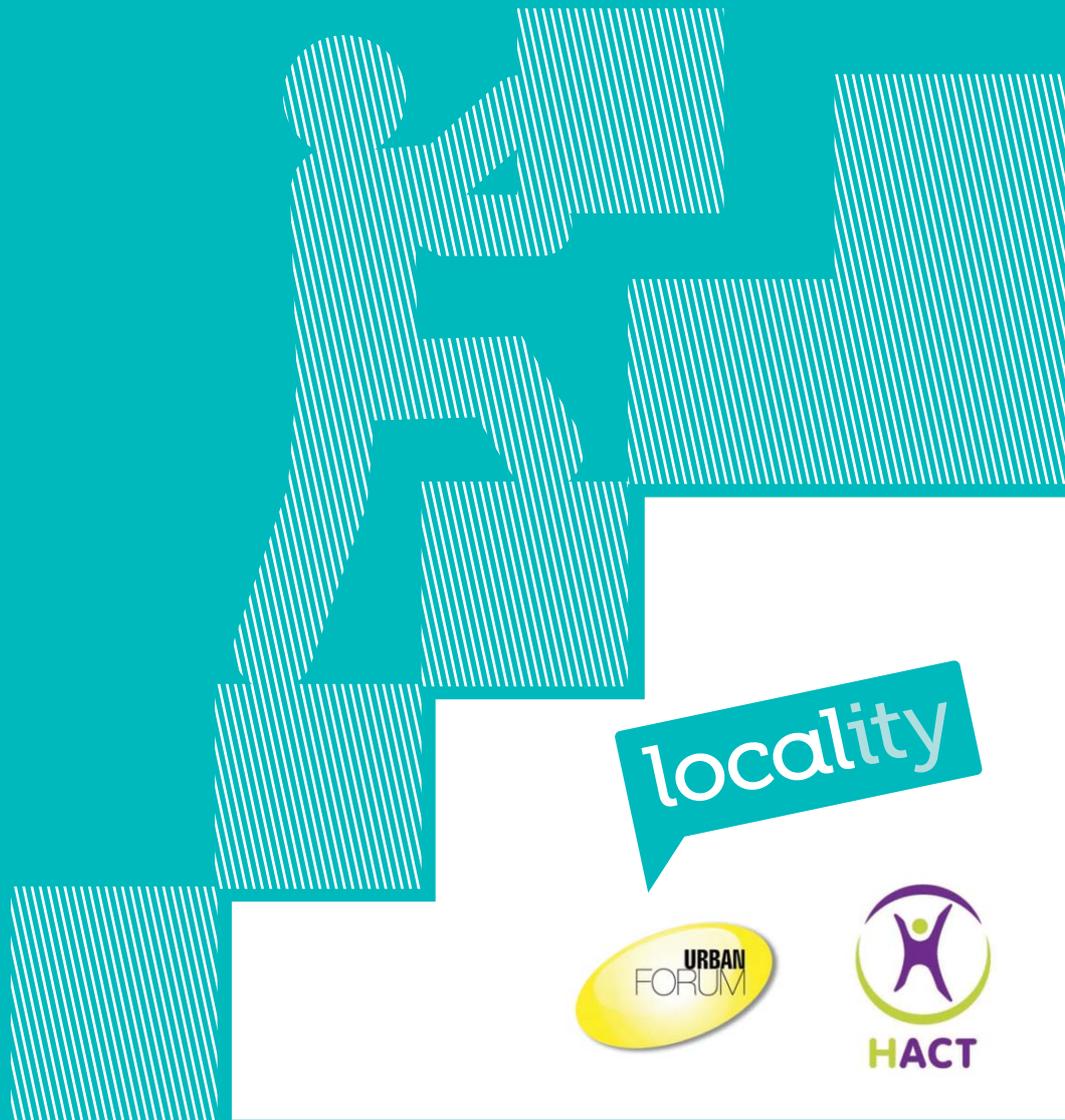


My Community Rights

Community Right to Build

Step 4:

Developing a business case



locality



Developing a Business Case

You will need a business case to show that your project is feasible (it can be achieved in the short term), sustainable (it can be successful in the long term) and credible (your organisation has the required skills or can draw on the skills of professionals for the knowledge and capacity to deliver it).

