

# BUILDING CO-OPERATIVE & MUTUAL HOMES

## Proposal and expression of interest document

Supported By:



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## Introduction

In the new economic reality, traditional approaches to providing the homes that people need are not going to work. Mortgage finance for first time buyers will remain difficult for the foreseeable future, and severe limitations on public finance for affordable housing means that we are far from “business as usual”. We need to consider new partnerships for the new environment.

The “Building Co-operative & Mutual Homes” scheme is a new option for financing housing development. This proposal aims to generate the development of a large number of new co-operative and mutual housing schemes to enable more people in need of a decent affordable home to secure the additional personal and social *Big Society* benefits created by co-operative and mutual housing.

These benefits were set out in the Commission for Co-operative and Mutual Housing's “Bringing Democracy Home” report launched in the Houses of Parliament in November 2009 with the support of the three main political parties<sup>1</sup>. Exploring the potential role of co-operative and mutual housing within the new housing environment, the Commission concluded that:

*“The overwhelming weight of the evidence that has been presented to us has led us to the clear conclusion that the UK needs to bring co-operative and mutual housing options into our national housing policies”.*

The Commission's report identified a range of benefits of co-operative and mutual housing – that it could meet the needs and aspirations of a wide cross section of our community; that it performs as well as, if not better, than other forms of housing; and that it provides various social and community benefits. The report went on to “call for an aim to be set that by 2030, each town, village and community should be able to offer co-operative and mutual housing options to potential residents”. This proposal is intended to kickstart turning this vision into a reality – setting out how local authorities, housing organisations, government, the co-operative and mutual housing sectors, and most importantly local communities can all work together to build mutual homes and communities to meet our future housing needs.

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<sup>1</sup> The Commission for Co-operative & Mutual Housing was an independent Commission chaired by Adrian Coles, the Director General of the Building Societies Association. The Commission brought together “mainstream” housing sectors (most notably through David Orr, the Chief Executive of the National Housing Federation, and Sarah Webb, the Chief Executive of the Chartered Institute of Housing) with the co-operative movement (most notably through Dame Pauline Green MBE, the Chief Executive of Co-operativesUK, and Nic Bliss, the Chair of the Confederation of Co-operative Housing). The Commission was led operationally by Executive Commissioner Dr Chris Handy MBE (Chief Executive of the Accord Housing Group), who has continued to lead the Commission's Implementation Team, set up to progress some of its recommendations and to facilitate this proposal.

## Key elements of the programme

This proposal and expression of interest is designed to explore:

- ♦ the level of interest, particularly in local Government, in the programme;
- ♦ views on what will be needed to make the programme a reality
- ♦ what your organisation can bring to the table to help develop the programme and realise the Commission's recommendation to expand the offer of co-operative and mutual housing as an option for communities throughout the country

The key elements of the proposed programme are as follows:

- ♦ establishment of a loan fund – anticipated to be about £250 million – to enable development of co-operative and mutual housing
- ♦ the development of between 1,500 and 2,500 homes through the development of between 30 and 50 new co-operative and mutual housing organisations
- ♦ the fund will be supported by a consortium of housing associations and other organisations with assets available to secure capital at competitive rates to new organisations (asset ownership arrangements will be dependent on the structures needed to secure capital financing).
- ♦ to maximise possible cross subsidy (through making best use of available land, public grant and other resources) to enable the greatest possible number of homes to be built - whilst making the homes as affordable as they can be
- ♦ the programme will work in partnership with local authorities and other community organisations to generate these projects. Local authorities are best placed to understand what local land and resources are available; what local demand there is for homes and of what type; and to ensure that local community groups are facilitated to establish co-operative and mutual housing
- ♦ beyond specifying that local democratic community membership organisations should control the housing assets developed, the approach is not prescriptive about what homes, tenures or type of organisation should be developed. Information about current co-operative and mutual housing options is available, but it may be appropriate for local people to choose to develop a completely new option.

The proposal is consistent with the Coalition Government's aspirations for the Big Society and localism. It is about generating local community vision, responsibility and stewardship of assets that they have commissioned, designed and developed.

## Development of the programme

This programme is being facilitated by the Implementation Team set up by the Commission for Co-operative and Mutual Housing, working with the Confederation of Co-operative Housing<sup>2</sup> and the “Mutual Housing Group” – a forum that brings together key mutual sector partners with officers from the Communities & Local Government and the Homes & Communities Agency<sup>3</sup>.

We have had dialogue with Communities & Local Government and the Homes & Communities Agency – both of whom consider that the Commission's proposals may fit in with Government priorities. We will explore potential Government support for the programme as it develops.

Some local authorities and housing associations have already expressed interest to us in co-operative housing. This proposal is particularly intended to explore the interest from potential partners:

- ♦ from local authorities - to use their well being powers to assemble sites for co-operative and mutual housing and to work with us to develop and support community led housing initiatives and sources of funding
- ♦ from housing associations – to use some of their assets and skills to develop and support co-operative and mutual housing initiatives within the new environment of localism and the Big Society.

The governance, organisational and operational structures for delivery of the programme will evolve in partnership with the partner organisations which come forward to participate in it.

