting a housing scheme to the planning stage and securing planning permission. This finance can cover a variety of things such as survey costs, site investigations and planning fees.

Quasi-equity investment: A form of investment with similarities to shares in a business. Rather than paying back a set amount each month on a loan, repayments are based on the activities and/or performance of the organisation.

Revolving loan fund: A fund issuing loans which, when repaid, are recycled back into the fund for further lending. Local authorities are able to set up revolving loan funds by using their working capital or accessing funds through the Public Works Loans Board.

Right to Buy: A scheme that helps eligible council and housing association tenants buy their home at a discount.

Self-help housing: Organisations through which people work together to bring back empty properties back into use. This often involves acquiring property on shorter leases and working with volunteers to make it habitable.

Shared ownership: A form of affordable housing were the household buys a share of the house (between 25 per cent and 75 per cent of its value) and then pays rent on the rest.

Social impact bond: An arrangement where a commissioner(s) enters an agreement with a service provider and a social investor, with the latter providing capital for a project and receiving repayments based on the social outcomes achieved.

Social investment: Finance provided to voluntary and community organisations (or social enterprises) on the basis that social impacts will be created and where investments (and any agreed interest payments) are returned to investors.

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