The business case will usually be made through a business plan. This explains how the development will be delivered and includes an explanation of the finances of the project, covering both capital (up front costs of the build) and revenue (ongoing running costs of the project).

But the business plan also needs to show WHY the project is needed, and will need to inspire people – both potential investors but also local people who may read your plan before they decide how to vote in a referendum!

Elements to think about before you start drafting your business plan

Before you start investigating or writing a business plan for a Community Right to Build Order project, you should stop and think about the following four key elements. These elements do NOT reflect how the business plan should be written (see below for a suggested outline of sections), but they ARE the underlying principles that need to shine through your plan.

1. Quality data

The importance of data cannot be understated. The data in the business planning process and report should include both macro and micro economic influences. The data, if possible, should be derived from both anecdotal and research resources. Whatever you are planning to do, there will be others elsewhere who have done something similar, so if you can identify similar projects and show that your data is based on facts rather than hypothesis, you will build credibility into your business case. But the data must still relate to your story, rather than someone else's. For example, if the scheme is about affordable housing then relevant data might be local house prices versus average local incomes, or data from the council's housing needs assessment.

2. Sensitivity Analysis

Good business planning involves scenarios. This is different than plotting different plans or objectives. Sensitivity analysis is the plotting of one plan and the effects on that plan in good times and bad. Typical sensitivity analysis on the profit and loss and cashflows involves plotting a variance on the business (usually on revenues/income) of +/- 25%. This will allow you to:

- spot potential problem areas of your business
- develop a more robust business model
- create a competent working capital budget.

3. Working Capital Budget

The most overlooked part of planning. Working capital is defined as the cash on hand to conduct business before a profit is realised. Most businesses forgo this planning because they feel it identifies a weakness in the plan. On the contrary, good cashflow (working capital) design and management often allows a business to thrive while others fail. To create this budget, your plan must identify the cash movements over the capital build period, the transition period (the set up of the building), and during the first 2 years of operations where many unknown expenditures are likely to occur. Understanding the cashflow is understanding the business.

4. Integration of Resources and Vision

Remember that your social outcomes are absolutely part of your business case – it would be a mistake to think of the business case as simply about making the numbers stack up. Your business planning should investigate and ultimately clearly demonstrate the positive relationship, in economic terms, between your social business and the capital project. Will the capital project allow you to offer new services, improved services with higher margin, or expansion of services to increase revenue? Answering these types of questions will focus your efforts on the meaningful integration of the business planning process and your social business.

Writing the business case

Understanding the Approach.

The approach to your business plan is as important as the construction of the plan. The following should be the key tenets of your approach:

- This is an investment. Whether you are receiving all grant or 100% finance, you must always approach the business planning process from an investor's viewpoint. The primary tenet of this perspective is the creation of monetary and social value. How does your project achieve these?
- Who is the Audience? Determining exactly who the audience is will determine the kind of business plan you produce. Are you trying to convince a national grant organisation or a high street bank to support your project. Each requires a different approach. It is not possible to use one plan to varied audiences.
- What is the Return? Build your plan with a clear idea of what you expect to return to your investor/community in both monetary and social return.
- Eliminate the fluff. Remove all aspects of the plan that do not add value to your business case. Nice but irrelevant stories and extra data will only confuse your team and the investors to your project.

Creating a Successful Plan.

The final business plan will determine whether you will be successful in both raising the required funding and financing and in implementation. The key tenets of the business case include:

- **Clarity.** Give the business plan to a friend or colleague who does not work in the voluntary and community sector; do they understand what you are asking for and why?
- **Brevity.** The first draft of your business case should be 1 page. If you cannot state your case in 1 page, you do not sufficiently understand your plan. The final draft should not exceed 20 pages in the main section and will be more effective if you can cover your case in 10 pages (including the executive summary). It is recommended that you place the

reams of data and support documentation into the appendix where your audience can view as needed. It is your job to extract the relevant and correlated data into the main business case.

