PRACTICAL GOVERNANCE

Protecting Community Assets Inquiry

Interim report

September 2019

protecting-community-assets.org.uk

Department for Digital, Culture, Media & Sport

power to change

Historic England

Local Trust

National Trust

Social Investment Business

Contents

Foreword

This inquiry came about in response to high-profile instances where assets held by local communities and which had received significant public investment fell out of community hands, such as Hastings Pier in 2017, Unity Hall Wakefield also in 2017 and the Hadlow Tower in 2015.

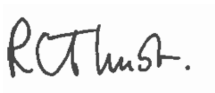
For those of us that believe in the potential of community ownership and control of assets, cases such as these were felt keenly. What could we learn from examples where community control had been lost or had got close to it? What might help preserve long-term community control? These were the questions we started with when we set out in summer 2018 and formally started work in February 2019.

This inquiry has brought together a wide range of contributors, all of whom have direct experience of managing, supporting or funding community assets. They have been willing not just to understand the challenges and opportunities but also to help shape some practical next steps. It is not, therefore a traditional inquiry or research report. It is not presented as a final or finished piece of work. Nor is it a report designed to create a lobbying position. Instead it is an interim report of what has become more akin to a taskforce, seeking to work constructively together to scope realistic solutions, and create an initial starting point for a wider conversation.

Some of the findings, recommendations and proposed ideas will be contested. Some might be considered too ambitious or carry with them unexpected negative consequences. What we hope we have done is taken things far enough to spark further debate and lead to meaningful action.

Having published this interim report, we are now actively seeking contributions to fill in the gaps in our collective knowledge and understanding, and most importantly to help take ideas forward. The plan is to continue to at least January 2020, taking feedback from what we have started here. We intend to publish a further update in the first half of 2020 with a confirmed and resourced timetable of next steps.

We are tremendously grateful to all the contributors to and funders of this work to date who have engaged with energy and in the spirit of open inquiry. Please do take the time to read it and to get in touch with your own comments, challenges, offers of support or detailed insights through our website.



Bob Thust is a Partner in Practical Governance LLP who are acting as secretariat to the inquiry.

Executive Summary

Context, Key Findings And Practical Ideas

1. Context for this inquiry

This inquiry takes place against a wider backdrop of ever-decreasing public spaces, an awareness of the impact this can have on the quality of people's lives and a widely held feeling amongst local communities that they lack a sense of ownership and control over the issues that matter to them[1]. An average of more than 4,000 publicly owned buildings and spaces in England are being sold off every year[2] with an estimated value of local authority property sales at £9.1 billion since 2014/15[3].

This in part seems to be driving more interest in community asset transfers from government, more interest from local communities in holding and managing assets and calls for greater investment. There are now an estimated **6,325 assets in community ownership**, the number is growing fast and **making a contribution to the UK economy worth £220 million** every year.

> **"This is a critical time to consider how we might protect community assets for the long-term benefit of local communities and avoid a potential 'ticking time bomb' of assets that fail to deliver on their substantial promise"**

However, we are also seeing small but increasing examples of existing **assets falling out of community hands**, alongside some **concerns over their long-term sustainability.** One in five community organisations holding assets are operating at a loss of 10% or more (equivalent to 1,300 assets), and a similar number have insufficient reserves to meet a modest unexpected expense or income shock[4].

This is a critical time to consider how we might protect community assets for the long-term benefit of local communities and avoid a potential 'ticking time bomb' of assets that fail to deliver on their substantial promise.

2. Key findings

From our findings so far it appears that **investing in prevention during transition points is critical** and cost-effective. For example, a campaign group transitioning to acquisition and renovation and then into the first 3-5 years of operations. It is at these points that the demands change significantly, requiring in each case an almost completely different set of skills, experience and resources.

We have found that having **long-term finance and support across the whole lifecycle**, built on strong relationships of trust, can be transformative. Finance providers need to ensure that the initial terms of any asset transfer or purchase are clearly understood and favourable, that there is sufficient flexibility to allow for iterations in the business plan, and that community organisations are not wrapped up in complex and sometimes conflicting conditions and reporting requirements. Many conditions meant to protect investments can have exactly the opposite effect.

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[1] Civil Society Futures: the independent inquiry – November 2018
[2] The Great British Sell Off – June 2018 published by Locality
[3] Revealed: the thousands of public spaces lost to the council funding crisis – The Bureau of Investigative Journalism – March 2019
[4] Our assets, our future: the economics, outcomes and sustainability of assets in community ownership – Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and Institute for Voluntary Action Research (IVAR) July 2019 published by the Power to Change Research Institute

Overall, there is a sense that many community organisations feel they are 'left to their own devices' once acquisition and renovation funding has been received despite the early years of a new business being when they are most at risk.

There is also an **onus on community organisations to be realistic in their business planning,** to acknowledge the **changes in skills and experience** that might be required at each stage and **communicate openly with their community,** not just with finance providers. High levels of engagement can bring in additional resources and capacity – without it engagement and trust can erode.

> **"Our findings also demonstrate the importance of planning for when things do go wrong. This is where the loss of community interest and public benefit can be most significant particularly where a community organisation goes into administration"**

All these findings matter in preventing community assets getting into difficulty, but our findings also demonstrate the importance of planning for when things do go wrong. When this happens, we believe our **primary focus needs to be on how we can rescue the asset** and the community interest in that asset, rather than necessarily the community organisation that controls or owns it.

Where there are multiple financial and reputational interests in an asset, **co-ordinating a rescue package is both challenging and time consuming.** This makes timely and appropriate intervention which places the protection of community interest in an asset at its heart difficult to achieve. Administration can become the default way out.

A standard administration process seeks to recover the maximum return to creditors in the quickest time possible (to keep insolvency costs low). As a consequence, **communities are often frozen out of the administration process,** with communication on the process falling on the insolvency practitioner. That level of communication and engagement is costly and beyond the typical scope of their role. Such a process also does not fully consider wider public benefit including the long-term return on any original public investment, and how the process applies to organisations with a wider social purpose or community benefit.

When an asset is sold to an individual or organisation that does not represent significant community interest, on occasions an attempt is made to protect elements of public benefit and social impact by applying specific conditions to the sale. However, in practice it is **difficult to enforce measures to protect public benefit after a private sale.**

3. Practical ideas

During the inquiry we also developed some ideas to try and address key challenges:

- **Community Assets Academy:** to share evidence and learning, fill gaps in research, identify and support opportunities to enhance government policy and facilitate the creation of a small 'Community Asset Solidarity Fund' to support community assets in difficulty.
- **Principles for Funding Community Assets:** a set of principles based on latest learning and best practice, which any funder or finance provider supporting community assets can sign up to and adopt.
- **Register of Protected Community Assets:** a public register of 'community assets' with a commitment to providing and updating a Register of Community Interest in that asset.
- **Community Asset Protector:** an organisation or individual who represents the community interest in an asset and holds a restriction on the title deeds requiring that they are consulted directly in any attempt to put in place a rescue package, on sale or during administration.

- **Community Asset Rescue Fund:** to temporarily purchase community assets that are in severe financial difficulties but have the potential to become sustainable businesses – and then seek ways to protect the community interest in the asset.

- **Community Asset Administration Principles:** a set of principles and best practice guidance primarily for Insolvency Practitioners dealing with a community asset. Alongside this, to work with the Insolvency Service on a distinct process of administration for community assets which takes community and public benefit into greater consideration, drawing on precedents in other sectors.

We believe there is enough appetite to explore these ideas further as part of the ongoing inquiry. We expect to hold a series of roundtables before the end of January 2020 to digest feedback on this interim report and develop the ideas further.

Purpose, Scope & Approach

The Protecting Community Assets Inquiry is a short, defined piece of work seeking to identify practical ways to protect existing community assets in England for the long-term benefit of local communities.

The formal work of the inquiry began in February 2019. The focus has been on existing community assets in England, defined here as physical assets where there is already a significant community interest alongside significant and demonstrable local community participation in decision-making. This could apply to any legal structure.

We define assets as held for the 'long-term benefit of local communities' when they are preserved primarily for the benefit of the local community both now and for future generations. This might include organisations who hold assets without a statutory asset lock as long as they have a regulated purpose beyond sole profit maximisation. However, this inquiry is primarily focussed on protecting the asset itself. This is not always the same as the protecting the organisation that currently holds the asset on behalf of the community.

These definitions leave room for interpretation – what constitutes significant and demonstrable local community interest or participation, for example? The variety in the sector makes this ambiguity difficult to avoid[5]. For the purposes of this work we believe a broad definition is appropriate, allowing us to learn lessons from a range of evidence which may be of relevance in tackling any underlying challenges. However, as we note in some of the ideas proposed in the report, tighter definitions will be necessary in certain areas particularly where any changes in legislation are considered.

In carrying out this inquiry we have considered current law, policy and practice alongside an exploration of recent research. We have carried out detailed investigation into nine case studies of community assets where the interest of local communities in that asset was threatened or lost. The case studies are mainly from England, but also include two relevant examples from Wales. We have also carried out interviews with more than 50 people with direct experience of managing, supporting and funding community assets. A full list of contributors, roles and funders can be found in Appendix 1 on page 64, with relevant research and policy referenced throughout. Fuller details of each of the case studies can be found in Section 3B.

[5] Our assets, our future: the economics, outcomes and sustainability of assets in community ownership – Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and Institute for Voluntary Action Research (IVAR) July 2019 published by the Power to Change Research Institute [section on defining key concepts with reference to definition of assets, community ownership and control in particular]

Key definitions

Community Asset

A physical asset where there is already a significant community stake in place alongside significant and demonstrable local community participation in decision-making.

Long-term benefit of local communities

Held and preserved primarily for the benefit of the local community both now and for future generations. This might include organisations who hold assets without a statutory asset lock as long as they have a regulated purpose beyond sole profit maximisation.

"In carrying out this inquiry we have considered current law, policy and practice alongside an exploration of recent research. We have carried out detailed investigation into nine case studies of community assets where the interest of local communities was threatened or lost"

Approach taken	Brief description
PCA Inquiry Panel	Steering group for this project, which helped refine purpose & scope and met twice formally to review and support progress (see Appendix 1).
PCA Inquiry Funder Panel	Specific group to focus on the funder/ finance provider aspects of the project, formally met twice to review and support progress (see Appendix 1).
Desk review of relevant research	Bob Thust, David Chater, David Floyd.
Desk review of funding & support evidence	David Chater.
Case study interviews	Dave Boyle, David Boyle, Jess Steele (interviews with range of stakeholders for each case study).
Stakeholder interviews	Bob Thust, Dave Boyle, David Chater, David Floyd, Jess Steele to gather sector views and feedback on emerging findings and potential ideas.
Website submissions	Analysis of submissions through the inquiry website led by Bob Thust.

During the inquiry we have focussed our findings and next steps across **three broad themes:**

Prevention

How best to structure community interest or asset ownership to prevent assets falling out of community hands or falling into financial difficulty in future.

Rescue

How, when and by whom effective support might be provided to those leading or those with an important stake in community assets which face serious threats to long-term viability.

Impact limitation

How might community interest best be represented and preserved when an asset is to be sold, or an organisation owning a community asset enters into administration.

Protecting Community Assets Inquiry - case studies where the interest of local communities in that asset was threatened or lost (see section 3B for further details)

- Ancoats Dispensary
- Cardigan Castle
- Hadlow Tower
- Harlech Leisure Centre
- Hastings Pier
- Hebden Bridge Town Hall
- Moseley Road Baths
- Stanley Halls
- Unity Hall Wakefield

Membership organisations including Plunkett and Locality as well as funders and academics have developed typologies to try to match support to the needs of community organisations at different stages of their development. Mindful of these, we have used the **following typology:**

Idea/Pre-venture

Where informal groups start to coalesce around a need or idea for change.

Start-up/Project Development

Where groups have a broadly viable proposal and a core team to take on the asset.

Acquisition/Renovation

Where groups need larger-scale funding to purchase and/ or renovate the asset. This can take a number of years and is where organisation structures are usually developed and where work to repair and refit an asset for operation takes place.

Start-up Operations

Groups moving through the first 3-5 years post-acquisition and renovation and into start-up operations, where business plans are being tested and revised as needed.

Growth to Sustainability

Groups moving towards steady state and long-term sustainability.

Context for the Inquiry

Community control of asset can bring many benefits

Community control is no guarantee of financial success or community benefit, not least because the definition of community asset does little to fully demonstrate the extent of genuine local community interest and participation. However, the benefits of community control of assets can be many and varied including: a heightened sense of identity; greater financial viability; improved levels of activity and access to services; increased opportunities for training, jobs and business development; a better physical environment; building of community confidence and self-determination in places where people often feel 'done to'; and the stimulation of local economic and social activity, helping to generate wealth in a place and keeping it there[6].

There are ever-decreasing public spaces and feeling of a lack of control in communities

This inquiry takes place under a wider back-drop of ever-decreasing public spaces - an average of more than 4,000 publicly owned buildings and spaces in England are being sold off every year[7] with an estimated value of local authority property sales at £9.1 billion since 2014/15[8]; an ever-increasing understanding of the challenges that such significant loses in social infrastructure can have[9]; and a widely held feeling amongst local communities that they lack a sense of ownership and control over the issues that matters to them[10].

A growing interest in community control and ownership of assets

Interest in community control and ownership of assets has been building for many years. A range of 'community rights' have been enshrined in the Localism Act since 2011, providing rights for community organisations to delay the sale of a building or land so they might develop a bid for it, as well as the ability to register an asset as an Asset of Community Value[11]. Alongside these formal rights, the process of community asset transfer has been promoted and encouraged, particularly in light of the pressure on local authority budgets in times of austerity. An increasing number of asset transfers have taken place – 50% of local authorities surveyed recently said they 'actively pursue opportunities to transfer assets to community groups', and over 60% stated that they had a community asset transfer policy in place[12]. Indeed, the government's 2018 Civil Society Strategy emphasised the need for empowerment and investment for local communities and committed to 'design a programme to look at the barriers to and opportunities for more sustainable community hubs and spaces where they are most needed'[13]. The New Local Government Network has called for a shift towards a 'community paradigm' in public service delivery, which sees 'the transfer of power from the public service institution to the community as its key goal'[14].

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[6] Community organisations controlling assets: a better understanding – Mike Aiken et all June 2011 published by Joseph Rowntree Foundation; and Community hubs: understanding survival and success Neal Trup, David Carrington, Steve Wyler July 2019 published by Local Trust and the Power to Change Trust
[7] The Great British Sell Off – June 2018 published by Locality
[8] Revealed: the thousands of public spaces lost to the council funding crisis – The Bureau of Investigative Journalism – March 2019
[9] Skittled Out? The collapse and revival of England's social infrastructure – Dan Gregory May 2018 published by Local Trust
[10] Civil Society Futures: the independent inquiry – November 2018
[11] https://mycommunity.org.uk/take-action/land-and-building-assets/assets-of-community-value-right-to-bid/
[12] A common interest: The role of asset transfer in developing the community business market – November 2016 Abigail Gilbert New Local Government Network published by the Power to Change Research Institute
[13] Civil Society Strategy: Building a future that works for everyone - 2018
[14] The Community Paradigm: Why public services need radical change and how it can be achieved Adam Lent, Jessica Studdert March 2019 published by New Local Government Network

An increasing investment demand

The demands are also growing for more investment. We see increasing coverage of local authorities developing strategies based on concepts such as Community Wealth Building which in part highlights the value of local asset ownership in ways that are managed equitably, so that local communities can harness financial gain[15] Locality has called for a £1bn community asset investment plan[16] and Local Trust has created an alliance of over 90 organisations to make the case for a 'community wealth fund' a multi-billion national endowment to support deprived communities[17].

> **"There are at least 6,325 assets in community ownership and growing fast with nearly a third of all community-owned assets coming into community ownership in the past decade. They are making an increasingly significant contribution to the UK economy, nearly £220 million every year. However, around one in five assets made an operating loss of 10 per cent or more of their revenue in their latest financial year – equivalent to 1,300 assets"**

A growing market and potential, but some underlying financial concerns

It has been recently estimated that there are at least 6,325 assets in community ownership and growing fast with nearly a third of all community-owned assets coming into community ownership in the past decade. They are making an increasingly significant contribution to the UK economy, nearly £220 million every year - an indicator of both recent growth and long-term potential. However, around one in five assets made an operating loss of 10% or more of their revenue in their latest financial year (equivalent to 1,300 assets). Up to a fifth are likely to have insufficient reserves to meet a modest unexpected expense or income shock, with a significant number likely to be operating at a loss. Many community organisation holding assets do not feel their debts are under control or feel that their asset's expenses are not 'regular and predictable'. Most do not feel their expenses adjusted in line with revenues[18]. Wider community hub income has also fallen in real terms, rising by an estimated 6% over the five years to 2017/18 compared with (RPI) inflation of 11% over this period.

Could we be creating a ticking time-bomb?

Taken together, we are seeing increasing evidence of the value that community control of assets can bring; more focus on community asset and community control in public policy; and a rising demand for investment in community assets. This is happening at the same time as high-profile cases where community interest in an asset has been lost often following significant public investment, and some concerns over the long-term viability of many existing assets. There is a danger that we could create 'ticking time bomb' of community assets that are not able to deliver on their substantial promise.

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[15] Beyond Preston: How local wealth building is taking the UK by storm – Jonty Leibowitz and Neil McInroy March 2019 published in CityMetric

[16] The Great British Sell Off – June 2018 published by Locality

[17] Strong resourceful communities: The case for a Community Wealth Fund Dan Gregory August 2018 published by Local Trust on behalf the Alliance for a Community Wealth Fund

[18] Our assets, our future: the economics, outcomes and sustainability of assets in community ownership – Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and Institute for Voluntary Action Research (IVAR) July 2019 published by the Power to Change Research Institute

Section 1 Key Findings

Introduction

The key findings are presented across the three themes of the inquiry (Prevention, Rescue and Impact Limitation) and connected to the most relevant life-cycle stage (Idea/Pre-venture, Start-up/Project Development, Acquisition/Renovation, Start-up Operations and Growth to Sustainability).

