Community Led Housing: How to Guides

4. Business Plan

Down to Earth

4. Business Plan

Contents

1. Introduction

It is crucial that you have a good business plan for your CLH project. Being able to communicate your vision, as well as the financials to back it up, in a clear a concise way, will be essential to winning support of those who will help you get your project off the ground. It is also a useful tool to be used within your organisation, to define your vision and aims, and lay out how you will work together to get there. This will ensure everybody within the organisation is on the same page, and serves as a useful reference guide for people joining the organisation further down the line.

A tried and tested format for planning any sort of business is to produce a Feasibility Study which will later form the basis of a more detailed Business Plan.

2. Feasibility study

A feasibility study is a stripped back version of a business plan, usually produced when you are trying to establish whether it is worth investing time and energy into an idea. It is a more rudimentary document than a full business plan, based on estimated figures, and in the case of a CLH project, establishes the viability of developing the site factoring in:

- The cost of the site.
- Rough estimated build costs (usually per m^2), including any site specific issues that need to be overcome.
- Number and tenure of homes which could be built.
- The average sale price and rent of similar homes in the area.
- The sources of funding available.
- The local demand or need.

It is a good idea to use this as an opportunity to ask difficult and objective questions about a proposal. It's easy to become attached to a particular site and idea, especially if members have an emotional connection with it, or you've been to visit on a sunny day and are already picturing yourselves there.

However, this can make it hard to assess whether the scheme is actually viable in an unbiased way, so try to keep an open mind and take a step back when assessing the feasibility of the scheme. Including several people in the process, and ideally some external voices can alleviate some of these personal biases.

Elements which are useful to include are:

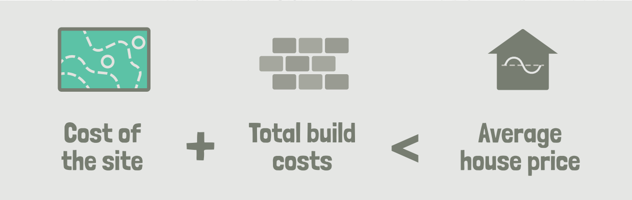
Description of the project – This is a good opportunity to agree on a shared vision for the site between your members, who may have very different ideas for the project. Try to be very specific about what you are looking to achieve, as this helps to establish a handy reference and gathering point, towards which different members can work.

Market feasibility – Is there the demand for the housing you anticipate delivering, and is the funding you need available? Given the current state of the housing market, there is almost certainly going to be a demand for housing, but are your target audience going to be able to pay the amount your housing will cost to build? It may also be worth considering if the wider local community will be supportive of a new development. Obviously most developments will have some local opposition but general local support can make your life a lot easier.

Technical feasibility – Is what you are proposing technically possible? Is the land suitable for development, are there any access issues, and are there examples of similar projects which have been delivered successfully that you can look to for inspiration? Is planning permission going to be possible, and are there local examples of schemes like yours being approved?

Organisational feasibility – Do you have the capacity and skills within the organisation? Who is going to do the work and are they confident to do it? It can be useful to outline who you have in the organisation, and where there might be gaps which need filling.

Financial feasibility – Do the numbers add up? Is the cost of the site low enough for you to build the tenure and design of housing you want? At the most basic level you will need to make sure that:



In other words, the cost of the site plus the cost to develop the housing, is less than the amount the site and houses will be worth once complete.

It is worth highlighting that total development costs do not just include the cost to build the homes, but everything involved including: professional fees, planning fees, a 15% contingency and VAT where applicable.

These figures will be a more basic version of the financial projections in the business plan, discussed below.

Where to get the figures

When producing your first set of financial projections, it is unlikely you will know every detail of your project, and therefore exactly how much it is going to cost. At this stage rather than trying to predict the cost of specific items down to the last screw, it is often more useful to look either at similar projects' overall costs, or guidance on m^2 costs.

Case studies - In the funding chapter there are some case studies showing whole project costs, but carry out your own research. If the information isn't available, then try contacting organisations directly and ask them. Build It magazine publish lots of case studies with a high level breakdown of costs for self-build projects, which will roughly align with costs for a CLH scheme.