- **Story.** The business case must tell one story with several devices:
 1. **Personal Experiences.** Include real customer/client experience(s) to move the business case beyond numbers, drawing the reader into the plan.
 2. **Format.** Use formatting to tell your overall story. This includes the provision of extra white space on the page, pictures interlaced with text, and a magazine style layout. Layout is critical to both the perceived competence of your plan and the readability.
 3. **Data.** Data in itself is somewhat benign. You should use 3 dimensional data sets where possible (correlating at least 3 sets of data on a chart or graph) and the data should appear in several formats throughout the business case (charts, text, pictures).
- **Construction:** The business plan should cover five areas. These areas are:
 1. **People.** Who is implementing the plan and what is their background?
 2. **Market.** Who is the client and what is the need?
 3. **Product / Service.** What is the business model and how is it delivered?
 4. **Finance.** How does your plan work financially?
 5. **Community Benefit.** What community benefit will your plan produce? Who will benefit and how will this be measured and demonstrated?
 6. **Exit.** How will the investor exit? (Applicable for standard investment plans, but worth understanding how you intend to deliver value beyond paying the investor back.)

What to avoid

Business planning must be about clearly identifying and then telling your story. This can be an incredible process of discovery. But, as you are business planning, watch out for the following pitfalls:

- **Propagation of a bad business model.** Don't force the plan if it does not work. Stop and rethink the basic premise of the plan. Gathering data around a flawed model is only fooling yourself.
- **Limited or no working capital.** Ensure the working capital budget is robust enough to solve most of the unknowns. If it is not possible to include working capital for a funder, explore other ways in which the cash may be attracted.
- **Profit and loss planning.** The first thing every business must realise is that cash is king! Proper cashflow planning will go a long way towards keeping you in business.
- **Scenario planning without sensitivity.** Many organisations develop three scenarios and mistake this for sensitivity analysis. It is only sensitivity analysis if each scenario has the same baseline assumptions for costs and structure, but illuminates the effect on the business of varying revenue streams. (More advanced sensitivity analysis may also show the effect of variable cost streams.)
- **Bad formatting.** Who wants to read a boring or a poorly constructed plan?
- **Not understanding your audience.** Many plans are put together as if the audience is the organisation constructing the plan. These plans will miss critical data and forget to explain the value created by an investment.
- **Lack of Clarity.** Both in story and data, poor business planning usually suffers from a lack of editing. Clarity is critical in building a plan that persuades investors and supports your management team.

Bad practice in action

Here are a couple of examples of how poor business planning can have negative effects on your project.

Case 1

A start-up community organisation builds a business plan using the standard business plan templates. This leads to the creation of 76 page business case. All the data is there for the reader and a story is told around the benefit of the capital project. However, the plan is rejected by funders and financiers across the board. The reason: lack of clarity. For the grant funder the plan highlights data sets that diminish the case. For the private bank, the plan does not demonstrate a clear focus and appears to tackle every social problem imaginable.

This community organisation forgot the editor and the differences in audience in its business planning process. The organisation corrected the problems by:

- editing the plan down to 15 pages
- moving the bulk of the data to the appendices,
- creating two plans (funders v financiers) that included different value creation (social v financial),
- the formatting of the plan was altered to make it more attractive and readable.

Case 2

A medium sized community organisation undertakes a business planning process and creates a plan for a capital project. The plan is brief and includes important data. The plan is written perfectly and is formatted well. But the business plan is rejected by every funder and financier approached. The reason: the plan is built on a shaky business model and it is not clear how embarking on a capital build project will do more than provide a fancy space in which

the organisation will operate. Many organisations need better space provision, but funders and financiers do not want to invest in these organisations just to create just a new space. Why? Because the organisation could not provide a strong case for being the appropriate body to undertake the capital build project. If this is your situation, you may want to find a builder or developer and present them with a long-term lease offer from your organisation. There are often deals to be made and, with a lease, the developer may be able to raise the investment and build your project with little or no risk to your organisation.

External links

There is a lot of information and guidance available to help with producing a business plan. Try googling 'Business Planning' or, even better, ask around and find an organisation that understands and has experience in helping community organisations to develop business plans (particularly around capital developments).

If your project is housing-based, it is certainly worth checking out:

National CLT Network:

www.communitylandtrusts.org.uk
Community Land Trusts (CLTs) are non-profit, community-based organisations that develop housing or other assets at permanently affordable levels for long-term community benefit. The website includes a wide range of useful resources including a Project Feasibility Toolkit, a Step by Step Guide and other publications.