This findings are drawn from our desk review of relevant research (referenced throughout), of finance and support available (section 3A), the nine case study investigations we have carried out (section 3B) as well as stakeholder interviews, analysis of submissions to the inquiry website, and the feedback from inquiry panels (see Appendix 1 for a full list of the more than 50 contributors and inquiry panel members).

We highlight throughout 'points to consider' for a range of stakeholders in response to our key findings. These then form the basis for the practical ideas the inquiry team have been working on and which are outlined in Section 2 of this report.

The scope of this inquiry focuses on protecting existing community assets across all sectors as outlined above. This has a number of implications for interpreting these key findings as well as the 'points to consider' we have highlighted:

- Our findings do not go into specific details on individual sectors or types of community asset. Instead we try to draw findings that might apply across all sectors. Given that our case studies were chosen on the basis of their scale of impact and where the interest of local communities in that asset was threatened or lost, there has undoubtedly been a leaning towards heritage assets in our analysis. However, we have again tried to draw out findings which we feel would be applicable in most sectors and across most types of community asset.
- We do not focus on Idea/Pre-Venture stage except in passing.
- Most of our findings link to the transition between Start-up/Project Development to Acquisition/Renovation – and then the transition from Acquisition/Renovation to Start-up Operations. Our findings suggest that it is during these transitions when action is most critical - where there is likely to be most impact in protecting the community interest in an asset for the time and resources invested.
- As such many of our 'points to consider' focus on the importance of prevention at these transition points, long before there is a need for rescue or impact limitation.
- However, we also believe our findings demonstrate the importance of planning for such rescue and impact limitation scenarios, where the numbers of assets might be low but where the loss of community interest and public benefit can be highly significant. Across the nine case studies, for example we estimate that the investments into the community organisations running those assets totalled more than £30m of grants and donations and £4.5m of loans and community share finance – a combined average of more than £4m per asset. In the case of Hastings Pier a single organisation had received more than £14m of public investment before entering administration and being sold privately for just £50,000.

Our findings suggest that it is during the transition between stages of the life-cycle when action is most critical. As such many of our 'points to consider' focus on the importance of prevention at these transition points.

However, we also believe it is import to plan for rescue and impact limitation scenarios, where the numbers of assets might be low but where the potential loss of community interest and public benefit can be highly significant. In the case of Hastings Pier a single organisation had received more than £14m of public investment before entering administration and being sold privately for just £50,000.

A. Prevention

How best to structure community interest or asset ownership to prevent assets falling out of community hands or falling into financial difficulty in future.

Across all life-cycle stages

1. Funding and financing of community assets

Community assets lack access to funding

According to our work on funder mapping (see section 3A), 75% of philanthropic funders listed on 360 Giving Standard[19] do not provide any funding for community assets. Of those that do, most only allocate a small percentage of their total funds to capital. We estimate that the maximum amount of grant funding available to fund support for community assets is £875 million. This figure overstates the likely availability of funding since it includes the total funds available that don't explicitly rule out capital projects. However, the data does not include many local, statutory funding sources and is yet to be updated with data we hope to become available from social economy data labs[20] covering wider social investment deals. Overall it does appear from our work to date that organisations seeking funding for community assets are strongly dependent on a small number of funders with a particular focus on assets. We believe more funding is needed overall, but also that more research is needed to determine the extent of the gap between supply and demand.

A need for long-term funding and funder relationships that last throughout the life-cycle

Of the funding that is available, there also appears to be a heavy focus on funding for the Acquisition/Renovation stage. This is partly logical because these are the most expensive elements of the process however this focus can lead to lack of funds to support planning, business development and the ongoing sustainability of an asset.

Assets which require larger scale renovation are often complex projects requiring multiple funding sources at different times, with different and sometimes conflicting conditions and reporting requirements across the project life-cycle. These are challenging and time consuming to manage and limit the flexibility to respond to changing circumstances. Having meaningful funder relationships which carry through at every stage of the project, each of which are engaged with the whole project not just the part of it they are funding, can make a significant difference. This includes positive ongoing relationships after project completion not based solely on grant monitoring, which appears to be rare.

Need for tailored advice to specific need

Every asset and project also has its own unique s et of circumstances and stakeholder relationships. Often however guidance, support and advice that is offered or available is too generic rather than tailored to specific needs; follows a standard logic which is not applicable to these individual circumstances; or the specific guidance or expertise needed is difficult to identify and find.

Are community organisations being left to their own devices when support is most needed?

Overall, there is a sense that many community organisations feel they are 'left to their own devices' once the Acquisition/Renovation funding has been received despite the first 3-5 years of a new business during Start-up Operations being when they are most at risk and could most benefit from an ongoing, supportive and flexible

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[19] https://www.threesixtygiving.org
[20] https://socialeconomydatalab.org

relationship with funders who take an active interest in the whole project, working with them to safeguard community benefit and social impact.

> 6 of the 9 case studies carried out by the inquiry team noted the "Ability to secure relevant and informed guidance and support" as a critical access or failure factor (section 3B).

"75% of philanthropic funders listed on 360 Giving do not provide any funding for community assets and of those that do, most only allocate a small percentage of their total funds to capital. Of the funding that is available, there appears to be a heavy focus on funding for the Acquisition/ Renovation of assets. We believe more funding is needed overall, but also that more research is needed to determine the extent of the gap between supply and demand."

> For Social Investment Business visiting the enterprise and meeting the senior leadership is a key part of taking an engaged approach to ongoing relationship. In doing so, SIB get under the skin of the business and assess the key metrics including governance, financial viability, appropriate action planning and evidence of sustained social impact (section 3A, page 50).

Points to consider:

Funders and finance providers

- Increasing the level of funding and low-cost finance available to support community assets particularly funding for supporting planning, business development and ongoing sustainability of an asset, and especially from central government.
- Designing and resourcing a long-term relationship with community organisations that potentially extends beyond the Acquisition/Renovation stage and is not limited to grant or loan monitoring.
- Working with other funders and finance providers to co-ordinate monitoring, reporting and support across the whole project not just the part of the project you have funded.
- Being aware of the potential implications of complex conditions and reporting requirements across multiple funding sources, limiting any you put in place to those you deem absolutely necessary.

Community groups

- Keeping a clear log of the different conditions and reporting requirements across multiple funding sources, together with a strategy to avoid the funding mix becoming too restrictive or carrying too high a burden on management time.
- Attempting to limit the frequency and number of different reporting requirements and conditions where you have an opportunity to do so.
- Investing in building long-term relationships with funders and finance providers and encourage them to co-ordinate monitoring, reporting and support across the whole project where possible.

2. The external policy environment

Need for a co-ordinated and effective engagement in government policy processes

The external policy environment can have a significant impact on financial health of a community asset, though this is often sector specific. For example, recommendations in this area were recently made by the Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and the Institute for Voluntary Action Research (IVAR). These included enhancing the level of information about roles, responsibilities and steps on the asset transfer process; making it obligatory for all local authorities to have an asset transfer policy; providing stronger protections against other threats to ownership, like privatisation; and excluding community asset owners from the proposed caps to ground rents to protect revenues. Influencing public policy is beyond the ability of most individual organisations and requires co-ordination between stakeholders to support effective engagement with the government policy process. This can happen in many different ways, e.g. trade bodies with a focus on policy and advocacy.

Points to consider:

Central and local government

- Further investing in understanding and mitigating the challenges facing the long-term viability of community assets in order to protect public investment in them.
- Enhancing the level of information about roles, responsibilities and steps on the asset transfer process.
- Making it obligatory for all local authorities to have an asset transfer policy.
- Supporting the co-ordination between stakeholders in different sectors to share learning and engage effectively with the government policy process.

Start-up/Project Development moving into **Acquisition/Renovation**

3. Terms of ownership and lease agreements

An unequal and lengthy negotiation of terms

The terms of the initial ownership, lease agreement or partnership agreements for the operation and renovation of a community asset have a major impact on long-term success. For example, our case studies and desk research showed that whilst freehold ownership is not a guarantee of sustainability or a successful rescue, it can have a significant impact on income opportunities as well as the ability to negotiate a rescue that protects those with a community interest.

Community organisations often have less access to resources and advice than those they are negotiating terms with. In addition, the emotional attachment to any community asset can put community organisations at a disadvantage, since the option of 'walking away' isn't always credible.

Negotiations can take a long time (often many years), requiring sustained community engagement during a period where final acquisition is usually uncertain.

Funding, however is more often provided at Acquisition/Renovation stage, by which time some negotiations have often been largely concluded so funders have limited ability to intervene. Early intervention can provide critical support and political clout in such negotiations.

Taken together, these factors can result in missing out on acquisition altogether, or acquisition on terms which are not fully understood, or which create tensions between partners, the community and stakeholders. They can also create unrealistic financial and operational burdens post acquisition.

5 of the 9 case studies carried out by the inquiry team noted the "Ability to negotiate terms of ownership and lease agreements" as a critical success or failure factor, and 3 of the 9 specifically the ability to secure freehold ownership (section 3B).

Some of the key decisions and processes affecting acquisition and the asset transfer process of community assets include; the capacities, knowledge and skills within the group; the importance of external support and technical advice; the time that transfer processes can take; understanding the transfer process; internal process and the shortage of capacity[21].

The ownership of an asset (freehold ownership, or long leases over 25 years) is associated with a level of organisational income three times higher than those who do not own the building they operate from. However, ownership of a building actually increases risk: it can lead to higher surpluses but also increases the potential for higher losses. This may be in part a consequence of organisations taking on buildings which are expensive to run and in poor repair[22].

The National Lottery Heritage Fund requires that any acquisitions do not exceed the market value of the assets, and that acquisitions should be backed up by at least one independent valuation (section 3A, page 49).

Points to consider:

Funders and finance providers

- Providing small amounts of at-risk funding at greater scale at the Start-up/ Project Development moving into the Acquisition/ Renovation stages, specifically to support community groups to carry out their own due diligence and seek their own professional advice.
- Offering direct support in negotiations over ownership, lease or partnership agreements and terms at as early a stage as possible.
- Ensuring you understand and take appropriate expert advice over the terms of any ownership, lease and partnerships agreements and terms and their implications for long-term sustainability as a key part of the due diligence process.
- Testing the level of community interest and active involvement as a key part of the due diligence process.

Community groups

- The importance of financing and carrying out appropriate due diligence prior to asset acquisition, as well as seeking appropriate professional advice in negotiating any ownership, lease agreement of partnership agreements wherever possible.
- Employing an agent in negotiations who can ensure terms are well understood and take a more objective view on whether ownership, lease or partnership agreements and terms are likely to jeopardise the long-term sustainability of the asset.

Central and local government

- When transferring assets to communities consider the terms of that transfer carefully to support long-term sustainability, potentially offering transfer at discounted rates and/or resourcing community groups to carry out their own independent due diligence and seek their own independent professional advice.

[21] Our assets, our future: the economics, outcomes and sustainability of assets in community ownership – Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and Institute for Voluntary Action Research (IVAR) July 2019 published by the Power to Change Research Institute
[22] Community hubs: understanding survival and success Neal Trup, David Carrington, Steve Wyler July 2019 published by Local Trust and the Power to Change Trust

4. Realism of, and ability to iterate the business plan and approach to renovation

There are incentives to create unrealistic business plans

Prior to acquisition a vision to preserve an asset for community use can be a strong galvanising force. However, business plans need to be realistic and adapt to changing circumstances not just based on this early vision. What's more, post-acquisition how that asset is used, the approach to renovation and the appropriate business model is often contested. At the point of acquisition, therefore it is very difficult to predict renovation costs and timescales, ongoing repair and maintenance needs, or sources and timing of revenue. However, it is usually before or at the point of acquisition that business plans are created e.g. to support a funding bid. There is an incentive at this stage to downplay costs, talk up income and to demonstrate a level of confidence in the plan that may not be realistic or even possible. This is especially prevalent when a community group has fought off other commercial interests and worked hard to demonstrate its commercial credentials alongside the proposed community benefit and social impact.

Funding conditions designed to protect investments can have exactly the opposite effect

This is further exacerbated when key stakeholders demand a sustainably run asset but under conditions and restrictions which work directly against the most obvious sources of income, e.g. preserving original, community or charitable uses only – and especially where demand to pay for these uses is low.

Where each source of funding across multiple sources has unique or restrictive conditions and is treated as a discrete project rather than as part of a highly interconnected whole this can severely limit the flexibility to make necessary changes. This can be especially problematic when conditions placed by funders or finance providers are overly directive or restrictive e.g. insistence on outsourcing operations to third parties; insistence on the use of specific consultants or advisors; or taking a charge over a property that may restrict the ability to secure further investment. Requirements for 'match funding' too can unintentionally block progress. If each funder requires match funding to be agreed before grants are confirmed, groups can find themselves in a catch-22 where two or more funders say they will only agree to provide funding once others have already done so. This stretches out the timescale, often increasing the ultimate costs and undermining business plan forecasts.

Even where funders might take a more flexible approach, in practice many community groups lack the confidence to approach them to discuss any potential changes to an agreed plan. Phased funding approaches can help but can also hinder – rather than becoming points of reflection and iteration within a long-term funding commitment, they can become hurdles to overcome further enhancing the incentive to prove the original plan was credible in order to reach the next stage.

Taken together, these circumstances can lead to a funding package that is neither sufficient, committed to the long-term nor flexible enough to cover unexpected costs, changes in the timeline or nature of the renovation plan and business model. This can set unrealistic expectations between funders, community organisations and those with a community interest. Funding conditions meant to protect investments can have exactly the opposite effect.

> **The need for 'sustainability funding' has been identified as particularly lacking by an expert review commissioned by the National Trust, especially in reference to flexible and unrestricted working capital or contingency funding[23].**
>
> **The cost of maintenance was by far the most common factor reported to have affected the financial health of community-owed assets in the last three years. Other common factors included the scale of expenses; poor revenue from the asset; not being able to recruit**

[23] The Trends and Future of Urban Heritage, BOP Consulting for National Trust 2018

a full volunteer base and limited access to grant-funding[24].

All 9 of the case studies carried out by the inquiry team noted the "Realism of and ability to iterate the business plan" and "Level of ongoing, coordinated funder support with relationship continuity" as critical success or failure factors, with 5 of the 9 citing "Alignment on vision" (section 3B).

Points to consider:

Funders and finance providers

- Being clear that you understand that renovation plans and business models will necessarily iterate over time, and then clear about the mechanisms through which any changes to funding agreements can be agreed.

- Making long-term commitments to an asset under appropriate conditions that utilises a phased approach primarily as a means to learn and iterate proposals, rather than primarily as hurdles to overcome.

- Ensuring funding proposals include sufficient unrestricted, flexible or 'sustainability funding' wherever possible.

- For social investors, be clear on circumstances under which it may be possible to restructure finance by varying the terms of their investment in response to the needs of investees' businesses, e.g. the use of interest-only periods, repayment holidays, loan extensions or contingency funds -balancing the need to see funds recycled for other projects with a recognition of the challenges a community organisation may face in the future.

- How your funding can support the aims of the whole project over time rather than a narrow focus on the specific part you are funding.

- Whether taking a charge over an asset as a funding requirement will make it harder for a grantee to secure further investment.

- Limiting the requirement for matched funding or providing 'first brick' finance with a firm offer, even where constraints still remain on the ability to draw down funds until match-funding is in place.

Community groups

- Creating an expectation that the renovation plans and business model will necessarily iterate over time, making that clear to the local community and all key stakeholders most especially funders – wherever possible building in flexible working capital or contingency budgets within funding proposals.

- Doing your best to adequately test demand for services within the local community and being mindful that compromises are likely to be necessary between preserving original, historic or proposed community uses, and uses for which there is a clear demand.

Social Investment Business has developed a range of restructuring methods based on in its years of experience in investing in social enterprises (section 3A, page 50).

Architectural Heritage Fund can provide loan extensions - based on a combination of its specialist judgement and the provision of business support (section 3A, page 48).

For the National Lottery Heritage Fund, business plans are now mandatory for grants from £250k to £5m (section 3A, page 49).

[24] Our assets, our future: the economics, outcomes and sustainability of assets in community ownership – Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and Institute for Voluntary Action Research (IVAR) July 2019 published by the Power to Change Research Institute

5. Effective governance and leadership

Different experience and skills needed at different life-cycle stages

There is often a need for high levels of experience and skills within the board or management committee. In addition, there are often high demands on board time with considerable pressure, having to manage e.g. a complex renovation project and ongoing community engagement. This is particularly the case during the first 3-5 years after acquisition, largely because the time, skills and experience required are very different for operating an asset during the Start-Up Operations and Growth to Sustainability stages than they are for Acquisition/Renovation, and both are different again from those required for the initial campaigning during the Idea/Pre-venture and Start-up/Project Development stages.

Need for more operational resource – especially to support financial reporting

Similarly, having a leadership team that is sufficiently resourced with operational support is important. Recruiting too few people, or a leadership team without the full set of skills required for the project is a challenge. This is often a result of a lack of resource to invest in staff, or a board unable to effectively manage or let go of existing staff. This is particularly an issue where it leads to a lack of regular, clear financial information and forecasts.

Opportunity to separate of ownership and operations?

Through the inquiry it was noted by a number of interviewees that there may be scope to consider a separation of roles between a community organisation that ultimately owns or controls an asset, and those that operate all or part of that asset to mitigate this challenge, e.g. through outsourced services or through a trading arm. Further research is needed to consider this point.