M² costs – Looking at the gross internal floor area (GIFA) - the build cost of similar build methods, can be a more accurate way to get an idea of costs. If you are considering using fairly conventional build materials, there is cost guidance available from the UK and Welsh Governments, which is used to calculate the total build costs the government will accept for certain house sizes and types of 'affordable housing', based on 'guidance internal floor areas'.

Given that this is the maximum cost the government will grant fund and the floor area is the minimum floor area required for 'affordable' housing, most affordable housing providers tend to build 'affordable' or social housing to exactly this size and for as close to this cost as possible. In short, this is how much housing associations will generally spend per m², so gives a good estimate as to how much you can expect to spend based on floor area.

A note on inflation:

When looking at build costs from other projects, always check the date of the figures and adjust for inflation where necessary, which can be done using online calculators.

Below is an extract from the Welsh Government Acceptable Cost Guidance 2023.

Type	Guidance Internal floor area (m²)	Acceptable Cost Guidance (£)	Cost p/m2 (£)
5P4B House	98	239,200	2,440
4P3B House	88	214,820	2,441
3P2B House	74	197,455	2,668
2P1B Flat	53	173,420	3,272
1P1B Flat	40	130,910	3,272
4P3B B	74	218,040	2,946
2P1B B	50	147,315	2,946

Quick definition:

GIFA – Gross internal floor area. The total area on the inside of the extrernal walls, including internal walls, stairs etc.

Tools:

The CLT Network have produced tools to carry out an initial feasibility appraisal based on affordable rents available to members through their website.

3. Business Plan

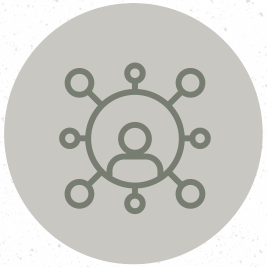
Once you have prepared a feasibility study, and you are happy that this shows you have a viable project on your hands, then it is time to create a more detailed business plan. A business plan is designed to be a working document, developing and evolving as your vision becomes clearer, or circumstances change. Try to keep the business plan within 25-40 pages, as too much information will render the document unreadable.

What's included

A business plan for a CLH scheme does not differ hugely in its structure from the business plan of any other business which tend to follow a well-trodden format, so it makes sense to use this as a basis. The content however is going to be specific to CLH, and your project in particular. The below section will highlight what you may need to include in your business plan.

- Executive Summary
- Organisation and Members
- Market Research
- Marketing and Communications Strategy
- The Site, Designs and Model
- Financial Projections
- Risk Analysis

Executive Summary



Organisation and Members

Market Research

Marketing and Communications Strategy

The Site, Designs and Model

Financial Projections

Risk Analysis

Executive summary

This is in many ways the most important part of your business plan, as it is the first thing that most people will read, and might be the only thing some readers will look at. The executive summary should give a quick introduction to:

- Your aims and vision
- Your specific site and proposal including number, size and tenure of housing
- Your organisational structure and model
- The headline financial figures. This should include total project costs, a broad breakdown of costs & where it's anticipated this money will come from
- Why this project is important, necessary and/or exciting

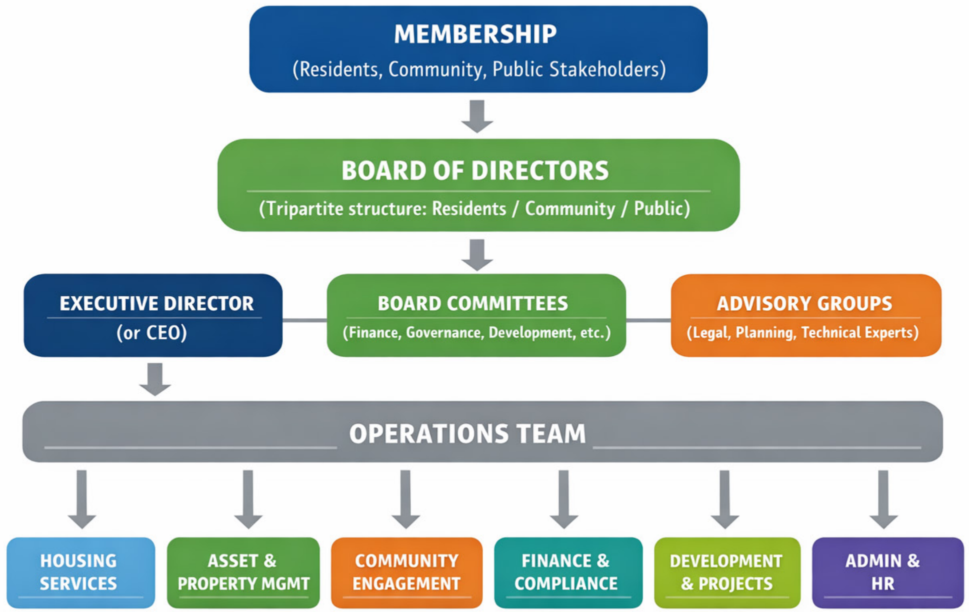
It should be no more than two A4 pages and can contain visually appealing tables or diagrams. After reading the executive summary the reader should have a good understanding of your project, and then look to the main body of the business plan for detail. This should be at the start of your business plan but function as a standalone document, although it's sensible to write this section last as it is essentially a summary of the rest of the business plan.