The Self-Build Portal:

www.selfbuildportal.org.uk/

Focused on self-build rather than community housing but contains a lot of useful information including guides around build costs.

Other potentially useful resources include:

Locality:

locality.org.uk/resources/build-house/

So You Want to Build a House? is a guide to the practical lessons learned by community organisations during the sometimes complicated process of getting a housing scheme off the ground. A bit dated but still very useful in understanding and contextualising the wider process.

Guidelines on Identifying and Acquiring Land and Buildings

This note is intended to provide groups who are interested in Community Right to Build with some general guidelines on how they should approach the acquisition of land or buildings. It contains a number of links and references, which should be used if the group wants to gain a more detailed understanding of the process of acquiring land and buildings. It also makes clear that professional advice is essential before an actual acquisition is undertaken.

1. What Kind of Development?

Community Right to Build gives groups of local people the power to deliver small scale building developments that meet the specific needs of their neighbourhood, village or locality. Once a need is agreed upon (for example; for affordable housing; or a community shop; or a playground) the group should consider how this might be delivered by a new development or through conversion of an existing building. Out of

this should come a simple development brief (possibly produced with the help of a local architect or surveyor), which they can use when they discuss their ideas and proposals with various parties.

This brief should contain a site specification that describes the kind of land or building they might require. What size does it need to be? How important is location? What about access? Are there any other important factors? Where a group already has a piece of land or building in mind, care should be taken to ensure that this land/building fully meets the needs of the potential development and that it is the best option available.

2. Making a Start

Armed with the development brief and the site specification, the group can then begin the process of searching for a potential site/building.

Liaison with your Local Authority

Your Local Authority or Council needs to engage in the project early on. Although Community Right to Build is about 'communities doing it for themselves', your Local Authority may be in a position to assist you in various ways and will be an important source of information on development opportunities (and on any restrictions) and may also maintain records of sites/buildings that might be available.

Under the new Community Right to Bid (see separate section on www.mycommunityrights.org.uk), each Local Authority will also maintain a list of assets of community value in response to community nominations. This list could include both public and privately owned land and buildings that are deemed to further the social wellbeing of the local community either currently or in the recent

past, and are likely to do so in future as well. The Right to Bid gives community groups time in most cases to prepare bids for assets before they can be sold or disposed of on the open market (some categories of land and some types of sale are exempted from the scheme applying).

A list of potential sites

Drawing on information from the Local Authority and from other local intelligence, the group can develop a list of sites/buildings. At its basic level, such a list should contain information such as:

- Description of site, size etc with map & photos, ownership and current usage
- The Landowner – contact details, whether they support the proposal etc
- Estimate/evidence of value (ideally a current appraisal)
- Planning position – in-fill, identified exception site, any covenants or restrictions on its use, listing etc
- Site issues - topography, ease of access, utilities, condition – i.e. any contamination etc
- Description of improvements, including the type, capacity and location of utilities
- Uses of adjacent land and properties and any issues/concerns to consider
- A viability assessment – what development could the site support e.g. number of houses?
- Actions to be taken.

Producing such a list will alert the group to the local possibilities and act as a basis for further enquiries. Where ownership of the land/building is unclear then the group can generally obtain such information from the Land Registry www.landregistry.gov.uk/).

3. Acquiring a Suitable Site/Building at Low Cost

Community Right to Build is about small-scale developments that are seen as having a clear local benefit and which are supported by a majority of local people. Such developments will work best if they are based on land/buildings that can be acquired at a low cost.

When embarking on the search for sites, you need to be clear about the messages you are giving. The two key messages you should look to give are:

- You as a not-for-private-profit community organisation are looking to secure the land or property to be used to meet local need.
- You will work with the landowner to secure planning permission in line with the proven local need.

There are various ways of acquiring land and buildings at a below market cost.

Community asset transfer from a public body

The transfer of land and buildings owned by public bodies at low or nil cost is known as a community asset transfer and this process is now well established as a means for supporting the type of projects which will be put forward through Community Right to Build. Local Councils should have a strategy for supporting such transfers.