> **8 of the 9 of case studies carried out by the inquiry team noted the "Time, experience, skills and continuity of the board", "Time, experience, skills and continuity of the leadership team" and "Access to robust financial information" as a critical success or failure factor (section 3B).**
>
> **"Across all community assets factors such as not being able to recruit a full staff complement; and staff skills and expertise, are considered factors that might negatively affect the financial health assets in community ownership in less than 10% of cases"**
>
> **The quality of audited/examined accounts of community hub organisations was variable in nature. While it is the legal responsibility of trustees and directors to comply with accounting requirements, reliance is placed on external experts. These failings mean that it is more difficult than it should be for the organisations to develop a clear and full picture of their financial health, and for funders and stakeholders to have a clearer understanding[25].**

Capacity and continuity in leadership, alongside how well the board reflects the local community interest, is often overlooked

It is important to note that experience and skills of the board and leadership team, whilst important, are not the only factors. It is often possible to procure specific expertise when needed. A narrow focus on these elements is common within many funder due diligences processes, but this appears to rarely take account of the time those people might have available. This is often a critical factor in delivering success and an issue that can affect leadership capacity and continuity. It also often overlooks how well the board reflects the local community interest and seeks to engage with and represent them. This can have a significant impact on long-term success, for example high levels of engagement can bring in additional resources, new sources of board of staff members over time, extra volunteer capacity, and additional income. Particularly in the case of the transfer of local authority assets, there can be a tendency

[25] Community hubs: understanding survival and success Neal Trup, David Carrington, Steve Wyler July 2019 published by Local Trust and the Power to Change Trust

to consider any form of community ownership or control as inherently good, without testing the extent of community interest and active involvement at the point of transfer.

Effective governance and leadership appears to be a common factor in more complex and large-scale asset management projects, often with a heritage asset. Across all types of community assets this may not be as significant an issue. Not being able to recruit a full staff complement, and staff skills and expertise are considered factors that might negatively affect the financial health of assets in community ownership in less than 10% of cases. However, the same research also noted that while the contribution of volunteers and their skills cannot be underestimated, depending on them can make an asset vulnerable[26].

Similarly, across community hubs it has been noted that many community hub organisations are very well managed, with tight financial controls, a high level of capacity to identify and manage business risk and opportunity, and effective leadership and governance. That same research also notes that those running community hubs believe they are most likely to do well and be around for the long term if they can involve large numbers of people from across their community, build up a pool of reliable volunteers, run a tight-ship with excellent financial data and an eagle eye, and build a positive team to embrace change[27].

Points to consider:

Funders and finance providers

- Extending due diligence on governance beyond a narrow focus on skills and experience to consider the time people have available, the resources they have to manage and invest in the leadership team and how well the board reflects the local community interest and seeks to engage with and represent them.
- Providing specific funding and/or access to specialist, expert support with a track record of working successfully with community-led asset projects as they make the transition between campaigning to save an asset, acquisition, renovation and operation. Potentially to embed that support within the ongoing project management functions over an extended period, and with a particular focus on financial management and reporting – but only where such expertise is desired and not already available with sufficient time within the community itself.

Community group

- Setting a clear expectation that different people may be required on the board and in the leadership team at different stages of the project, setting specific points in the life-cycle at which to review this e.g. with set terms for board members.
- Being clear on both skills and experience required, but also expected time commitments of board members and volunteers at every stage of the life-cycle.
- Having a very clear strategy for performance management and support from the board to the leadership team.
- Ensuring you have a sufficient experience and time within the board and leadership team to stay on top of financial management and reporting, and choosing those who provide external support in this area carefully.
- Whether a separation of roles between a community organisation that may ultimately own or control an asset, and those that may operate all or part of that asset e.g. through outsourced services or through a trading arm is an option.

[26] Our assets, our future: the economics, outcomes and sustainability of assets in community ownership – Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and Institute for Voluntary Action Research (IVAR) July 2019 published by the Power to Change Research Institute
[27] Community hubs: understanding survival and success Neal Trup, David Carrington, Steve Wyler July 2019 published by Local Trust and the Power to Change Trust

B. Rescue

How, when and by whom effective support might be provided to those leading or those with an important stake in community assets which face serious threats to long-term viability.

Start-up Operations moving into **Growth to Sustainability**

1. Regularity and transparency of community, funder and key stakeholder engagement

Communication and participation can tail away over time – eroding trust and engagement

Community ownership of assets often takes place through campaigns that are participative and open, driven by the desire to retain a building or community space because of its symbolic value[28]. However, as community organisations reach Acquisition/Renovation, Start-up Operations and move through into Growth to Sustainability stages, communication and participation can tail away. This can be for many reasons: the complexity and frequency of what needs to be communicated increases; individuals get busier; confidentiality issues start to be encountered; and many difficult and sometimes unpopular decisions need to be taken.

However, there is a need to keep those with a community interest, funders and key stakeholders aware of progress - with honesty on the big questions and challenges a project is facing. Without it engagement and trust can erode, limiting the will and opportunity to lend further support or creating actively hostile relationships. This can in turn isolate the board and leadership team and prevent appropriate and timely responses to challenges.

> **All 9 of case studies carried out by the inquiry team noted the "Regularity and transparency of community, funder and key stakeholder engagement" as a critical success or failure factor (section 3B).**
>
> **"The desire to retain a building or community space because of its symbolic value proved to be an incredibly powerful motivator for community ownership"**

Points to consider:

Funders and finance providers

- Providing funding and/or specialist support to specifically strengthen a community organisations' ability to actively engage and communicate to key stakeholders and those with a community interest.

- Proactively engaging with the community organisation on a regular basis outside of formal grant or loan monitoring.

Community group

- Having a clear and resourced strategy for ongoing communication and engagement with those that have a community interest as well as funders and finance providers, with honesty on both success and challenges and with openness regarding financial sustainability.

[28] Our assets, our future: the economics, outcomes and sustainability of assets in community ownership – Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and Institute for Voluntary Action Research (IVAR) July 2019 published by the Power to Change Research Institute

2. Ability to co-ordinate timely rescue support focussed on the asset itself

Co-ordinating a rescue package where there are multiple funders is challenging

Where there are multiple financial and reputational interests in an asset, co-ordinating a rescue package is both challenging and time consuming - especially if shareholders, funders, creditors and charge-holders do not share a joint vision, or there is a lack of open communication and mutual trust. This makes timely and appropriate intervention which places the protection of community interest and asset at its heart difficult to achieve.

> **7 of the 9 case studies carried out by the inquiry team noted the "Ability to co-ordinate timely recue support" as a critical success or failure factor, with 5 of the 9 citing the "Ability to separate the assets from the community organisation that owns or operates the asset" (section 3B).**
>
> **According to our analysis of funding and finance, the most common forms of rescue support currently provided are 'contingency' funding built into initial bids and 'call-down' funds, often relatively high interest loans available to draw on if there is no alternative (section 3A).**

It's not easy to separate rescuing the asset from rescuing the organisation that owns it

In addition, if the board and leadership teams of a community organisation do not have the ability to prevent it falling into serious financial difficulty it is not easy to replace them. Even where the board or leadership teams recognise this themselves, they often feel unable to step away or consider transferring an asset to an alternative organisation that may be more able to protect community interest. Administration can become the default way out. Once the administration process has begun it then becomes even harder to protect community interest (see C. Impact Limitation later in this section).

Points to consider:

Funders and finance providers

- Providing contingency, emergency funds or loan extensions -planning ahead for the possibility that a business managing a community asset could run into difficulty but could still be successful in the long-term if support is made available at the right times.

- Working proactively with other funders and finance providers of the asset to consider how best to support rescue collectively, with a focus on the protection of the community interest in the asset rather than the necessarily the community organisation itself.

Community groups

- Working proactively with all your funders and finance providers of your asset as a single group to consider how best to support rescue collectively, being prepared to focus on the protection of the community interest in the asset rather than your community organisation – particularly prior to making any decision to consider administration.

> **Locality Lifeboat provides advice and practical help to member organisations which are experiencing, or at risk of, difficulties that threaten their viability. It safeguards the delivery of vital services and protects community assets (section 3A, page 51).**
>
> **Community business funder, Power to Change provides a 'Contingency Support' offer to grantees who get into difficulty - this is based on Locality's long-running Lifeboat service which provides support for its members who get into financial difficulty (section 3A, page 50).**

C. Impact Limitation

How might community interest best be represented and preserved when an asset is to be sold, or an organisation owning a community asset enters into administration.

Start-up Operations moving into **Growth to Sustainability**

1. The administration process

Standard administration process does not fully consider wider public benefit

Community assets that get into financial difficulty can find themselves in administration. Most boards and staff teams do not know what this entails until they are already committed. A standard administration process seeks to recover the maximum return to creditors in the quickest time possible (to keep insolvency costs low). Such a process does not fully consider wider public benefit including the long-term return on any original public investment.

Lack of understanding across stakeholders of existing administration process for community assets

There is also a lack of consistent understanding across insolvency practitioners, investors, funders and local communities of the administration process and/or how that applies to different organisations with a wider social purpose or community benefit. This includes some of the specialist areas of law that apply to e.g. Community Benefit Societies[29].

This further extends to a lack of understanding of some of the unique pressures and challenges of running a standard administration process in these cases. It is not uncommon for members of local communities who feel let down, disenfranchised, fearful and uncertain of what might happen to 'strike out' through letters and social media including in some cases quite extreme threats.

Those with a community interest 'frozen out' of administration process

Once an administration process is underway those who hold a community interest are often closed out of communication on the process as there are (1) GDPR rules to consider in terms of sharing contact details, (2) lack of awareness of the rights of those with a community interest to access e.g. member contact details, and (3) any engagement with wider members (which may go into the thousands) can often fall directly on the insolvency practitioner who may be the only person with legal access to that information. That level of communication and engagement is costly and beyond the typical scope of their role.

Taken together, these factors can result in public benefit and social impact being destroyed or eroded, leave all parties unsure of how to proceed at various stages, and 'freeze out' individuals with a community interest. Many will be unable to organise themselves to mount a credible and timely bid.

> **All 3 of the of case studies carried out by the inquiry team where administration took place noted the "Ability to engage with those who have a community interest" and "Ability to protect community benefit when in private hands" as critical success or failure factors (section 3B).**

[29] Handbook of Co-operative and Community Benefit Society Law 2014

Points to consider:

Funders and finance providers

- Understanding how community organisations keep up to date records of those with a community interest, who keeps them and under what legal restrictions. Seeking a situation in which those details could be legally shared and recorded with you on an annual basis to be contacted under certain conditions, e.g. just prior to or during an administration process.
- Providing funding and/or specialist support to enable community organisations to manage such records efficiently and legally.
- Being fully aware what an administration process might entail, including different types of administration and what that may mean for those with a community interest (see Appendix 2 for a guide to insolvency produced as part of the work of this inquiry which outlines different types of administration or insolvency).

Community group

- Keeping up to date records of those with a community interest and ensuring you have the legal right to share their contact details with other, trusted people or organisations under certain circumstances, e.g. just prior to or during an administration process.
- Being fully aware what an administration process might entail, including different types of administration and what that may mean for those with a community interest (see Appendix 2 for a guide to insolvency produced as part of the work of this inquiry which outlines different types of administration or insolvency).

Central or local government

- Creating and maintaining guidance on the administration process for community assets that consider current law, experience and best practice.
- Whether the administration of community assets that fall under certain conditions should be subject to a different approach.

2. Protecting public benefit when sold privately

Difficulty in enforcing measures to protect public benefit when asset is sold privately

When an asset is sold to an individual or organisation that does not represent significant community interest in the asset, on occasions an attempt is made to protect elements of public benefit and social impact by applying specific conditions to the sale. However, post-sale such conditions are difficult to enforce in practice. It is not clear who might have the responsibility and resource to carry out any such enforcement.

> **2 of the 3 case studies carried out by the inquiry team where administration tool place noted the "Ability to protect community benefit when in private hands" as a critical success or failure factor (section 3B, page 62).**

Points to consider:

Funders and finance providers

- If applying specific conditions to the sale of a community asset in order to protect public benefit and social impact, be clear how and by whom they might be enforced and help those with a community interest understand what role they might play in doing so.

Community group

- If conditions to the sale of a community asset are made in order to protect public benefit and social impact, be clear what they are and if possible, how and by whom they might be enforced and what role you might be able play in doing so.

Section 2 Practical Ideas

Introduction

This section outlines a number of practical ideas, building on some of the most significant 'points to consider' identified in section 1. These ideas have been discussed with a wide range of contributors over the course of this inquiry. Some of them are more straightforward and might not require a long period of time to implement, some of them are much more ambitious. A quick summary of the ideas, how they respond to the key themes of the inquiry and how they interconnect is shown on the following page.

Key focus on Prevention — **Key focus on Rescue** — **Key focus on Impact Limitation**

Regularly reviews and updates principles

Manages sign-ups; regularly reviews and updates principles

Contributions to solidarity fund from registered assets

Results in appointment, registers shared, and consultation on any disposal

Consulted as part of any administration process

Potential referral

Principles for Funding Community Assets

A set of principles based on latest learning and best practice which any funder or finance provider supporting community assets can sign up to and adopt.

Community Assets Academy

(incorporating a Community Asset Solidarity Fund)

A group of national and large regional umbrella bodies, trade bodies, funding and finance providers, including representatives from central government to share evidence and learning across the sector, fill gaps in research, identify and support opportunities to enhance government policy and facilitate the creation of a small 'Community Asset Solidarity Fund' to support community assets in difficulty made up of contributions from community asset owners.

Register of Protected Community Assets

(incorporating a Register of Community Interest)

A managed and maintained public register of 'community assets' which builds on existing lists but focuses on existing community assets. As part of this there is a commitment to providing and updating a Register of Community Interest in that asset – essentially a list of individuals considered to hold direct community interest that might include members, shareholders, directors, contributors to crowdfunding, etc.

Community Asset Protector

A Community Asset Protector who represents the community interest in an assets and holds a restriction on the title deed of a community asset, requiring that they are consulted directly in any disposal or administration.

Community Asset Rescue Fund

A fund set up to temporarily purchase community assets that are in severe financial difficulties but have the potential to become sustainable businesses – and then seek ways to protect the community interest in the asset e.g. return assets to community control or secure a future for the asset which enables the community to continue to benefit from its use. The Fund would not have a set investment total but would be backed by the balance sheets of one or more national funders, investors or government.

Community Assets Administration Principles

(incorporating a Community Asset Administration Regime)

A set of principles and best practice guidance endorsed by government and major, national funders primarily for Insolvency Practitioners dealing with a community asset.

Alongside this, to work with the Insolvency Service on a distinct process of administration for community assets which takes community and public benefit into greater consideration, drawing on precedents in other sectors.

Next steps

Within the limited scope and investment for this inquiry we aimed to gather sufficient insight and support to identify ideas that have genuine potential, building on what already exists. To that end we have identified a number of next steps:

- Actively seek contributions through our website to fill in the gaps in our collective knowledge and understanding, and most importantly identify interest or support to contribute to the ongoing development of these ideas.

- To carry our further work and hold a series of roundtables before the end of January 2020 to digest any feedback we receive on these ideas and confirm next steps, including confirming any resources required to take the ideas further. Much like the inquiry panels themselves, the intention is that each roundtable will include a combination of central government representatives, intermediary social investors, philanthropic funders, umbrella or membership bodies, support providers and community organisations. We envisage three separate lines of ongoing inquiry covering the proposed ideas:

1. **Community Assets Academy** (incorporating the Community Assets Solidarity Fund), the **Principles for Funding Community Assets** and the **Community Assets Administration Principles** (incorporating the Community Asset Administration Regime)

2. **Register of Protected Community Assets** (incorporating a Register of Community Interests) and the **Community Assets Protector**

3. **Community Assets Rescue Fund**

We have identified these next steps because we believe there is enough appetite to explore these concepts further and support the ongoing inquiry. However, they are still subject to us digesting initial feedback and any offers to contribute insights, time and resources to each line of inquiry.

> **“We are actively seek contributions through our website to fill in the gaps in our collective knowledge and understanding, and most importantly identify interest or support to contribute to the ongoing development of these ideas, or others that might have the potential to make a tangible difference.”**

Fuller details of each of these ideas are set out in the sections below, including what specific problems they are seeking to address, what some of the key remaining questions for the roundtables are, and a summary of the appetite there is to explore these further.

A. Community Assets Academy

I. Summary of idea

A 'lead group' of national and large regional funding and finance providers, including representatives from central government and alongside umbrella bodies or membership organisations invest time and financial support to a Community Assets Academy with membership based on demonstrable track record in supporting and funding community assets. This group to meet at least twice a year, with coordinated activity and follow-up on actions agreed and facilitated by a joint resource in-between meetings.

Key activities of the Community Assets Academy to include:

- Sharing data, case studies, best practice, challenges and opportunities from across their portfolio with each other confidentially to facilitate open and honest discussion and maximum potential for learning.
- Identifying and agreeing any areas of common interest or joint working building on and adding to the points raised in this report, including filling gaps in research and the potential to regularly review and update Principles for Funding Community Assets (see page 32) and Community Asset Administration Principles (see page 42).
- Identifying and supporting opportunities to ensure effective and co-ordinated engagement to enhance government policy.
- Facilitating the sharing and sign-posting of the latest funds and information, key learning for funders, for community groups themselves and other stakeholders e.g. regular webinars, research summaries, and joint best practice guides – including the potential to develop wider peer learning activities as part of a series of events.
- Facilitating the creation of a small 'Community Asset Solidarity Fund' held in an asset-locked entity and made up of contributions from community assets - potentially those listed on any Register of Protected Community Assets (see page 35). The Solidarity Fund might be applied to in cases of financial difficulty and matched funded by national foundations with a focus on community assets up to an agreed annual limit.

II. What problems is this trying to address?

- The lack of a central resource with a focus on community assets that can continue to administer, co-ordinate and invest in understanding and then mitigating the challenges facing the long-term viability of community assets in order to protect public investment in them.
- The inability for stakeholders in many different sectors to co-ordinate share learning and engage effectively with the government policy process.
- The apparent lack of finance and funding available to support the demand for community assets.
- The significant gaps in our collective understanding and knowledge of funding for community assets and how it affects long-term community benefit.

III. What are some of the key questions?

Who will form the 'lead' group? Initially, most likely to be national and large regional funding and finance providers, including representatives from central government alongside umbrella bodies or membership organisations. There may be scope over time to create subgroups by e.g. type of finance or region. However, exactly how the 'lead group' is formed, how open meetings are to different organisations, and how best to protect the confidentiality of those discussions needs further consideration.