Organisation and Members

In this section, outline the organisational structure you have chosen. People will want to see how decisions are made and who is making them, and how this relates to the people the organisation intends to serve. You could use a diagram, sometimes called an **organogram**, to show how all of the individuals and subgroups fit together. State your registered company name, which may differ to the trading name you use day to day, along with your company or charity number.

It's also very useful to show here who the individuals involved in the running of your organisation are, outlining their role, experience and skills. This might be your board members, or those on your steering group. The idea is to reassure people you have the competency and skills within the team to do what is shown in the business plan. For similar reasons you may also want to show the external professionals and consultants involved in the project.

You could also briefly outline how the organisation was formed and a brief timeline of your journey so far. Selling the community-led nature of your project can be a great way to win support.



Market Research

The local housing market

Understanding the local housing market is crucial to planning the finances of a project. Knowing how much a home can be rented or sold for, will dictate how much budget you have to spend buying the land, and designing and building the homes.

Even if you are building 'affordable' housing, this is likely to be pegged to a percentage of the market value, so it is still highly relevant. For example 80% of market value in an area of high value housing, may mean your budget is very generous, but in a less desirable area could leave you struggling to balance the books. Additionally, lenders will want to know how much the homes will be worth when deciding how much you can borrow in the event they need to sell the homes on the open market.

How do you find this out?

House buying websites have an average house price search based on homes which are sold through their website, and searchable down to individual postcodes. Zoopla is particularly useful, and can be filtered based on house type and location. You can also look at how much specific houses sold for in an area, so looking at the sale price of similar houses sold on the same street or area as your site, can give an indication of the current market. However be aware that house prices are rising rapidly, and prices even 2-3 years ago may not be accurate to where the market is now. So look at the most recent transactions if available.

The Office of National Statistics create small area datasets which show average house prices at a ward level which they publish annually, available through their website. These need to be downloaded in their entirety and opened in spreadsheet form.

UK House Price index – These figures published by the Land Registry and available using an online search tool, show average house prices at a local authority level, which could be useful at a feasibility stage, but may not be specific enough for a full business plan.

Local housing need

You need to make sure there is sufficient demand for the housing you plan to create. There are several ways to find this information:

Existing Local Authority Housing Assessment – When creating Local Development Plans (LDPs), the local authority must produce a Strategic Housing Market Assessment (England) or a Local Housing Market Assessment (Wales), to gain an understanding of the housing needs in particular areas, and plan housing policies in the plan. This is usually specified at a ward level, although can be wider and include multiple wards, grouped into strategic planning zones. This will be your first port of call, as the work is already done, and the results are obviously ratified by the local authority, as they produced them themselves in the first place.

Neighbourhood Plan – In England where a neighbourhood plan has been produced, a housing needs survey may have

been conducted, which can give a greater level of detail than a Strategic Housing Market Assessment.

Housing Strategy or LDP – The local authority will have used the statistics in their assessment to produce a housing strategy, often included in the LDP. It can be useful to look at this, so you understand what the local authority 's priorities are, and how you can align with them as best as possible. For example, if there is a priority for 1-2 bedroom 'affordable' ownership homes in your area, then including a high proportion of these will instantly make your scheme more attractive to the local authority. Include reference to these policies if they help to justify the type of development you are proposing.