Asset transfer from a private owner

Many projects have benefited from land and buildings being donated to them by philanthropic private owners or from local charities who want to see their local community benefit. Community Right to Build may incentivise this process by

encouraging new models of community led development, which can be undertaken collaboratively with private land owners and other partners.

Discounted land/buildings as part of a wider local development

Where a larger development for market rented housing or for a supermarket has been planned, then it has been common practice for facilities that benefit the wider community to be incorporated within the development or elsewhere - under what is known as Section 106 agreements. In the past local communities have had limited influence over Section 106 funded projects but in some cases it has supported Community Right to Build type developments e.g. community facilities.

In April 2011, Local Authorities were given the power to introduce a Community Infrastructure Levy on new developments and local communities will have more control over how the benefits of this are used. The Community Infrastructure Levy may therefore be used to deliver community led development under Community Right to Build. For more information about the Community Infrastructure Levy, see <http://www.communities.gov.uk/documents/planningandbuilding/pdf/1772927.pdf>

However, Community Right to Build may also open up an alternative model for development in which local people work collaboratively with a private developer or an organisation like a housing association to develop schemes, which incorporate market development and social development

Rural exception sites

Under existing planning powers, land - which would not normally be granted planning permission for housing - can be made available for the provision of affordable housing with the land being sold at below market rates on condition that the housing remains affordable in perpetuity. These are called rural exception sites – for more information see <http://www.communities.gov.uk/documents/planningandbuilding/pdf/1918430.pdf>. Under current planning rules developing such sites is a complex process and it can incur local resistance. However, Community Right to Build opens up the possibility of local communities defining their own rural exception sites.

Open market acquisition

Although Community Right to Build is associated with the development of schemes that may require discounted land (or other forms of grant or subsidy) to work, it could also support various forms of social enterprise that require local support/approval (e.g. local energy projects such as micro-hydro or wind turbine schemes) but which can work on land that is acquired at full market price.

4. Site Development

Whatever opportunities are considered for acquiring land or buildings under Community Right to Build, it is essential that groups obtain appropriate professional advice and guidance before they proceed with detailed proposals and with acquisition. This should include:

- Site appraisal; a careful evaluation of the nature and limitations of any site including any restrictions and difficulties associated with site.

- Site valuation; ensuring that the price to be paid (even if discounted) is realistic and that any development will be sustainable (within the parameters determined by the project's business plan).
- Social and environmental impact assessments; setting out the wider benefits offered by the proposed development and the mitigating actions needed to deal with any negative factors.

It goes without saying that any development proposals need to be fully worked through and relevant permissions sought and obtained before land or buildings are purchased. Spending money when you do not own the land is a risk, but then again buying the land before you know what you can do with it is also a risk. One approach you may want to use is an **option agreement**. This gives you, as the potential purchaser, the future opportunity to buy a piece of land or property. The agreement will also fix the future purchase price and is generally time limited. You may be required to put down a deposit to secure the option and if you do not go on to buy the land or property within the specified time period you will generally lose the deposit. However, an option agreement buys time to develop your plans, employ consultants, obtain planning permission and raise the funds to deliver the full scheme. When the scheme is ready to go, you can take up the option to buy the land. You will of course need legal advice to secure an option agreement.

Community Benefit

The Community Right to Build legislation requires that any benefits from a development - such as capital or rental receipts - will remain within the community i.e. it delivers a "community benefit". Community benefit is difficult to define although a properly constituted community organisation will usually operate for the benefit of a defined neighbourhood. This means they have a mission to support the long term social, economic or environmental development of the neighbourhood in ways that seek to meet the needs of local people by working with local people. They are also able to demonstrate how the investment they gain to support their activities in their local neighbourhood benefits their neighbourhood.

In preparing the Community Right to Build proposal you will need to set out how the proposed development benefits the community. To do this it needs to be related back to meeting local needs (e.g. through a new community facility or through affordable housing for local people), how investment will be attracted to the neighbourhood (e.g. through a wider partnership with a private developer or housing association) and how the use of the land and/or buildings developed will stay within the neighbourhood for the long term use (e.g. through community ownership and management). However, benefits can also be derived 'second hand' e.g. selling market housing and reinvesting the profit for community purposes.