How far will the remit of the Academy go? At its most basic level the Academy will remain focused on protecting community assets and could be a forum for the 'lead group' to continue sharing data, case studies, best practice, challenges and opportunities to help address some of the issues community assets face. However, to be truly effective its remit needs to expand to wider, public engagement so that learning can be opened up to all funders and finance providers, as well as community groups – and beyond that to invest in peer learning. A remit to regularly review and update Principles for Funding Community Assets and Community Asset Administration Principles, as well as the potential to administer a Community Asset Solidarity Fund, could also be important.

What is the appetite for contributing to a Solidarity Fund at levels which might make a difference? At this stage we have not carried out any detailed analysis of similar funds e.g. those that exist in the US and Switzerland as part of the co-operative movement. Neither have we assessed the potential appetite for a Solidarity Fund amongst community organisations, nor from funders and finance providers to provide matched funding. Much further work is needed to understand if this could realistically form part of the work of the Academy.

How might an Academy be funded and facilitated? This of course depends on the remit of the Academy, but on the assumption all functions identified here are included a joint, central resource will be required and that is likely to require grant investment for at least a period of three years until it is properly established. Members of the 'lead group' and in particular central government are the most likely sources of such investment. However, mindful of previous initiatives with similarities, such as the Asset Transfer Unit which was funded for 3 years before closing, other long-term and more sustainable sources of funding may also be considered e.g. the potential to endow the academy with (possibly community) assets for the long-term.

IV. Where are we now?

So far, we have discussed this idea with intermediary social investors, philanthropic funders, umbrella bodies, and central government representatives who might form the initial 'lead group'. We have also discussed this with a number of community organisations and support providers.

Based on these discussions there is strong support for the creation of the Academy and the key functions outlined here, including the potential of some form of Solidarity Fund. There is also recognition that an ongoing forum and infrastructure for sharing information and ideas would be the best way to continue to build from the wider set of work that has been started by this inquiry. However, the scope of the Academy's work will depend on funding being made available at least initially.

B. Principles for Funding Community Assets

I. Summary of idea

Creating a set of principles which any funder or finance provider supporting community assets can sign up to and adopt within their own practice. It is not the intention that adherence to the principles would be audited, but that those signing up to the principles would be expected to clearly state e.g. on their website, how they have been applied in their circumstances.

The principles themselves would build on the 'points to consider' identified in this report, though it is not expected that the Principles for Funding Community Assets remain static, rather that they be updated in response to learning that emerges from the Community Assets Academy (see page 30).

The Funding Principles may also include encouragement by funders for applicants to list their asset on a Register of Protected Community Assets (see page 35) and take an active part in attending relevant learning activities developed by the Community Assets Academy.

II. What problems is this trying to address?

Ownership, lease and partnership negotiations

- The lack of encouragement, guidance and small amounts of at-risk funding to support community groups to carry out their own due diligence and seek their own professional advice during pre-acquisition ownership, lease and partnership negotiations – as well as support and encouragement to take a more realistic view of the business plan.

- The challenge of asset transfers that turn out to be closer to liability transfers as a result of ownership and lease terms.

- The lack of consistent focus on, or understanding of the terms of any ownership, lease and partnerships agreements and terms and their implications for long-term sustainability of a community assets in the due diligence process of funders and finance providers.

Community involvement and engagement

- The lack of funding and/or specialist support to specifically strengthen a community organisations' ability to actively engage and communicate to key stakeholders and those with a community interest.

- The lack of consistent focus on level of community interest and active involvement, alongside the resources to manage and invest in the leadership team as a key part of the due diligence process of funders and finance providers

Long-term, co-ordinated and flexible funding

- The lack of sufficient unrestricted, flexible or 'sustainability funding' and finance for community assets.

- A lack of long-term relationships with funders and finance providers that extends beyond the life of funding and is not limited to grant or loan monitoring. This includes a perceived lack of long-term commitment to an asset that utilises a phased approach to funding primarily as a means to learn and iterate proposals, rather than primarily as hurdles to overcome.

- The difficulty and challenge of:
  - managing multiple funding sources for different parts of a project, and with different and sometimes conflicting monitoring, reporting and support.
  - managing multiple, complex funder conditions and reporting requirements where some may not be absolutely necessary e.g. match funding requirements and charges on assets.
  - making the transition from campaigning to save an asset, through acquisition and renovation to operation – and sustaining this through multiple sources of funding.
  - coordinating a rescue where there are multiple sources of finance, and especially where the focus is on the protection of the community interest in the asset rather than the necessarily the community organisation itself.

III. What are some of the key questions?

How strong is our analysis of the current funding challenges and opportunities? Our analysis comes from the latest data we were able to collate from within the public domain and our conclusions are consistent with other recent research into community assets and hubs. However, there are significant gaps in our knowledge and understanding of the total funding, support and the nature of funding conditions available at different stages of the life-cycle for community assets. In particular, our analysis of funding does not include many local, statutory funding sources that do not appear on the 360 Giving standard and is yet to be updated with data we hope will become available via the social economy data labs platform covering wider social investment deals beyond straight grant funding.

How specific can the Funding Principles be? It may be possible in some cases to identify the need for specific targets in order to give the Funding Principles more 'bite' with those that have signed up to them. There are numerous examples of what such targets might look like:

- A collective commitment for the total level of funding available to support community assets to increase by [x]% over the next [x] years.
- The level of funding and support to allow community groups to carry out their own due diligence and seek their own professional advice during pre-acquisition ownership, lease and partnership negotiations to reach [x]% of the total £[x] funding currently available to community assets.
- The level of unrestricted, flexible or 'sustainability funding' and finance for community assets to reach [x]% of the total £[x] funding currently available to community assets.
- A commitment to building capacity for (1) ongoing consultation, engagement and involvement of those with a wider community interest, (2) for information sharing, particularly transparency of financial and contact information (3) for support to community organisations to establish robust systems and processes and (4) for providing training & support for community groups during critical transition periods from campaigning to renovation to operations.
- A commitment to clearly explain the considered rationale for any funding conditions – ideally publicly within the limits of confidentiality (such as charges taken and matched funding requested).
- A commitment to ongoing relationship management through the life-cycle of an asset (such as meetings once every [x] months over life of funding or beyond, potentially alongside other major funders or finance providers of a given asset).
- A commitment to sharing their own data and learning (e.g. signing up to the 360 Giving Standard or sharing data with Social Economy Labs).
- Identifying minimum due diligence standards for community assets (such as [x] lease lengths, [x] members or letters of local support to evidence community interest). Publishing these could also assist community organisations in negotiating the terms of acquisitions.
- A commitment to encourage community organisations to list on a Register of Protected Community Assets, and to share details of those with a community interest through e.g. a Register of Community Interest (see page 35).

- Requesting that community organisations share regular reports on progress and impact on the project as a whole not just with funders but with those who have a community interest.

However, such specific targets would not only need to be varied by type of funder or finance provider, they would also need to be very carefully considered to ensure they did not create adverse impacts e.g. limit the numbers that might otherwise consider signing up to less onerous principles; inadvertently enhancing unnecessary burdens on community organisations seeking to save assets with wide community interest; or making the navigation of different funding and finance options for any community organisations more complex.

Whist we feel that the majority of the 'points to consider' in relation to funding and finance provision set out in this report represent good practice, there is a danger that any reprofiling of investment away from e.g. capital investment towards funding and resources for more flexible revenue or 'sustainability' funding, investment in relationship management, specialist support, or infrastructure such as the Community Assets Academy, could limit the total funding available to community assets and result in less long-term community benefit.

More work and testing among funders, finance providers and community groups will be necessary to establish a set of initial Funding Principles that carry sufficient 'bite' to mean something, but do not fall foul of these dangers. It is likely that any initial set will carry less specific targets, though targets may be more slowly introduced over time as learning is shared.

How might the Funding Principles be created, updated and any adoption of them be effectively managed? Should the idea go forward, the most obvious is for the Funding Principles to be created and updated through the 'lead group' of the Community Assets Academy. This might then also be a place where any sign ups to the Funding Principles are administered and managed. Without something like the Academy it seems unlikely such Funding Principles would ever emerge let alone be managed and maintained in line with learning over time.

What definitions of 'community asset' and 'community interest' should such Funding Principles be applied to? We have used broad definitions of community asset and community interest in this report. If these Funding Principles were applied we will have to consider tighter definitions.

IV. Where are we now?

So far, we have discussed this idea with intermediary social investors, philanthropic funders and central government representatives primarily during Funder Panel meetings, as well separately with community organisations themselves and support providers.

Based on these discussions there is support for the idea, though recognition that such principles will not be easy to develop in such a way as to have enough 'bite' to encourage best practice, specific enough to apply to different types of funding and finance, and without creating unintended negative consequences.

C. Register of Protected Community Assets

I. Summary of idea

Creating and maintaining a public register of 'community assets' which builds on existing lists such as the emerging Keep It In The Community platform (which seeks to support increased registration of assets as Assets of Community Value or ACVs), but focuses on existing community assets which currently have little incentive or need to register as an ACV.

By registering those organisations which own assets might also:

- commit to adopt a Community Asset Protector (see page 37) and providing and updating a Register of Community Interest in that asset – essentially a list of individuals considered to hold direct community interest that might include members, shareholders, directors, contributors to crowdfunding, etc.
- agree to pay an additional fee e.g. of [x]% of the asset value into a Community Asset Solidarity Fund which they might then have access to in the case of emergency (see page x)
- gain access to Community Asset Rescue Fund (see page 40)

Funders and finance providers committed to the Principles for Funding Community Assets (see page 32) may encourage community organisations applying for funding to list their asset as part of the application process.

National membership organisations might also be able to add their members' assets to the register in their behalf, and to optionally include a contribution from the member to the Community Asset Solidarity Fund. This could either be an optional extra, or part of the membership costs and benefits. It would have the advantage of capturing a large part of the community asset sector efficiently.

II. What problems is this trying to address?

- There is limited incentive for existing community assets to register as an Asset of Community Value, and limited available protections within the current ACV listing.
- The potential for those with a genuine community interest to be unaware of the challenges facing a community asset, the ways in which they might be able to help, or 'frozen out' from the potential to negotiate a community rescue.

III. What are some of the key questions?

What might the level of appetite be from existing community assets to list themselves on the Register of Protected Community Assets? We have not yet carried out any research into the level of appetite from existing community assets to list themselves on the Register of Protected Community Assets, not least because we are not yet certain of the relative benefits and costs of doing so. For example, having access to a Community Asset Rescue Fund (see page 40) may be a powerful incentive if it existed, likewise encouragement from funders to list such an asset through the Principles for Funding Community Assets may also have an impact.

What might qualify an asset for listing? There are a number of options ranging from purely voluntary with no formal qualifying criteria, to a set of criteria based on tighter definitions of a community asset and community interest. We are unlikely to be able to make further progress on this until we have a sense of the relative benefit and costs of listing and can assess the level of appetite for such a listing.

Who lists the asset? We have assumed to date that this option is available solely to the organisation that currently owns and/or manages the assets, but we have not considered whether it might also be available for other groups or individuals within the community to do this.

Who might administer and hold such a register and how their role might be funded? Again, there are a range of options. It could be administered by the 'lead group' for the Community Assets Academy or a similar group of lager regional and national organisations with an interest in community assets. However, it seems more likely that for such a register to have a meaningful impact over the long-term it would need to be administered by bodies that can demonstrate very long-term commitment and sustainability, or by central or local government in much the same way as ACVs.

IV. Where are we now?

So far, we have discussed this idea with intermediary social investors, philanthropic funders, umbrella and membership bodies, central and local government representatives, community organisations themselves and support providers.

Based on these discussions there is strong support for such a listing, building on work already underway most notably through the Keep It In The Community platform. However, there is not yet consensus on key areas such as what might qualify an asset for listing, and who might administer such a register.

D. Community Asset Protector

I. Summary of idea

Those organisations who had listed an asset on the Register of Protected Community Assets (see page 35) to be assigned a Community Asset Protector to whom they would need to provide an up to date Register of Community Interest.

The Protector would also hold a restriction on the title deed of the asset which could mean that in the event of any disposal / sale or administration they would be required to be consulted directly as part of any administration process, as the key representative of those with a community interest. During that process they would have the right to consult directly with those individuals listed on the Register of Community Interests and may seek to access the Community Asset Rescue Fund (see page 40).

Individuals listed on the Register of Community Interests may also contact the Protector directly if they have any specific, verifiable and substantial concerns regarding the potential failure to protect their community interest. If the Protector believes the asset may be at risk it has the power to raise this with the organisation who registered the asset and seek a resolution.

The community organisation who had registered the asset might also contact the Protector directly and in confidence at any time where it felt there was legitimate threat to the community interest. By mutual agreement this could lead to accessing the Community Asset Rescue Fund.

This builds on models and ideas such as Fields in Trust's Deed of Dedication, Sport England's powers as a statutory consultee on planning applications for Active Places, and Pastoral Measure 2011 which identifies a process of consultation with Church members and local communities (led by the local Diocese in the case of potential Church sale and which preferences buildings being dedicated to new community usage).

Case Study - Church of England

A Church (in the Church of England) can only be closed through a specific process as set out in legislation via Pastoral Message 2011. It is initiated by local churches who are no longer able to keep going and is administered by the local diocese. This involves a consultation both with Church members and the wider community. The initial aim is to see if there is a basis for keeping the church open in some way. If this is not possible then the process is used to determine what should be done with the Church building. There is a strong preference amongst Church authorities for Church buildings being dedicated to a new community use rather than sold for private use.

This process does not seek to address the underlying causes for potential sale in the first instance, nor does it necessarily support the Church to secure maximum financial benefit from the sale of buildings.

The closure process is unusual in that it emerges from the Church of England's historic position as the established church. While other denominations may have their own internally determined process, the government would not prevent them selling their building to the highest bidder as far as we are aware.

II. What problems is this trying to address?

- The lack of a single, independent individual or institution with a sole focus on the protection of community interest in an asset, rather than the community organisation, and with the ability to help co-ordinate community rescue to prevent administration or maximise the focus on public benefit in the case of administration. The existence of a Community Asset Protector is key in supporting many of the ideas suggested in this report, in particular the Register of Protected Community Assets and the Community Asset Rescue Fund.

III. What are some of the key questions?

Is it legally possible to have a Community Asset Protector who holds a restriction on the title deed of the asset? We have discussed this with legal experts and do not believe there is an issue with the concept. The extent to which such a restriction can be enforced especially in the event of administration is perhaps the greater challenge (see also Community Asset Administration Principles on page 42)

Who might play the role of a Community Asset Protector, how will it be administered? Initial ideas have ranged from a network of approved individuals or organisation coordinated by a national charity; a single, existing national organisation; or central or local government. Whether coordinating a network of individuals or acting as the Protector directly any national organisation would have to provide some guarantee of longevity over at least tens but more likely hundreds of years. As such a role for central or local government seems likely in the long-term, though it may be possible to design and test a process separately first. Some direct engagement with e.g. the Land Registry and the Charity Commission will also be required, though the extent of such engagement is not yet understood.

What might the fuller scope of a Protector be, especially in the absence of the Community Asset Rescue Fund? Beyond the examples provided, we have not considered whether the Protector might also play a role in e.g. working with the asset owner to consider possible next steps to preserve the asset for community use; working with the asset owner and the wider community to consider how to preserve the asset for community use; connecting the asset owner to possible sources of support and finance; or working with the wider community to protect community interest - including finding alternative ownership. Our assumption to date has been that these roles would primarily be the responsibility of those administering the Community Asset Rescue Fund, though in the absence of such a fund this wider remit could be considered.

How might the Community Asset Protector role be funded? At this stage it is not clear how such a role might be funded not least because the scope has not yet been finalised. It could be that those providing funding or finance to assets on a Register of Protected Community Assets make a percentage contribution to support such a role for example, on the basis that it provides some level of ‘insurance’ against the loss of longer-term community benefit, or it could be something government consider funding. In the short-term such a process is likely to need at least some seed funding from national foundations or government to support design and testing.

What negative consequences might having a Community Asset Protector create? Creating any restrictions on realising the value of an asset may increase cost of investment or could deter investors entirely. There is also a risk that delaying the disposal of an asset could lead to a worse outcome than if existing processes had been allowed to proceed. For this reason, we have also not suggested that the restriction on the title deed seeks to specifically prevent a sale or even the start of an administration process, but that it does entitle the Protector to be consulted in the process so they can represent the community interest in that asset and be given some time to consider how best to engage those with a community interest. What such a timescale might be requires further consideration.

IV. Where are we now?

So far, we have discussed this idea with legal experts, intermediary social investors, philanthropic funders, umbrella and membership bodies as well as central and local government representatives.

Based on these discussions there is considerable interest in the concept of a Community Asset Protector. There is near universal support for a mechanism of some sort to be available to facilitate community involvement in decision making about the future of an asset in circumstances when the current owner is either seeking or risks being forced to dispose of it. However, there is not consensus on key areas such as who might carry out, co-ordinate and fund such a role, and its precise scope.

Case Study - Fields in Trust

Fields in Trust administer a Deeds of Dedication scheme - a legally binding document approved by the Charity Commission and registered with the Land Registry specifying the use of a piece of land in perpetuity. It is initiated by the owner of the land - often a local authority or other public sector agency (though not necessarily).

In the event that the landowner wants to sell the land or change its use, they have to approach the Fields in Trust trustee and secure their agreement. Fields in Trust's management of this system depends on their own successful fundraising efforts to fund their activities. This work is not funded by government or by customers.

Positive benefits include land with a designated social use - playing fields and other public green spaces - being mostly preserved for that use.

There may be occasions where a space is sold but Fields in Trust trustees would only agree to this if a new green space is created/made available elsewhere to compensate.

Deeds of Dedication (and its Scottish equivalent) currently protect over 2,800 spaces in the UK.