Housing Needs Assessment (HNA) – If the Local Housing Market Assessment doesn't cover your local area in sufficient detail, or you feel the results may not actually show the reality of the housing needs of the local community, you can undertake a housing needs assessment yourselves. This involves surveying every home within the ward or parish, to get an understanding of the housing availability, and ability to rent or buy in the area. You can conduct this survey yourselves, although it is sensible to agree the methodology with the local housing department in writing, so you know the local authority will recognise the results. This is a useful guide for conducting a HNA produced by Locality.

Other providers.

You need to be able to show that you have an understanding of the housing already being proposed, built or completed within the LDP period in your area, so reviewing other schemes being provided by developers, housing associations and the local authority is important.

If the Strategic Housing Market Assessment/Local Housing Market Assessment shows the need for 1000 new homes in your area, but all of these have already been built, then it is harder to justify your scheme on the grounds of housing need. In reality, these days there is almost always a shortfall in new housing being created, which is the reason the UK is suffering from the housing crisis it is, but you need to be able to evidence this. One way to lay this out would be to show the amount of new housing being proposed against housing need in a table or diagram form.

Planning policy

Although not a full planning appraisal, it is worth exploring and stating which planning policies are relevant to your proposal, and how you envisage your scheme fitting into them. This is most useful at a local level, in relation to the LDP/DP, but could also reference national planning policies as well.

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Marketing and communications strategy

It is good to briefly outline how you will share information about your project, recruit new residents and members, and build a public profile. Showing how you will use different platforms, for example social media, print media and local notice boards to reach a wide audience from a mixed demographic will show you have thought about the community you are serving.

You can also highlight here the contact and/or support you have had from other stakeholders, and how you intend to continue to build these relationships. Showing that you've gained support from prominent individuals and organisations locally and nationally can help win people over to your cause.

This might include:

- Parish/community council
- Local/ward councillors
- National politicians
- Local authority members
- Local community groups (such as conservation, housing or development charities)
- National organisations (CLH support bodies, housing charities)
- Local and national media

The site and business model

This is the juicy bit, where you can show your vision for the specific site, and how the nuts and bolts of your proposal are going to work. Make sure you include:

Location – Where the site is located.

The site – How big is the site, what state is it currently in and what is great about it, as well as any constraints.

Technical considerations – What are the practical aspects of the site you have considered, e.g. how is it accessed by road and foot, are there services nearby and what is the topography of the site like.

Design and layout – What will the site and houses look like. This doesn't need to be fully detailed, but needs to give an idea of how many houses will be created, what will be where on the site, and how this interacts with what's already around it.

Tenure model – How will homes be sold or let? How many will be 'affordable' and what tenure? What size will the houses be, and how does this reflect policy (see tenure model PDF).

Partnership model – What other organisations are involved, what is their role and who will manage the homes once complete.

Other elements which can be really useful in showing your vision can include:

Sketched drawings and 3D visualisations – These can give a flavour how the site will look, and paint the picture more vividly than technical layouts and drawings.

Case study pictures – Showing other similar finished projects can help show what you hope to create and that it is achievable.

Financial Projections

How will you pay for it! This section can be short on writing, but what's contained in it is going to be crucial to the success of your project.

These projections will likely develop as you know more about the project and get closer to the actual cost, and you will need to revise these figures every time things change (costs and timescales for example).

Financial summary

This will be a summary of the overall project costs balanced against the incoming revenue, similar to the example below.

Items	Cost
Total Project costs:	£
Land cost:	£
Construction costs:	£
Annual revenue from rental housing:	£
Total revenue from for-sale housing:	£
Total borrowing:	
Total grant funding:	£

Financial Breakdown

Here you will go in more detail into the anticipated costs, further breaking down the financial summary above. This will show you are factoring in realistic amounts for all of the costs involved in completing the project, and ensures there won't be any unexpected costs arising later down the line, or at least minimising them.

Cash flow forecasts

Financial projections will usually contain cash flow forecasts, which shows the money being spent balanced against the money coming in, usually in the form of a linear spreadsheet. It is designed to ensure there is enough available each month to pay the predicted costs. To do this you will need to make estimations about the timescales and milestones of the project, as these will impact which costs are coming in, and therefore how much money you need to have available to pay them.