This model could be used directly for buildings with public space surrounding them and it is possible that a broadly similar model could work for buildings in a wider sense. However, the 'in perpetuity' specification might not work so well for buildings, and for buildings the social activity taking place within them requires an active business model to a greater extent than fields do. Deeds of Dedication do not solve the issue of lack of financial viability of the asset.

E. Community Asset Rescue Fund

I. Summary of idea

This is a fund set up to temporarily purchase community assets that are in severe financial difficulties but have the potential to become sustainable businesses. It would offer a guarantee that, under certain agreed conditions, assets listed on the Register of Protected Community Assets (see page 35) would be temporarily transferred or bought for a negotiated fee.

The Fund would not have a set investment total but would be backed by the balance sheets of one or more national funders, investors or government. A committee of representatives from funders and/or sector infrastructure bodies would make swift decisions on any temporary transfer or purchase and have delegated responsibility to make such decisions within agreed limits.

Once transferred/purchased the committee would be supported by a network of providers with experience of coordinating and managing rescue packages. Unlike in a conventional rescue process, the key priority would be the protection of the community interest in the asset. The ultimate aim would be to return assets to community ownership where possible but, if not possible, the subsidiary aim would be to secure a future for the asset which enables the community to continue to benefit from its use.

This role is not dissimilar to the role an Insolvency Practitioner might take and would include negotiation with those that have a community interest, existing shareholders, creditors and wider stakeholders but without the legal pressure or status of administration.

II. What problems is this trying to address?

- The challenge of coordinating a rescue where there are multiple sources of finance, and especially where the focus is on the protection of the community interest in the asset rather than the necessarily the community organisation itself.

- The lack of clarity by asset owners of whether and on what basis rescue funding might be available. Organisations may not be aware of possible funding and, as a result, may not ask for it until it is too late. This can lead to administration being triggered without the knowledge of those with a community interest or the ability to negotiate a community rescue.

- The funds currently available are unlikely to be sufficient to secure a rescue- particularly if there is a need to buy the asset outright.

III. What are some of the key questions?

In what circumstances would the fund be available - for example, how would organisations be made aware of it? The idea currently is for access to the fund to be limited to those referred to it via the Community Assets Protector (see page 37). In the absence of such a role, there may still be potential for such a fund but an alternative method of referral e.g. through the Community Assets Academy (see page 30) or to be sourced directly by intermediary social investors.

What would be the risk/return expectations of the fund be and what sort of products should it look to provider? It seems unlikely that the fund would be seeking a financial return commensurate with the risk being taken on, as there is not widely believed to be a gap in the social investment market for such property investments. The idea is built on the premise that any such fund would most likely have a negative financial return over time on the basis of positive social return, utilising a mixture of social investment and backed up by grant investment from a range of national funders as well as their balance sheet commitments. The level of acceptable balance between social return and financial cost has not yet been modelled in any detail.

How might any fund be managed and any investment decision taken? It could either be a specific fund - independent or administered by specific social investors - or a set of agreements between a group of funders and investors to work together in certain circumstances. As stated above, the idea is that the Asset Rescue Fund would not have a set investment total but would be backed by the balance sheets of one or more national funders, investors or government, with a committee of representatives from funders and/or sector infrastructure bodies making swift decisions on any temporary transfer or purchase.

Alongside the opportunity to protect potential sustainable assets for the benefit of communities, what is the risk of buying assets that are fundamentally unsustainable - and then needing to find some way to dispose of them? It is not intended that the Asset Rescue Fund would be under any obligation to invest in or purchase an asset. Those administering the Asset Rescue Fund could play a key role, alongside a protection mechanism like the Community Assets Protector, in determining whether an asset could be protected in a way that would be likely to lead to commercially sustainable community use.

Could the existence of a fund create something of a moral hazard, where organisations are encouraged to take more risk in the knowledge it might be available? This is possible, however the idea is that access to the Asset Recue Fund would come through e.g. a Community Asset Protector and under such circumstances it would be possible for the Protector and those administering the Asset Rescue Fund to deny access where the likely benefit to communities was outweighed by the lack of potential sustainability of the asset. Equally, the focus of any Asset Rescue Fund on protecting the community interest in an asset, rather than the community organisation itself makes the Asset Rescue Fund a potential last resort before administration rather than a ready and easy source of funding.

IV. Where are we now?

So far we have discussed this idea with intermediary social investors with a potential interest in managing rescues, philanthropic funders with a potential interest in making funds available, and wholesale social investors with a potential interest in providing match-funding.

Based on these discussions there is significant enthusiasm for the idea although any firm commitments will be dependent on establishing greater clarity on how the fund will be set up. Our interviews also reflected a widespread belief that the idea of protecting the asset in the interests of the community - rather than necessarily seeking to rescue the organisation currently running it - was new and important.

Overall, there was a strong feeling that there would be some circumstances where the fund could add value but queries about the extent of the potential pipeline. It would be hoped that the ‘pipeline’ is low in numbers but high in importance and positive social impact.

F. Community Asset Adminstration Principles

I. Summary of idea

To create a set of principles and best practice guidance endorsed by government and major, national funders primarily for insolvency practitioners dealing with a community asset - potentially identified through the Register of Protected Community Assets (see page 35) and/or other listing e.g. Assets of Community Value, but also publicly available.

Alongside this, to work with the Insolvency Service on a distinct Community Assets Adminstration Regime which takes community and public benefit into greater consideration. This could draw from other precedents e.g. The Housing Administration Regime for homes managed by Registered Providers or the 'Education Administration' process for further education and sixth form colleges in England and Wales.

II. What problems is this trying to address?

- The lack of a clear awareness amongst community groups, funders and finance providers, and insolvency practitioners what an administration process might entail, including different types of administration and what that may mean for those with a community interest (particularly in respect of the status of shareholders - including community shareholders or members - under a Company Voluntary Arrangement or Administration).

- The lack of focus on the long-term social return on investment, especially of public funds, in the administration of a community asset.

- The challenge of protecting public benefit and social impact when community assets are sold privately.

III. What are some of the key questions?

Who would be responsible for compiling and ensuring any guidance is up to date? There are essentially two options: this could form part of the role of the 'lead group' within the Community Assets Academy (or similar group), or it would have to become part of the role central government supported by such a group.

Is the creation of a distinct Community Assets Administration Regime feasible? Such distinct processes are usually only available to protect ongoing public services. Creating anything bespoke for community assets would need discussion and scoping with the Insolvency Service and would need to be based on a clear business case in terms of public money invested and long-term public benefit arising as a result. The link between overall public benefit and the protection of community interest would need to be clearer evidenced as part of this. Doing so would also involve much tighter definitions of a community asset and of community interest than we have set out in this report. Further work on this relies on greater clarity in respect of other ideas in this report, most importantly the Community Asset Protector (see page 37), Register of Protected Community Assets (see page 35) and Community Asset Rescue Fund (see page 40). It is possible, for example that the Community Asset Protector provisions on disposal would automatically transfer to an asset within an administration process which might help address the same issues but without the need for a specific change in legislation.

IV. Where are we now?

So far we have discussed this idea with intermediary social investors, philanthropic funders, umbrella bodies and central government representatives. This includes discussions directly with the government's insolvency service.

Based on these discussions there does appear to be some desire and potential to pursue the Administration Principles and related guidance in particular. There is also interest in the idea of a Community Assets Administration Regime, though recognition that there are many hurdles to overcome meaning it would take some time to be able to make the case clearly enough.

Examples of distinct administration processes which take community and public benefit into greater consideration

The Housing Administration Regime

The purpose of this regime differs from the purpose of administration procedures for non-PRP / non-social landlord legal entities. A housing administrator has two objectives; the first objective takes precedence over the second:

1. Normal Administration Objectives (objective one)

    a. Rescue the PRP as a going concern unless it is not reasonably practicable to do so or a better result would be achieved for the creditors than if the PRP were wound up without being in housing administration, or

    b. Achieve a better result for the creditors than if the PRP were wound up without being in housing administration, or

    c. Realise property to enable a distribution to be made to one or more secured or preferential creditors.

2. Keep social housing in the regulated sector where the housing is owned by a PRP (objective two)

The 'Education Administration' process for further education and sixth form colleges in England and Wales

A completely separate process identified to ensure preservation or education provision were possible and desirable continues.

It allows colleges to enter corporate insolvency procedures, but also introduces a special administration regime known as 'education administration'.

For the most part, the education administration regime is a self-contained process and so differs from the existing 'standard' administration regime. An application for an education administration order must be commenced in the High Court and if accepted an education administrator is appointed.

The education administrator will be required to make a statement of proposal which includes an account of the circumstances giving rise to the appointment of the education administrator; details of the financial position of the organisation; a statement of how it is envisaged that the purpose of the education administration will be achieved and how it is proposed that the education administration will end; the manner in which the affairs and business of the Further Education Body have been managed and financed, and will continue to be managed and financed, since the date of the education administrator's appointment.

The education administrator is also required to prepare and deliver the following reports:

- Six-monthly progress reports detailing any progress made during the period of the report (including a summary account of receipts and payments), information relating to any distributions made, what remains to be done to bring the education administration to and end and any other information of relevance to the creditors; and

- A Final Progress report which contains an account of the education administrator's administration

As part of this process, if the education administrator calls a meeting of members of the organisation they must call and conduct the meeting and keep records of the meeting.

In addition, if the education administrator applies to the court for authority to dispose of property which is subject to a security then:

- The court must fix a venue for the hearing of the application;

- As soon as is reasonably practicable after the court has done so, the education administrator must deliver notice of the venue to the holder of the security or the owner of the goods; and

- The Court must deliver two sealed copies of the order to the education administrator, who must then deliver one copy to the holder of the security or the owner of the goods, and one copy to the registrar of companies.

Section 3
Detailed Case Study & Desk Research Findings

A. Finance for Community Assets

I. Introduction and methodology

The inquiry team carried out desk-based research to consider the availability of grant funding and social investment for organisations seeking to buy and maintain community assets. A mapping of funds was compiled from:

- a literature review of papers submitted to inquiry team
- further reports published by inquiry members and papers cited in those reports
- an analysis of data submitted by 100 funders that publish the 360 Giving platform[30]

Funding guidelines and restrictions were checked for each funder to ascertain whether capital funding is available, and through which programmes. The most recent complete year's data set was then downloaded and analysed to compile a funding map (see page 52). As the most recent year of records differs between funders the mapping represents an indicative picture of the funding available at different stages, rather than a map of funding for a specific year.

Where funds have now closed figures have only been included where a programme of similar scale from the funder will be available in the future (for example the National Lottery Community Fund replacing both Reaching Communities and Reaching Communities for Buildings).

II. Detailed findings

The varied nature of community asset ownership, and the organisations involved makes an accurate analysis of the funding landscape difficult. From the literature and from individual asset case studies, it is clear that certain types of funding and support are critical:

[30] https://www.threesixtygiving.org

- **Grant funding**, as the costs of 'rescuing' renovating and repurposing a community asset will often far exceed the return that is available in the open market (what the National Lottery Heritage Fund identifies as a heritage asset's 'conservation deficit').

- **Social investment** and other forms of patient capital (for example, from local authorities), as the risk involved in taking on some community assets will preclude mainstream finance, especially where new groups have formed to try to rescue assets and have a limited financial history.

- **Discounted sale** or lease rates, lengthy enough to enable access to finance and to reduce the overall cost to sustainable levels.

- **Professional advice** whether funded through one of the routes above, or accessed through local authorities, intermediaries or funding bodies is vital to reduce the overall costs of a project and maximise the chances of success.

Grant Funding

Our analysis found that the maximum amount of annual grant funding available for capital projects is £875 million. The striking finding underpinning this figure is that 75% of the funders publishing data through 360 Giving do not offer funding suitable to community asset projects. Most of these explicitly exclude capital costs in their funding criteria.

This maximum total figure is likely to significantly overstate the availability of funding from philanthropic sources since it lists the total funds available from those programmes that don't explicitly exclude capital projects. The amount of funding that is actually committed to such projects is likely much smaller. For example, while the Tudor Trust grant commitment totals £8.7 million a year and allows capital applications, just 3.5% of the funds awarded were for capital costs[31]. And while Garfield Weston allow capital costs within their grants, capital requests are limited to 10% of the total capital costs.

On the other hand, this figure does not include significant information on the funding that may be available from local authorities - there is only one local authority listed as a source in our current funding map. The evidence we have so far suggests sizable community asset projects are therefore likely to rely on a small number of 'capital-friendly funders' - in particular Power to Change and National Lottery Heritage Fund - that provide capital grants at scale but more research is needed to provide a clearer picture of the funding gap.

It seems likely that demand for grant funding for community assets exceeds supply but further research is needed to understand the extent and nature of that demand - both in terms of the needs of organisations who have already taken on assets and need more funding to sustain them, and in terms of organisations and groups within communities who might seek to take on an asset if appropriate funding were available.

Challenges posed by funder conditions

A common challenge is that capital grant funding that involves a charge on the building involved can prevent an organisation from securing social finance, or if finance is available it can drive up the costs involved. Similarly, requirements for 'match funding' can unintentionally block progress. If each funder requires match funding to be agreed before grants are confirmed, groups can find themselves in a catch-22 where every piece of the jigsaw has to be in place before they can move forward. A willingness for funders to provide 'first brick' finance through a firm offer can make a large difference to the viability of projects, even where constraints still remain on the ability to draw down funds until match-funding is in place. In one instance, a funder's willingness to grant purchase costs for the building and allow the group time to secure matching development costs enabled them to approach grant and loan providers who would not consider applications until the site was owned.

Where funding is available it tends to be concentrated in specific sectors or themes. More than half of the funding identified is for heritage projects, and assets that do not involve a heritage element may be much more constrained. Other funders may restrict grants to registered charities only. Though funding guidelines show a greater willingness to consider applications from other non-profit forms following updated guidance on the subject from the charity commission.

As more than half of the funding identified is for heritage projects, assets that do not involve a heritage element are likely to be much more constrained. Organisations need access to a wider range of funding sources recognising the value of community assets to local communities.

[31] https://tudortrust.org.uk/assets/file/TTT_Grants_List_2017-2018.pdf

Grant funding for different Stages of Community Assets

In terms of funding data, it is possible to identify pools of funding available for the Start-up/Development stage and Acquisition/Renovation stage from the data. Some funders (such as Power to Change, Architectural Heritage Fund, National Lottery's previous Reaching Community Fund) identify distinct funds and application processes that reflect these project stages. Some of these funders also provide pre-venture support to help groups form, or to help with very early-stage feasibility work.

Funding for the Start-up Operations and Growth to Sustainability stages is less easy to track and less consistently available. In principle, social and mainstream loans would be available to support sustainability. But a) projects are likely to have already taken on significant debt during earlier phases and b) unless the loans unlock significant increases in income or cost reductions they are unlikely to meet the needs of projects at this stage.

There are notable exceptions; Heritage Lottery's (now closed) Resilient Heritage Fund offered grants of between £3k and £250k to help heritage organisations build capacity or undertake significant organisational change, and such funding is still available through the open grant programme. In addition, the vast majority of project supported through the National Lottery Heritage Fund have a development phase to support the transitions from Start-up/Development to Acquisition/Renovation and to Start-up Operations stages before moving to a second stage award. Where such as a development grant is provided, match funding for Acquisition/Renovation doesn't need to be secured. Any unsecured match funding at the time of making a second stage award is dealt with in the context of risk to delivery. Projects have up to two years to complete the development phase, which often includes raising the funds required to achieve a financially viable delivery project. Other funders including CAF Venturesome and Power to Change build an element of contingency funding into their programmes and, in Power to Change's case, provide access to expert support and advice to help with financial management and governance. But, in general, funding is heavily weighted towards the earlier project stages.

Grant funding is unlikely to meet the long-term sustainability costs of an organisation, unless these go beyond the maintenance and operation of the asset to include clear charitable purposes. Community groups may therefore succeed in securing and renovating an asset, only to face a viability squeeze in the first few years of operation. Sustainability funding was identified as particularly lacking by an expert review commissioned by the National Trust[32].

Case Study - Power to Change

The Old School project in Wolverton approached Power to Change with a request for £300,000 grant to purchase the old building and support its transformation into a B&B and community space staffed by pupils facing learning disabilities from the adjacent school.

The project faced a catch-22. It could not purchase the building without having sufficient grant funding to complete the project. But it could not secure grant funding before owning the building. Social investment was part of the proposal, and the Old School project had received support to work up the proposals and financial models through Big Potential.

Power to Change decided to make the initial grant at risk, with a temporary charge on the building to protect funds if the remaining funding could not be secured and the project could not go ahead. Having reviewed the financial plans and in discussion with the project team the Trust also provided investment and support through the Community Shares Booster programme, leveraging in a further £50,000 from local investment.

Even so, the project was challenging with considerable architectural and environmental obstacles. The presence of a charge on the building also made securing loan finance difficult. But through an ongoing discussion Power to Change was able to be flexible and allow a joint first charge with a social investor to complete the early stages of the project. With the building work now largely completed for the first stage, Old School the project has been successful in securing a long-term grant to help with the completion of the project.

[32] The Trends and Future of Urban Heritage, BOP Consulting for National Trust 2018

Social Investment

Property investments are a significant part of the UK social investment with Big Society Capital data showing over £750million worth of outstanding social investment into charities and social enterprises in the 'housing and local facilities' category across 338 deals. These deals have a mean average size of £2,219,713 and a median of £350k.

We do not know what proportion of this broad category represents community assets however it is clear that many social investors are likely to be interested in investing in community assets, in the event that those assets are viable. We intend to update our analysis with data we hope to become available via the social economy labs[33] platform covering wider social investment deals.

Figures from the Community Shares Unit Open Data Dashboard show figures for investment in 2018 categories likely to be community assets:

- Arts Centres - £433,533 - 2 offers
- Community Hubs - £599,520 - 6 offers
- Pubs - £983,884 - 12 offers
- Shops - £782,226 - 10 offers

The Gathering, a recent event for social investment practitioners, discussed the challenges for opportunities for the development of the market in the UK and noted some key themes with relevant to organisations seeks to take on community assets including the need for more patient, flexible risk finance and the opportunity for more place-based investing based on collaborative approaches[34].

Case Study - Architectural Heritage Fund

The AHF specialises in investing at the early stage of projects and is able to adapt and support projects that run into additional challenges. Because of this specialism, around 50% of loans made involve some form of extension or rescheduling compared to the original terms as agreed prior to the restoration, usually where an enterprising use of the building is planned. This way, a better understanding of the social investment requirements of the borrower at the time the business launches can be achieved, allowing any residual unpaid debt from the capital phase to be incorporated into the new facility.

Four years ago, the AHF funded the development of a café and exhibition space with a loan of £175k, secured through a legal charge. Challenges with the project build and issues with the contractors mean that the project has only been able to pay back £75k of the original loan. At the same time, a downturn in the local economy made for a challenging trading position.

The AHF formally extended loan by a year. This provided time for the business to work up a revised business plan. The AHF encouraged the organisation to take time to fully understand the implications of the plan for their business and to stress-test the proposals. With the confidence provided by the new plan the loan has been extended by three years, and initial figures support the plan's assumptions and provide a realistic chance of trading way out of debt.

In other situations, the AHF can provide support through a consultant or mentor alongside their financial investment. This can include specialist advice and support with financial planning or social impact. This offer varies from a day of mentoring, up to 12 days of consultancy support.

The AHF explicitly aims to take a mature partnership approach to projects that run into complications. Their specialism in heritage and early-stage projects gives them a strong understanding of such projects, and the offer of mentoring or business support helps maintain a close working relationship with the businesses they invest in over the long term.

[33] https://socialeconomydatalab.org

[34] The Gathering for Social Investment, Collaborative Solutions for the UK Social Investment Market: A report from the Gathering 2019

Discounted Sale

While data on lease terms for asset transfer are difficult to find, local authorities are under increasing pressure to maximise income or capital receipts from their assets. Authorities are expected to pursue a more 'commercial' approach to leasing space. Faced with large reductions in central government funding, authorities also now have the ability to use capital receipts to reinvest in services[35]. These provide strong incentives to maximise the receipts from assets, reducing the likelihood of any subsidised sale or lease. A report by the Bureau of Investigative Journalism argues this has led to a large-scale sale of some 12,000 assets. They place the value of local authority property sales at £9.1 billion since 2014/15[36].

While some local authorities may be keen to transfer assets which are less immediately attractive to private buyers, in such cases, there may be considerable additional costs involved in bringing the asset into viable use, and a thorough understanding of the costs and liabilities involved in the building will be essential.

More broadly, the ability of local authorities to monitor, understand and steward local assets may have been undermined by funding cuts. The BOP consulting report for the National Trust found just five authorities maintained local 'heritage at risk' listings. A 2016 report from Historic England and the LGA found that the number of both conservation specialists and archaeological specialists advising local authorities had fallen by around a third over 10 years[37].

Many funders carry out specific due diligence on the terms of any asset transfers and in some cases provide direct support to community organisations during a negotiation period. The National Lottery Heritage Fund requires that any acquisitions do not exceed the market value of the assets, and that acquisitions should be backed up by at least one independent valuation.

Funding and finance when things go wrong

Across the life-cycle of a community asset:

- **Idea/Pre-venture.** In many cases community groups will need support to formally constitute to develop the idea further. Support needs for an asset transfer at this stage are also likely to involve options appraisals and feasibility studies with both small-scale financial support and access to technical or professional expertise.

- **Start-up/Project Development.** Community groups may still need funding and support with legal or other professional fees including building valuations, surveys, finance and business planning. For asset transfer, unsecured funding and grants are particularly important at this stage as acquisition of the asset is still far from certain and activity is taken on at-risk.

- **Acquisition/Renovation and Start-up Operations.** Costs and income may be uncertain and mainstream lending is unlikely to meet the full needs of groups.

- **Growth to Sustainability.** Depending on the terms of transfer, organisations are likely to be servicing significant debt.

Large capital projects are fraught with complexity and delay – across all sectors. Community assets are often taken on by groups who are either newly formed or at least new to capital projects. This is compounded where access to professional advice is limited either by cost or by dwindling local services, increasing the risk significantly for those groups.

When projects run into difficulty, the response of funders is critical. Successful turnaround requires a willingness to work collaboratively with the project, an openness about the difficulties involved on both sides and a clear, realistic timetable that enables timely action.

A number of funders have measures in place to help where new challenges emerge. For social investors use of interest-only periods or repayment holidays are common options, balancing the need to see funds recycled for other projects with a recognition of the challenges facing an asset transfer. In more extreme circumstances, partial write-offs or more innovative approaches can also be used. For the National Lottery Heritage Fund, business plans are now mandatory for grants from £250k to £5m.

[35] https://locality.org.uk/wp-content/uploads/2018/03/Locality-Places-and-spaces-report-final.pdf
[36] https://www.thebureauinvestigates.com/stories/2019-03-04/sold-from-under-you
[37] https://historicengland.org.uk/images-books/publications/eighth-report-la-staff-resources/eighth-report-la-staff-resources/

Case Study - Social Investment Business

As a major lender to community-owned assets through their Communitybuilders Fund, Social Investment Business have experienced a range of challenging situations and have developed some key insights about what's needed from a social investor operating in this market:

Patience

Faced with a range of scenarios at different stages in the development of investee organisations, SIB engage with investees to find a pathway for the organisation to become stable and then sustainable , delivering anticipated social impact whilst maximising a loan repayment with interest. Keeping these sometimes dissonant elements in harmony is challenging but use of e.g. repayment and/or interest holidays for example can provide the space for development and implementation of appropriate solutions to investee needs. The cheaper the source of the capital to the lender, the more latitude there is to take a patient view, where good performing loans can provide space for less well-performing loans to be given terms that enable them to rebuild their revenues.

Expertise

SIB have a wide range of experience across different business models and different sectors, enabling then to provide informed feedback on the robustness of business plans, and test whether the sector-specific assumptions hold water.

Engagement

By visiting the enterprise and meeting the senior leadership, SIB attempt to get under the skin of the business and assess the key metrics including governance (appropriate skills and controls), financial viability (linked to understanding of how – especially capital resources – might best be employed, and stakeholder input leveraged), appropriate action planning (short term key focus as part of a longer term strategy, ensuring capacity of nominated implementers) and evidence of sustained social impact.

Innovation

SIB have developed some innovative restructuring mechanisms, for example:

(i) The identification of what amount of debt can be adequately serviced under a new business plan, developed with some degree of understanding of the sector and the likely market size and capability of the business. This is called a performing loan, which is paid off as per standard loan arrangements with interest and principal paid as one, tapering down to a full date of repayment.

The remaining element of the original loan is classed as a non-performing loan, and is in effect treated as a zero-interest bond maturing at the date of the last payment of the performing loan. It would then be the organisation's task to find replacement finance for this – likely to be new commercial debt on the basis of a stronger asset base and financial/repayment record.

(ii) In appropriate circumstances, SIB have been prepared to incentivise groups to make early lump sum payments by being prepared to match funds raised against an equivalent "debt write down".

Grant funders have greater flexibility given the lack of a pressure to see funds returned. They can take a larger proportion of the risk in capital projects, in turn drawing in further social investment. Some grant funders make additional funding available at the start of a project to strengthen the quality of professional advice and project management.

Power to Change provides a 'Contingency Support' offer to grantees who get into difficulty (based on Locality's successful Lifeboat service to its members). This offers rapid access to expert advice around issues like financial management and planning, governance, legal and project management expertise. Based on the initial assessment and the level of risk this can be supplemented by a small amount of additional funding where this will help secure the future of the project.

Despite the willingness of funders to work in this way and explore contingency options there have been a number of high-profile and costly failures of community asset projects. Across the funding sector there needs to be a more systematic, open and coherent approach to supporting high-risk projects.

Case Study - Locality Lifeboat

Locality Lifeboat provides advice and practical help to member organisations which are experiencing, or at risk of, difficulties that threaten their viability. It safeguards the delivery of vital services and protects community assets.

Lifeboat began in 2007 funded through Locality reserves. Support ranged from telephone conversations to intensive on-site support. With demand for the service growing, Locality looked to measure and formalise its service, which is now supported by Esmée Fairbairn Foundation.

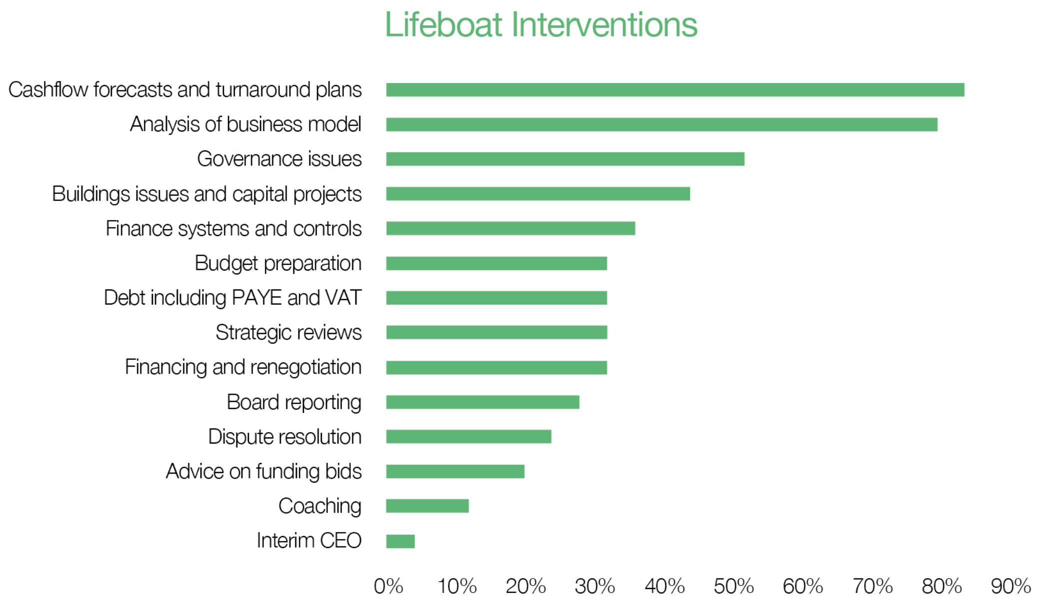
The elements of the Lifeboat Service are:

- Light touch support - advice, information and recommendations to improve long-term sustainability
- Intensive support - longer term intervention to enable members in crisis to address their problems
- Repayable grant - up to £10,000 repayable grant to enable turnaround to take place

In 2018 Locality added Lighthouse which is an online sustainability assessment tool available free to members. **The aim is to:**

- Highlight key issues which could affect sustainability
- Encourage dialogue between staff and board member about the performance of their organisation
- Encourage organisations to take prompt action on threats to their viability

The table below shows the kind of interventions supported by the programme. Locality recently carried out a report on the impact of the service[38].



[38] Waving Not Drowning: Updating the lessons from the Locality lifeboat service, 2019 published by Locality

Funding Mapping

Funder/ Programme	Total Fund size most recent year	No. Grants/ Investments	Median	Idea/ Pre-venture	Start-up/Project Development	Acquisition/ Renovation
National Lottery Heritage Fund	£416,021,000	1678	£11,850		Small grants up to £10k. Support with development	Up to £250k or up to £5 million through a more detailed process
National Lottery Community Fund - Reaching Communities	£147,422,444	494	£310,781		£2.9 million went to 54 projects. Median size of £50k	£144 million to 440 projects Median £320k
Community Housing Fund	£82,000,000[39]			Phase 1. Expectation of 90% max revenue costs	Phase 1 Expectation of 90% max development costs	Construction of new homes/conversion of existing buildings
National Lottery Community Fund - Awards for All	£29,944,726	3459	£9,883	Up to £10k can include small capital projects		
National Lottery Community Fund - Reaching Communities Buildings	£20,766,527	53	£403,839		6 projects received median of £15k	
Garfield Weston Foundation	£51,951,432	1745	£15,000			Capital Grant capped at 10% of total capital costs
Greater London Authority	£33,409,749	280	£19,430			

[39] Estimate, based on £163 million commitment to March 2020

Funding Mapping continued

Funder/ Programme	Total Fund size most recent year	No. Grants/ Investments	Median	Idea/ Pre-venture	Start-up/Project Development	Acquisition/ Renovation
Power to Change – Community Business Fund	£5,117,715	65				
Power to Change – Bright Ideas	£503,276	39		Grants of up to £20k and business development support		
Power to Change – Homes in Community Hands	£1,113,413	14		Support for Community Housing projects available at each stage.		
Power to Change – More Than a Pub	£1,653,136	111		Bursaries of up to £2k	Support from a Plunkett Advisor	Grant/Loan split in partnership with SIFI
Power to Change – Community Shares Booster Programme	£616,889	22		Development Grants of up to £10k to help prepare for share issue		Matched equity investment of up to £100k
SASC	£11,025,000	8			Through Reach Fund – grants of up to £15k	£250k - £2 million through Community Investment Fund
Big Issue Invest	£10,665,157	81			Up to £50k for new ventures. Reach Fund.	Up to £3 million for established organisations
City Bridge Trust	£9,625,653	99				
Tudor Trust	£8,721,080	162	£50,000			
Community Foundation Tyne & Wear, Northumberland	£7,510,992	1,526				

Funding Mapping continued

Funder/ Programme	Total Fund size most recent year	No. Grants/ Investments	Median	Idea/ Pre-venture	Start-up/Project Development	Acquisition/ Renovation
Sport England - Community Assets Fund	£5,864,191	231	£15,000			Typically, up to £50k but exceptionally up to £150k
Co Op Foundation	£5,219,578	208	£10,000			
Key Fund (£650k grants, £2.75m loans)	£3,400,000	60	£55k		Reach Fund and smaller loans available	
Architectural Heritage Fund (£2.3 million loan, £1.1 million grant)	£3,433,754	105	£10,850	Project viability grants available of up to £3k. Total of £254k provided	Early stage development grants totalling £875k	
CAF Venturesome					Development Fund and Community Land Trust Fund. Reach Fund	
Social Investment Business					Reach Fund grants of up to £15k	Forward Enterprise Fund £25k - £150k
LB Southwark	£4,617,443	487	£2,000			
Clothworkers Foundation	£3,741,050	201	10,000			
Essex Community Foundation	£3,462,380	541	£4,000			
Esme Fairburn Foundation (Social Investment)	£2,563,500	9	£148,500			
National Churches Trust	£1,254,981	186	£5,000			

Funding Mapping continued

Funder/ Programme	Total Fund size most recent year	No. Grants/ Investments	Median	Idea/ Pre-venture	Start-up/Project Development	Acquisition/ Renovation
Community Foundation Surrey	£1,209,286	359				
LandAid	£1,009,819	16	£71,000			
Cloudesley	£621,946	55	£6,000			
Dunhill Medical Trust	£328,798	11	£35,000			
Sir George Martin Trust	£241,500	139	£1,500			
Total	**£875,036,415**	**10,660**				

B. Case Studies of Community Assets

I. Introduction

During the course of the inquiry we looked at a total of nine case studies of community assets, mainly from England but also including two case studies from Wales which included relevant learning. Case studies were selected where grant and loan investment had already exceeded at least £1m, where it was clear that there was significant community interest that was either under threat at stages during the asset's life, or where that community interest was ultimately lost. We sought to get a spread of asset type and location as far as possible within these constraints, though the financial scale of the assets we were looking for gave a natural leaning to heritage assets.

Each case study was investigated by an independent researcher who has carried out a desk review of information in the public domain alongside interviews with stakeholders. For each case study we sought to interview as many stakeholders as possible in order to get as rounded a view as possible. For some case studies this was easier than for others. You can find a full list of researchers and case study interviewees on page 64 in Appendix 1.

Given the sensitive nature of many of the case studies we have not published individual findings from each. Instead we have drawn out common success or failure factors.

II. Selected case studies

It was not possible to gather an accurate picture of the funding and finance required for each of the nine case study assets. However, from what we were able to gather investments into organisations representing the community interest, and which were used to operate and renovate the assets:

- Totalled more than £30m of grants and donations, an average of c. £3.5m per asset.

- Totalled more than £4.5m of loans and community share finance, an average of c. £500k per asset.

As the case studies included assets which had reached different stages of completion (and some of which had hardly begun) we have also considered the same figures based on a hypothetical scenario in which all assets had reached substantial completion. Although this is highly subjective, we were able to estimate this based on projected costs to completion provided to us by case study interviewees from their latest business plans and/or feasibility studies:

- If all assets were substantially complete, totalled more than £60m of grants and donations, an average of c. £7m per asset.

- If all assets were substantially complete, totalled more than £8m of loans and community share finance, an average of c. £900k per asset.

Again we were not able to establish definitively the level of public investment (including national lottery, central or local government and European funding) from within the grants and donations totals above, we estimate that at least 80% of the total grants & donations invested across these case studies came from public funds. All these figures, including the percentage of public funds, are likely to be higher than these estimates suggest.

Although not to be relied upon as definitive figures, we hope these estimates serve to give an indication of the scale of the assets included in the case studies and the relative levels of investment they have required. It is worth noting here that the latest research across the UK suggests there at least 6,325 assets in community ownership with the number growing fast and making an increasingly significant contribution to the UK economy of nearly £220 million every year[40].

The nine case studies we have looked at are listed and described briefly below, together with some links for further information which are available in the public domain:

Ancoats Dispensary – Manchester

Ancoats Dispensary was a Victorian hospital serving the working-class districts east of Manchester city centre. In 2011 the leaseholders submitted a planning application to demolish the building. A local community campaign was formed to save the Dispensary and develop it into a community hub, workspace and health and wellbeing centre. After several years of activity this resulted a withdrawal of the planning application, with the lease re-assigned to Ancoats Dispensary Trust or ADT, a community benefit society. ADT worked via a new company created to renovate the building - Ancoats Dispensary Limited or ADL - which ADT owned 51% of, with 49% owned by igloo, a regeneration company. In early 2018 with only urgent works to secure the building undertaken and renovation works not yet started a Stage 2 application to the Heritage Lottery Fund was rejected and the lease reverted to Manchester City Council who have indicated that they will look to renovate the building for housing uses.