The overall cost of the project may align with the total revenue, but unless you have the right money at the right time to pay invoices, the organisation will soon go bust. Some things to bear in mind when creating a financial model are:

- **Cashflow and grant funding** – When funding is paid is very important. Some grant funds pay on completion, some in advance, and some release money in phases. If funding is paid after completion, you will have to think about how you will find the money to carry out the work in the first place through a development or bridging loan, which may be difficult.
- **Minimum debt service cover** – If you are borrowing money from a bank, they will want to see that you have enough money to pay them back each month, usually plus a surplus to give some leeway if things don't go to plan. Often this is set at 115% although it can be more. In other words the bank will want to see that you have enough money left after your costs to cover the monthly repayments plus an extra 15%.
- **Stress testing** – Again if you are borrowing money, lenders will want you to 'stress test' your financial model. This means showing that the financial model still functions if interest rates go up. Interest rates fluctuate, but it is generally understood that rates will not return to the unusually low levels available after the 2008 financial crash. Therefore making sure there is enough money each month to make repayments, even with the additional interest is essential. Often an additional 3% above the banks current rate is stipulated, but this isn't a hard and fast rule, and it is worth asking lenders what level of stress testing they will require.
- **Contingency** – Most financial models will also include a contingency for the construction or renovation works, which is a percentage above the predicted costs, and is added to cover any unexpected costs or increases. This is often 15% for construction projects, although can be more.

> *Unless you have individuals with a lot of experience in finances and accountancy within your group, you will need to enlist professional help to get an accurate idea of costings or in the very least check over your own projections.*

Timescales

The number of years your projections cover will depend on your particular model. If you are borrowing money then they will need to at least extend to the end of the repayment period, which can be up to 45 years, but usually 25. Additionally if you are including rental housing, a much longer period will be required to show the rental income will be sufficient to pay for regular and one off repairs, voids (periods between tenants where no one is paying rent) and any other costs. If you are selling all of the homes outright upon completion on the other hand, then the financial projections may only extend to the point of sale of the homes.

Who carries out these financial projections?

Unless you have individuals with a lot of experience in finances and accountancy within your group, you will need to enlist professional help to get an accurate idea of costings or in the very least check over your own projections. This could be a financial modeller who specialises in community-led housing (although rare, they do exist), a project manager with experience of construction or housing, or an accountant, ideally with an understanding of housing development. At their bare bones, financial projections are the same regardless of whether the business is housing or selling soft toys, so depending on the procurement route, an accountant may be able handle putting together financial projections. Obviously the more involvement your group has in the management and construction of the project, the more complex the costings become.

Risk Analysis

It is expected and advisable that you include some sort of risk analysis in your business plan, to show that you have thought about risks and how you will mitigate against them. It is also a useful tool to assess the suitability and feasibility of a project, and to encourage you to reflect on the risks to your success and put in place mitigations where necessary.

Some examples of the types of risks you might look at might be:

- **Financial -** For example the changing economy, or the withdrawal of a grant fund which is crucial to your project.
- **Operational -** Risks involved in the practical construction process, or issues in securing the labour you need to make the project happen for example.
- **Regulatory -** The possibility new laws or legislation may be passed which make your proposal more difficult or expensive.

This could be presented simply as a list of risks, along with steps you have taken to mitigate against them, or in the form of a conventional risk assessment matrix, with risks rated in terms of likelihood and seriousness, then rated again after the mitigation measure.

Risk register – A risk register is a document which is regularly updated showing risks to the success of the project, and what you are doing to prevent them derailing it. Although usually outside of the business plan, you may mention your commitment to creating and updating this document, again showing you are seriously considering risk.

SWOT analysis – Although looking at more than just risk, a SWOT analysis is often included in business plans, which maps the **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats of a business, usually in a grid matrix. It can be used to help shape or justify the approach you have taken, based on the specifics of your group and proposal. There is a multitude of guidance and templates online.

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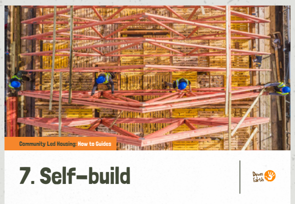

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