Additional background in the public domain:

- The fight to save Ancoats Dispensary
- Ancoats Dispensary Trust admit defeat as council reclaim listed building
- Ancoats Dispensary: Campaigners welcome housing proposals

Cardigan Castle - Cardigan

Cardigan Buildings Development Trust was formed in 1999 and undertook a successful project to save two 300-year old cottages near the entrance to Cardigan Castle. The Trust then set their sights on restoring the castle which was derelict. They went into partnership with owners Ceredigion County Council in 2007. By 2015, this 4-year restoration project had transformed the 900-year-old site into a new heritage attraction, complete with luxury accommodation, riverside restaurant and summer events programme. It continues to be operated by the Trust.

Additional background in the public domain:

- Cardigan Castle website
- Ensuring a Sustainable Future for Cardigan Castle – National Lottery Community Fund case study
- Cardigan Castle Buildings Preservation Trust End of Year Report 2015

[40] Our assets, our future: the economics, outcomes and sustainability of assets in community ownership – Centre for Regional Economic and Social Research (CRESR) at Sheffield Hallam University and Institute for Voluntary Action Research (IVAR) July 2019 published by the Power to Change Research Institute

Hadlow Tower - Hadlow

Hadlow Tower is a Grade I listed 9-storey tower built in 1838. Emergency repairs were carried out by Tonbridge and Malling Borough Council in mid 1990s but the tower was still considered 'at risk' by English Heritage and the World Monument Fund. The Vivat Trust was given ownership in 2011 and by 2013 had secured grant funding to open the Tower. It was operated as a holiday let and opened to the public for 60 days pa. The volunteer-run 'Save Hadlow Tower Action Group' managed the open days. Vivat Trust went into liquidation in summer 2015 and a private sale was agreed with Deeds of Covenant in place that sought to protect ongoing maintenance and public access for a minimum of 28 days per year until 2023.

Additional background in the public domain:

- Hadlow Tower website
- Private sale of historic tower restored with £3m of public money is folly say angry locals
- Landmark tower restored with public money is up for grabs in prize draw

Harlech Leisure Centre – Harlech

In 2008 Gwynedd Council announced that they needed to close Harlech swimming pool. In 2009 local people submitted a business plan to run the pool as a community trust and in July 2009 the pool was transferred to Harlech and Ardudwy Leisure (HAL). A Climbing Wall and Café were added and opened in November 2011. In 2018 a new board was recruited to help ensure longer-term sustainability of the asset.

Additional information in the public domain:

- Harlech & Ardudwy Leisure website
- How you could be the answer to doubts over leisure centre's future
- In at the deep end: who should run our pools and leisure centres?

Hastings Pier – Hastings

Hastings Pier opened in 1872, a monument to Victorian engineering. In 2002 the Pier suffered storm damage, and in 2006 Hastings Borough Council issued a council order for final closure. Public concern led to the creation of the Hastings Pier & White Rock Trust in 2008 to try to rescue the Pier and in 2009 a Save Our Pier campaign led to a partnership with Hastings Borough Council. In 2010 a fire destroyed 95% of the pier superstructure, but by 2013 significant funding had been secured by Hastings Pier & White Rock Trust for renovation, in 2013 a compulsory purchase order was approved and the Pier became the property of a new Hastings Pier Charity, allowing renovation work to go ahead. In April 2016 the Pier re-opened to the public and in 2017 it won Pier of the Year and the Stirling Prize for architecture. In late 2017 the Hastings Pier Charity went into administration and by summer 2018 it was sold to a private business that also owned Eastbourne Pier.

Additional background in the public domain:

- Hastings Pier Charity placed into administration
- How £14m of charity assets was sold to a businessman for £50,000
- Hastings Pier owner reveals plans for 2019
- 'Dismayed' drMM breaks silence as row escalates over Hastings Pier closure
- Battle of Hastings Pier: Sheikh claims locals 'want everything for free' in row over future of landmark
- Hastings Pier to reopen

Hebden Bridge Town Hall – Hebden Bridge

Hebden Bridge Town Hall is a Victorian Grade II listed building, built for the Urban District Council in 1890s. After local government reorganisation in 1974, many of the services based in the Town Hall began to relocate elsewhere. In 2003 a strategy for the town's future, commissioned by Yorkshire Forward identified the Town Hall as a significant and underutilised resource for the town centre. A community campaign to save the Town Hall began, and by 2008 the Hebden Bridge Community Association or HBCA had been formed to engage the local community on what the town hall could be become. In 2010 a community asset transfer was made to HBCA on a 40-year lease from Calderdale council, now extended to 125 years. The Town Hall continues to be operated by HBCA as a sustainable community hub with a range of uses and income streams such as business units, a café, and a new community hall.

Additional information in the public domain:

- Hebden Bridge Town Hall website
- Hebden Bridge Town Hall – Historic England case study
- Hebden Bridge shows off its new Town Hall

Moseley Road Baths – Birmingham

Moseley Road Baths is a Grade II listed building on neo-gothic style. It opened in 1907 with two large pools and a library. In 2003 the main Gala Pool (the bigger of the two pools) was closed because of fears its roof may collapse, and there were concerns the rest of the buildings would also close. In 2008 the Moseley Road Baths Action Group, including the Friends of Mosely Road Baths, was formed to try to save the long-term future of the building. In 2016 Mosely Road Baths CIO was formed from a range of stakeholder groups including those from the Moseley Road Action Group. A lease on the two pools was secured by Mosely Road Baths CIO in 2018 and the pools reopened. Significant refurbishment is still required. A collation of the CIO plus City Council, English Heritage, National Trust, World Monuments Fund is now finalizing a long-term business plan.

Additional information in the public domain:

- Mosely Road Baths website
- Historic Mosely Road Baths to reopen to swimmers this weekend

Stanley Halls - London

Stanley Halls is a Grade II listed Edwardian building - part community centre, part theatre. At a public meeting in 2010 the Council announced plans to mothball the Hall. In 2011 Stanley People's Initiative was set up following another public meeting, with a plan to manage the building on behalf of the Council. By 2013 the Council announced that Stanley People's Initiative was their preferred bidder for the Hall. A 30-year lease was finally granted in 2016. The Hall still requires significant refurbishment. It is currently being operated by the Stanley People's Initiative with a range of theatre and film, café and bar uses.

Additional information in the public domain:

- Stanley Halls website
- Stanley Halls – Historic England case study

Unity Hall Wakefield – Wakefield

A disused former co-operative society central store, a grand old building in the centre of Wakefield that had been sold to a private owner. Unity House (Wakefield) Limited, a community benefit society, acquired a lease and lead a renovation to create a music, theatre, film and events venue. It opened to the public in September 2014. The society entered administration in October 2017 and was liquidated by November 2018. The site was re-let to a new business which now operates it.

Additional information in the public domain:

- Wakefield's Unity Hall reopens after revamp
- Flagship venue Unity Works goes into administration
- Wakefield's Unity Works to reopen

III. Critical success or failure factors across case studies

We have provided a set of critical success or failure factors common across at least three or more of the case studies identified. Whether these factors were considered critical or not was based on an informed and expert judgement of the independent researchers who led each case study investigation. The last four factors (13 to 16 inclusive) apply only to those organisations that have been through a formal administration process, applicable to 4 of the 9 case studies. The remaining factors are applicable across all 9 case studies.

1. **Time, experience, skills and continuity of the board:** There is often a need for high levels of experience and skills within the board or management committee. In addition, there are often high demands on board time with considerable pressure, having to manage a complex renovation project and ongoing community engagement – so the time they have available and continuity on the board are important. This is particularly the case immediately following acquisition and during the first 3-5 years thereafter largely because the time, skills and experience required are very different for operation than they are for renovation, and both are different from those required for the initial campaigning during the Idea/Pre-venture and Start-up/Project Development stages.

2. **Time, experience, skills and continuity of the leadership team:** Having a leadership team that is sufficiently resourced with operational support alongside the time, skills and continuity of the board is important. Recruiting too few people, or a leadership team without the complete skills required for the project are common challenges - often a result of a lack of resource to invest in staff, or a board unable to effectively manage or let go of existing staff.

3. **Access to robust financial information:** Access to regular, clear financial information and forecasts throughout the life-cycle of any project (in ways understood by the board, leadership team and key stakeholders) is critical in managing risks especially under the continuously changing circumstances that complex renovations and asset management can bring.

4. **Ability to negotiate terms of ownership, lease and funding agreements:** The terms of the initial ownership or lease agreement of a community asset have a major impact on long-term success. Such terms may include: clarifying the state of repair; roles and responsibilities for service delivery, maintenance and compliance; length and price of any lease; any break or return clauses to landlords; any partnership and share of profit agreements. Particularly just prior to acquisition community organisations often have less access to resources and expert legal / professional advice than those they are securing the asset from (or those they might be engaging in operational partnership agreements with). What's more, the emotional attachment to any community asset and the time and energy that community members will have put into trying to acquire or save it can put them at a disadvantage in negotiations since the option of 'walking away' if the terms aren't right isn't always credible. This can result in terms which are not fully understood and create unrealistic financial and operational burdens post acquisition.

5. **Level of ongoing, coordinated funder support with relationship continuity:** Assets which require larger scale renovation are often complex projects requiring multiple funding sources at different times across the project life-cycle. Where each source of funding has unique conditions and is treated as a discreet project rather than as part of a highly interconnected whole, this can create a significant burden on board and management time, which is often already stretched. This is exacerbated by having different sources of funding at different stages rather than meaningful funder relationships which carry through at every stage of the project, including positive ongoing relationships after project completion that are not based only on grant monitoring.

6. **Realism of, and ability to iterate the business plan:** At the point of acquisition it is very difficult to predict renovation costs and timescales, ongoing repair and maintenance needs, or sources and timing of revenue (especially where an asset has been dormant for many years and the proposed business model is untested in that location). However, it is usually at precisely this stage that business plans are created to support a funding bid, along with a strong incentive to demonstrate a level of confidence in the plan that may not be realistic or even possible. This can lead to a funding package that is neither sufficient nor flexible enough to cover unexpected costs, changes in the timeline or iterations of the business model – and set unrealistic expectations between funders, community organisations and those with a community interest.

7. **Alignment on vision:** Prior to acquisition a simple vision to preserve an asset for community use can be a strong galvanising force. However, post-acquisition how that asset is used, the approach to renovation and the appropriate business model is often contested. This can be especially challenging when key stakeholders (including funders, local government and local communities) demand a sustainably run asset but under conditions and restrictions which work directly against the most obvious sources of income, e.g. preserving original, community or charitable uses only, where demand to pay for these uses is low.

8. **Ability to secure relevant and informed guidance and support:** Every asset and project has its own unique set of circumstances and stakeholder relationships. Often guidance, support and advice that is offered or available is too generic rather than tailored to specific needs; it follows a standard logic which is not applicable to these individual circumstances; or the specific guidance or expertise needed is difficult to identify and find. This can be especially problematic when conditions placed on community organisations by funders or finance providers are highly restrictive e.g. insistence on outsourcing operations to third parties; insistence on the use of specific consultants or advisors.

9. **Regularity and transparency of community, funder and key stakeholder engagement:** Community organisations often get forged in campaigns that are participative and open but as they reach Acquisition/Renovation, through Start-up Operations and then Growth to Sustainability stages of the asset they've fought for, communication can often tail away. This can be for many reasons: the complexity and regularity of what needs to be communicated, (including finances) gets greater; individuals get busier and communication and levels of responses can be difficult and time consuming to manage; confidentiality issues start to be encountered; and powerful incentives exist not to show any weaknesses, especially where unrealistic expectations have been set with stakeholders from the very start in order to secure the funding for the assets. However, there is a need to keep those with a community interest, funders and key stakeholders aware of progress - with honesty on the big questions and challenges a project is facing. Without it, engagement and trust from this stakeholder and supported group can erode, limiting the will and opportunity to lend further support or creating actively hostile relationships (especially in choppier waters). This can in turn isolate the board and leadership team and prevent appropriate and timely responses to challenges.

10. **Ability to co-ordinate timely rescue support:** Where there are multiple financial and reputational interests in an asset (including funders, shareholders and other key stakeholders) defining and co-ordinating a rescue package is both challenging and time consuming, making timely and appropriate intervention which places the protection of community interest at its heart very difficult to achieve.

11. **Ability to secure freehold ownership:** Where a community organisation that enters into serious financial difficulty does not have

freehold ownership of the asset, this can severely limit the ability to negotiate a rescue that protects those with a community interest, with ownership or leases often reassigned by default to original owners who can be ambivalent about the community interest, and do not proactively work to preserve it.

12. **Ability to separate the asset from the community organisation that owns or operates it:** If the board and leadership teams of a community organisation do not have the ability to prevent it falling into serious financial difficulty, it is not easy to replace them. This is especially the case where there are multiple shareholders, funders, creditors and charge-holders who do not share a joint vision, or there is a lack of open communication and mutual trust. Even where the board or leadership teams recognise this themselves, they often feel unable to step away or even consider transferring an asset to an alternative organisation that may better be able to protect community interest. Administration can become the default way out.

13. **Valuing community interest and public benefit during administration:** Community assets usually follow a standard administration process. This places significant pressure on a range of the primary funders/ finance providers (who are often also the major creditors or charge-holders, and in many cases are directly paying insolvency practitioners), as well as the insolvency practitioner themselves (to minimise their costs). It is also not uncommon for members of local communities who feel let down to 'strike out' through letters and social media including in some cases quite extreme threats, increasing that pressure. Taken together this creates a tendency towards a quick solution that minimises financial loss and that does not fully consider wider public benefit including the long-term return on any original public investment. This matters both to the communities who have an interest, and typically to major investors and creditors too, who in the vast majority of cases were involved for public benefit reasons in the first instance.

14. **Clarity in the administration process:** There is often a lack of consistent understanding across insolvency practitioners, investors, funders and local communities of the administration process and/or how that applies to different organisations with a wider social purpose or community benefit. This includes some of the specialist areas of law that apply to e.g. Community Benefit Societies[41]. This extends to a lack of understanding of some of the unique pressures and challenges to running a standard administration process in these cases. This can leave people unsure of how to proceed at various stages and can limit the potential of those with a community interest to mount a credible and timely bid.

15. **Ability to engage with those who have a community interest:** We have defined community assets as those with a clear community interest. This is usually a list of individuals that might be community shareholders or members of the organisation for example. Their contact details are held by the community organisation. However, once an administration process is underway they are often closed out of communication on the process as there are (1) GDPR rules to consider in terms of sharing contact details and (2) because any engagement with wider members (which may go into the thousands) can often fall directly on the insolvency practitioner who may be the only person with legal access to that information. That level of communication and engagement is costly and beyond the typical scope of their role. This can result in individuals with a community interest being in effect frozen out of negotiations and unable to organise themselves to mount a credible and timely bid.

16. **Ability to protect community benefit when in private hands:** In the event that an assets is sold to an individual or organisation that does not represent significant community interest in the asset, on occasions an attempt is made to protect elements of public benefit by applying specific conditions to the sale. However, post-sale such conditions are difficult to enforce in practice and it is not clear who might have the responsibility and resource to carry out any enforcement.

[41] Handbook of Co-operative and Community Benefit Society Law 2014

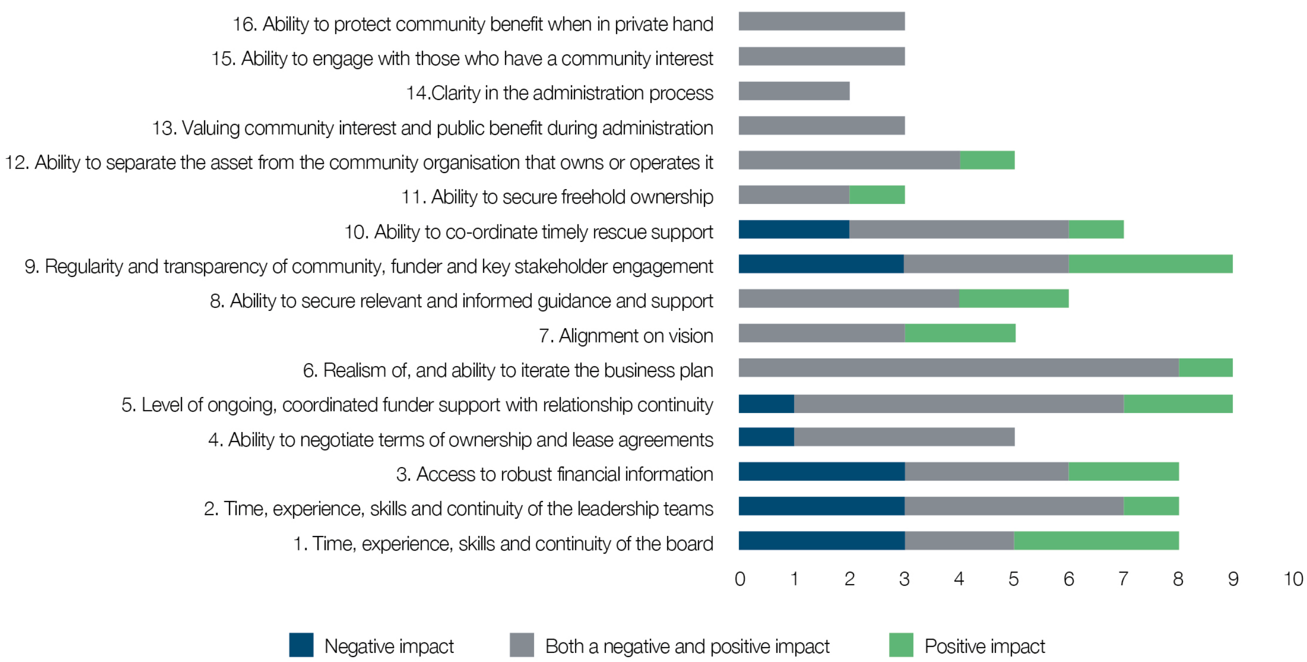
The graph summarises the frequency of these critical key success or failure factors across the case studies identified, highlighting whether they were considered to have a negative impact, both a positive and negative impact at different stages in the life-cycle of the assets, or a positive impact. Again, whether these factors were considered positive, negative or both was based on an informed and expert judgement of the independent researchers who led each case study investigation.

NOTE: The last four factors (13 to 16 inclusive) apply only to those organisations who have been through a formal administration process, applicable to only 3 of the 9 case studies. The remaining factors are applicable across all 9 case studies.

The factors most commonly noted across the nine case studies:

- Realism of, and ability to iterate the business plan (9 of 9)
- Level of ongoing, coordinated funder support with relationship continuity (9 of 9)
- Regularity and transparency of community, funder and key stakeholder engagement (9 of 9)
- Time, experience, skills and continuity of the board (8 of 9)
- Time, experience, skills and continuity of the leadership team (8 of 9)
- Access to robust financial information (8 of 9)
- Ability to engage with those who have a community interest (3 of 3 applicable)
- Ability to protect community benefit when in private hands (3 of 3 applicable)

Critical success or failure factors across case studies



Appendix 1
Roles, Funders & Contributors

A. Roles And Funders

Secretariat:

- **Bob Thust**, Practical Governance LLP

Desk research and stakeholder interviews:

- **Bob Thust**, Practical Governance LLP
- **David Floyd**, Social Spider CIC
- **David Chater**, independent consultant

Case study researchers:

- **David Boyle**, independent consultant (Hastings Pier, Moseley Road Baths, Stanley Halls)
- **Dave Boyle**, Community Shares Company Ltd (Ancoats Dispensary, Wakefield Unity Hall)
- **Jess Steele**, Jericho Road Solutions Ltd (Cardigan Castle, Hadlow Tower, Harlech Leisure Centre, Hebden Bridge Town Hall)

Core funders (contracts held directly with the Secretariat):

- Power to Change Trust
- Historic England
- The Social Investment Business
- Department for Culture, Media & Sport
- The National Trust

Case study funder (contracts held directly with case study researchers):

- Local Trust

B. Contributors

Attended one or more Inquiry Panel and/or Funder Panel meetings (if not already listed as part of the inquiry team above):

- **Abigail Gallop**, Senior Policy Adviser Local Government Association
- **Albert Joyce**, Ministry for Housing, Communities & Local Government
- **Asha Karbhari**, Business Development Officer Architectural Heritage Fund
- **Brian Whaley**, Strategic Lead Sport England
- **Daniel Brewer**, CEO Resonance
- **David Alcock**, Partner Anthony Collins Solicitors LLP
- **Chris Brown**, founder igloo regeneration
- **Ed Wallis**, Head of Policy and Public Affairs Locality
- **Ged Devlin**, Development Manager Power to Change Trust
- **Georgina Holmes-Skelton**, Head of Government Affairs National Trust
- **Hugh Rolo**, Development Advisor Key Fund and Director of Business Development Locality
- **James Goodman**, Director of Partnerships Local Trust
- **Matthew McKeague**, CEO Architectural Heritage Fund
- **Matt Leach**, CEO Local Trust
- **Oluwaseun Soyemi**, Policy Advisor and Programme Manager Regeneration National Lottery Heritage Foundation
- **Ravneet Virdi**, Department for Culture, Media & Sport
- **Rob Benfield**, Director of Enterprise and Development the Social Investment Business
- **Rosie Mockett**, Funding Policy Manager The National Lottery Community Fund (at the time of the panel meetings)
- **Sarah Reilly**, Senior Communities Development Advisor Historic England
- **Tony Armstrong**, CEO Locality
- **Vidhya Alakeson**, CEO the Power to Change Trust

Other stakeholder interviews, emails or website submission (other than those already listed as part of the inquiry team, having attended one or more inquiry panel and/or Funder Panel meetings, or those listed below as having taken part in a case study interview):

- **Ailbhe McNabola**, Head of Research and Policy Power to Change Trust
- **Andrew Shore**, Assistant Director of Policy the Insolvency Service
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- **Anna Shiel**, Head of Origination Big Society Capital
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- **Caroline Mason**, CEO Esmee Fairbarin
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- **Claire McCathy**, General Secretary Co-op Party
- **Daniel Zlupko**
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- **Ed Mayo**, Secretary General Co-operatives UK
- **Eilish McGuiness**, Executive Director, Business Delivery National Lottery Heritage Fund
- **Geoffrey Hunter**, Ely Diocese Church of England
- **Holly Piper**, Head of CAF Venturesome
- **Kate Ecart**, Senior Policy Advisor Strategy & Change, the Insolvency Service
- **Mark Bickford**, Director of Investments Social & Sustainable Capital
- **Mark O'Kelly**, Direct of Finance and Administration Barrow Cadbury Trust
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- **James Burrows**, Investment Director Big Society Capital
- **James Wragg**, Director of Operations Esmee Fairbarin
- **James Wright**, Policy Officer Co-operatives UK
- **Joe Fortune**, General Secretary Co-operative Party
- **Joel Cohen**, Senior External Affairs Manager, Sport England

- **Kamna Muralidharan**, The National Lottery Community Fund
- **Rachel Snowball**, Urban Places Programme Manager National Trust
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- **Dr Tom Archer**, Centre for Regional Economic and Social Research Sheffiled Hallam University

Case study interviewees:

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- **Trevor MacFarlane** (former Ancoats Dispensary Trust Chair)
- **Chris Brown**, founder igloo regeneration (partner in Ancoats Dispensary Limited)
- **Eilish McGuiness**, Executive Director, Business Delivery National Lottery Heritage Fund (funder of Ancoats Dispensary Trust)
- **Ged Devlin**, Development Manager Power to Change Trust (funder of Ancoats Dispensary Trust)

Cardigan Castle

- **Sue Lewis** (former trustee and staff member of and current volunteer for Cardigan Castle Buildings Preservation Trust)

Hadlow Tower

- **Michael Guy**, Head of Legal Historic England (funder of Vivat Trust)
- **Andy Brown**, Analytics Director Historic England (former Head of Planning at Historic England, a funder of Vivat Trust)
- **Stuart MacLeod**, Head of National Lottery Community Fund South East England (funder of Vivat Trust)

Harlech Leisure Centre

- **Bev Garside**, Director Empoower Support for the Voluntary Sector (consultant to Harlech and Ardudwy Leisure, and funders)

Hastings Pier

- **Jess Steele**, Director Jericho Road Solutions (former trustee of White Rock Trust, advisor Hastings Pier Charity, member of Friends of Hastings Pier)
- **Maria Ludkin** (former Chair of Hastings Pier Charity at time of administration)
- **Eilish McGuiness**, Executive Director, Business Delivery National Lottery Heritage Fund (funder of Hastings Pier Charity)
- **Ian Morrison**, Director of Policy & Evidence Historic England (former CEO of Architectural Heritage Fund, funder of Hastings Pier Charity)
- **Andy Richardson**, Investment Manager Architectural Heritage Fund (funder of Hastings Pier Charity)
- **Adam Stephens**, Smith & Williamson (administrator)
- **Lesley Davis**, (member of Friends of Hastings Pier)
- **Simon Opie**, (former CEO of Hastings Pier Charity)
- **Holly Piper**, Chief Executive CAF Venturesome (funder of Hastings Pier Charity)

Hebden Bridge Town Hall

- **Karen Houghton**, Support Officer (Yorkshire) – Architectural Heritage Fund (Trustee of HBCA during asset transfer)
- **Andrew Bibby**, Director Gritstone Publishing Co-Operative Ltd (Former secretary and trustee of HBCA during development)
- **Graham Mynott**, Executive Director, Town Hall (Executive Director of the Town Hall since 2016)
- **Marc Collett**, Burns Collett, Financial Consultant (Creative Economies specialist consultants and tenant of the Town Hall)

Moseley Road Baths

- **Matt Doran**, External Affairs Manager National Trust (link person supporting the coalition supporting the Moseley Road Baths CIO)
- **Karen Leach**, Chair Moseley Road Baths CIO (current Chair Moseley Road Baths CIO)
- **Alison Pearce**, Project Manager Moseley Road Baths CIO (current Project Manager Moseley Road Baths CIO)
- **Dave Wagg**, Leisure Projects and Client Manager Sports Strategy Team Birmingham City Council

Stanley Halls

- **David Somner**, Director Stanley People's Initiative (current Director Stanley People's Initiative)
- **Carol Clapperton**, Partnership Manager Strategic Richmond & Wandsworth Councils (former Chair of Stanley People's Initiative)
- **Kathy Bee**, (ward councillor, co-founder of Stanley People's Initiative)
- **Paul Scott**, (Councillor for next door ward, co-founder of Stanley People's Initiative)
- **Judith Burden**, Secretary Stanley People's Initiative (current Secretary Stanley People's Initiative)
- **Cameron McLeod**, Chairman Stanley People's Initiative (current Chair Stanley People's Initiative)

Wakefield Unity Hall

- **Hugh Rolo**, Development Advisor Key Fund (finance provider to Unity House (Wakefield) Limited)
- **Ged Devlin**, Development Manager Power to Change Trust (former advisor to Unity House (Wakefield) Limited)
- **Chris Hill**, Development Director Kirkstall Valley Development Trust (instigator of the project and first Chair of Unity House (Wakefield) Limited)
- **James Stevenson**, Wakefield Council Officer (key liaison between the council and Unity House (Wakefield) Limited)

Appendix 2
Guide to Insolvency

Insolvency Procedures

Insolvency is whenever a company/legal entity fails either of two tests laid down in law:

- Can it pay its debts as they fall due (the cashflow test)?
- Are its assets worth less than its liabilities?

In practice, and especially in the social sector, the second is often problematic given the difficulty of valuing assets for balance sheet purposes. As a result, the former test tends to dominate considerations of an enterprise's solvency.

If a business is insolvent, it means that people who have traded with it in good faith – investors who have money, banks who've given overdrafts, suppliers who've provided goods - cannot get the monies they are due at that particular point in time and might not have all the monies due paid. In some cases, some entities who are owed money may not get anything back. At this point, if there are no arrangements in place between the enterprise and its creditors (the entities that are owed money), there are several options for resolving the matter.

1. Company Voluntary Arrangement

It might be possible for the enterprise to reschedule its borrowing – large debts gets renegotiated or perhaps payment holidays are arranged; overdrafts might be extended or payment terms extended by suppliers. But if this isn't possible (or perhaps has already been done and the problems haven't eased) the first step could be to seek to agree at a Company Voluntary Arrangement.

Under this procedure, an Insolvency Practitioner (IP) will negotiate with the unsecured creditors (entities who are owed monies but do not have security such as a fixed charge or Debenture), usually focussing in on them in accordance with the size of the debts they are owed. This will usually seek to reduce everyone's debts across the board, and is often expressed as a percentage in respect of the amount of debt that the creditors will receive. Whilst the IP negotiates, the Directors remain in control of the day-to-day decision making and because it is a less public process, can be better at maintaining an enterprise's reputation.

The CVA proposal is voted on by the creditors who have weighted votes depending on the size of their debt; at least 75% of creditors must vote for the CVA for it to go forward. The proposal must also be agreed by 50% of the company's unconnected creditors (shareholders, directors and employees owed money), again voting in accordance to the debt owed to them. If the CVA proposal is not accepted, the business is effectively insolvent but not legally at that stage.

Once agreed, the CVA is supervised by the IP who pays the creditors what the CVA proposed they be paid on a monthly basis using funds paid to them by the indebted enterprise until the CVA ends (usually when the rearranged debts have been cleared - typically a 3 to 5 year period). Provided the enterprise meets the monthly repayment terms, unsecured creditors are unable to lodge claims against the business for return of their debts, as the previous terms and conditions under which those debt arose are superseded by the terms of the CVA.

Secured creditors aren't bound by the CVA; they retain the rights they hold under their security. For example, a Debenture holder may seek to appoint an Administrator if they are unhappy with the proposals or a Receiver appointed over a property in connection with a debt secured by a Legal Charge (Fixed Charge - explained below). As secured creditors are not a party to the CVA proposal, the monies due to them must either be repaid when due or arrangements put in place with them separately.

2. Administration

Administrators can be appointed by the Directors or shareholders of an enterprise and this process is done via the courts, provided that no other insolvency actions are pending at the time; if, for example, a creditor has obtained a winding-up petition from the courts. Irrespective of any winding-up petition, any creditor who holds a Debenture - in simple terms, a charge over all the company's assets that are not subject to any other charge - may still appoint Administrators under what is known as "Qualified Floating Charge".

An Administrator has 8 weeks to fully assess the enterprise's finances and operations and make proposals to creditors, seeking to possibly:

- restore the company's viability (this rarely does happen and would need the agreement of all creditors).
- come to an arrangement with the creditors (a CVA)
- sell the business as a going concern or realise more from the assets than in a liquidation
- realise assets to pay a preferential or secured creditor

An Administrator might agree a CVA in-line with the section above only in this scenario the Administrators are proposing the CVA and not the Directors of the business. If accepted, the Administrators effectively become supervisors of the CVA whilst the business exits Administration and continues subject to the CVA proposal terms.

A further option is for the Administrator to sell the business as a "going concern" which is effectively someone purchasing the business and its assets out of the Administration and but retains the base of the business including the staff and is able to negotiate with suppliers and the like to continue trading on new or different terms. A new legal entity is set up but the purchaser may retain the rights to the old company's name (but will have to change it at least slightly to differentiate from the old business.

It is also possible for a business to be sold via a "pre-pack Administration". This occurs when a potential insolvency practitioner is advising a business and it is deemed the business must enter insolvency, however, the IP can market the business prior to the insolvency. The Administrator will be appointed at the same time any sale of the business concludes. This route has the advantage of saving the Administrator's costs of running the insolvency and is a good tactic if there would be any damage to the new company's business (the purchaser's) if the business was marketed.

The administration period ends when the Administrator determines that the purpose of the administration has been achieved (through any of the routes above); whilst it ongoing, all claims by creditors for repayment are suspended. Administrations automatically last one year but can be extended if the Administrator feels there is a benefit to the process.

Directors cease to have day-to-day control of the enterprise during the insolvency, and in the course of their duties, the Administrator/Liquidator must investigate and report on the conduct of Directors to the Secretary of State.

Administrative Receivership remains legally possible, but only for Debentures taken before the 15th September 2003; in this event, a fixed charge holder can appoint an IP to take control of the company and act to recover their debts to the exclusion of the interests of other creditors.

3. Liquidation / Winding up

When a company is liquidated, its assets are sold and the funds are used to pay the creditors as much as what they are owed. The business cannot be traded and ceases to exist. Liquidations can be undertaken by an enterprise's shareholders where the business is solvent but ceasing to trade (e.g. where an owner is retiring and has not been able to find a buyer for the business).

More commonly, it is undertaken either because of legal action instigated by creditors where they apply to a court for a winding up order against the company (a Compulsory Liquidation), or where the enterprise undertakes a Creditors' Voluntary Liquidation in which the enterprise's shareholders (or members) agree the enterprise should be liquidated, and appoint an IP to act as liquidator of the enterprise's assets. In addition to managing the sale of the assets and creditors' claims, the liquidator must also report on the conduct of the enterprise's Directors assessing if there has been any wrongful or fraudulent trading.

Glossary for Appendix 2

Creditor – a person or organisation owed money.

Connected Creditor – a creditor with a connection to the company (employee, director, shareholder etc).

Secured Creditor – a creditor who has lent money which is secured against the company assets by a fixed of floating charge.

Unsecured Creditor – a creditor who is owed money and who has no security for the debt.

Fixed Charge – where money is lent to an organisation and the lender takes a charge over specific assets of the organisation which cannot be disposed of without the agreement of the lender, and in the event of their sale by an IP, the proceeds are used to pay off the debts secured against the asset. For example, a domestic mortgage is a fixed charge taken by whichever bank or building society has provided the mortgage as security for the lend. Typically, fixed charges are taken over properties, however, it is possible to take fixed charges over most assets.

Debenture (Floating Charge) – where money is lent to an organisation and the lender takes a charge over the whole of the assets of the organisation not otherwise secured by fixed charge holders.

Prescribed Part Creditors – A ring-fenced fund that to pay non-preferential unsecured creditors calculated at 50% of the first £10,000 available and 20% thereafter up to a current maximum of £600,000.

Fraudulent Trading – a criminal offence in which an enterprise's directors continue to trade in full knowledge of the fundamental insolvency of their business and its inability to pay creditors. In essence, where Directors have attempted to defraud creditors and others.

Wrongful Trading – a civil offence in which an enterprise's directors continue to trade when they should have taken proper steps to mitigate losses to creditors but instead carried on trading in the hope that circumstances would change (as opposed to having a reasonable plan to exit insolvency through trading which doesn't quite work).

Deed of Priority – document in which various fixed charge-holders with a charge on the same asset will agree the manner in which funds will be repaid from the asset in the event that it is sold.

Creditor Hierarchy – the strict order in which debts are repaid from company assets:

Current:

- Fixed charge holders.
- IP fees and expenses.
- Preferred creditors (employees and Directors)
- Prescribed Part Creditors
- Floating charge holders.
- Unsecured creditors (including all HMRC taxes)
- Interest incurred on all unsecured debts post-liquidation
- Shareholders

Under proposals in 2019/20 Finance Bill:

- Fixed charge holders.
- IP fees and expenses.
- Higher Preferred creditors (employees and Directors)
- Lower Preferred creditors (including taxes collected from employees and customers ie, VAT, Employee's NIC)
- Prescribed Part Creditors
- Floating charge holders.
- Unsecured creditors (including taxes owed by the company directly HMRC Corporation Tax, Employers NIC)
- Interest incurred on all unsecured debts post-liquidation
- Shareholders

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