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<sup>2</sup> The Confederation of Co-operative Housing is the national representative body for co-operative and mutual housing. It was set up in 1994 to provide representation for co-operative housing organisations. As well as providing advisory services for housing co-ops, it also has had involvement with most of the other forms of co-operative and mutual housing, most notably developing the Community Gateway model. In 2009, the CCH, working with the Tenant Services Authority, published an accreditation system for co-operative and mutual housing adapting TSA governance and other standards to meet the needs of community-led housing organisations. Further information on the CCH can be found at [www.cch.coop](http://www.cch.coop)

<sup>3</sup> The Mutual Housing Group was set up as an independent body to implement a Commission recommendation that the different co-operative and mutual housing sectors should be in dialogue with each other. It brings together representatives involved with co-operative housing, tenant management, community land trusts, co-housing, community gateways, self building housing and development trusts, and the meetings of the group are also open to representatives from HCA and the CLG.

## The local authority role

Local authorities will play a key role in the development of co-operative and mutual housing schemes. They will set the strategic policy framework in which schemes can be encouraged and delivered. They will provide high level support and raise awareness in the communities they serve. And they can provide loan finance, resources, skills and assets to help bring forward and secure the future sustainability of schemes and projects.

Local authorities will want to support this programme because it will:

- ◆ develop much needed homes through recyclable loan funding
- ◆ leverage your assets (eg. available land, Right to Buy capital receipts and other resources) in a way that will benefit their communities whilst at the same time potentially retaining freehold ownership
- ◆ provide housing for people on different levels of incomes
- ◆ support local communities to develop their own local solutions
- ◆ build local community capacity and infrastructure with ongoing and positive links to local authorities
- ◆ support co-operative and mutual housing – a model of housing provision with significant potential (as shown in “Bringing Democracy Home”)
- ◆ dependent on the outcome of Housing Revenue Account reform, potentially enable small scale community housing transfers, again whilst potentially retaining freehold ownership
- ◆ support the Big Society, localism and the Community Right to Build
- ◆ build internal capacity and expertise around community-led planning and development
- ◆ create and support local employment and skill development

## The Housing Association Role

Through this project, housing associations can use their skills, experience and capacity to benefit local communities and to help build co-operative and mutual housing. The project looks to the housing association sector to provide asset cover, alongside support for planning and design; financing and construction; management and maintenance models; and long term asset stewardship.

Housing associations will want to support this programme because it will:

- ◆ be seen as part of a substantial national initiative to develop the Big Society, localism and Community Right to Build

- ◆ be part of the nation's housing strategy in building homes for people who need them
- ◆ be part of local authority housing strategies
- ◆ put your assets to work (whilst retaining them) to support local communities to develop their own local solutions
- ◆ increase your development programme in a constrained environment, using your development and other skills to support local communities
- ◆ establish and develop your relationships with local communities and local authorities
- ◆ enhance your tenure spread, diversify delivery models and spread financial risk
- ◆ energise and enhance your resident empowerment strategies

## The Community Role

This project will not exist if local communities are not generated to take the leading role in shaping co-operative and mutual housing organisations. The role of communities will be to participate at the forefront of schemes – designing them; developing their ability to run the organisations established; and stewarding them into the future.

The reasons why co-operative and mutual housing might be attractive to individuals and communities are detailed in “Bringing Democracy Home”<sup>4</sup>. They include:

- ◆ provision of a good quality home in a strong mutually supportive community environment
- ◆ meeting aspirations for security, freedom, status and standard of living usually in better ways than public or private renting, and in some cases, as well as individual home ownership, particularly through co-operative and mutual forms of owner occupation
- ◆ providing an environment that develops personal skills and community capital and infrastructure
- ◆ being appropriate for particular groups of people, such as for elderly or young people or for particular communities of interest
- ◆ the development of local community assets

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<sup>4</sup> Based on research from focus groups carried out by MEL Research and other research, Chapter three of “Bringing Democracy Home” explored what people are looking for from their housing choices; how co-operative and mutual housing measures up to the key criteria that makes home ownership the aspiration of choice and the positive aspirations for co-operative and mutual housing

## Financing the programme

Initial discussions with banks and other financial institutions, facilitated by the Homes & Communities Agency, the National Housing Federation and others, have indicated that:

- ♦ banks and financial institutions are interested in providing volume finance to develop co-operative and mutual housing (ie. the £250 million sum derived from discussions with financial institutions)
- ♦ they are open to financing co-operative and mutual housing if the risk profile developed makes it an attractive investment. They do not consider it to be a higher risk activity, and it would not attract higher interest rates than other forms of affordable housing.
- ♦ larger financial institutions are reluctant to provide small sums of money to individual co-operative and mutual housing schemes, and have proposed the establishment of an intermediary arrangement developed by the Commission through a consortium of housing associations to enable on lending to individual schemes

The Commission has established a finance group<sup>5</sup> which is exploring how to finance the development of co-operative and mutual housing. Its report will be published shortly<sup>6</sup>. It considers:

- ♦ the mechanics of raising finance for this proposal – interest from lenders and investors, and outline structures needed to secure finance
- ♦ methods of raising finance – ie. through direct lending from a group of lenders, through issuing bonds, and/or through other means
- ♦ other routes to raise small amounts of finance for co-operative and mutual housing

Dependent on the success of the scheme, repayments, and potentially additional finance, will subsequently be used to fund further developments.

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<sup>5</sup> The Finance Group is chaired by Blaise Lambert BSc(Econ) from the Confederation of Co-operative Housing, and includes representation from the Homes & Communities Agency, the National Housing Federation, the Chartered Institute of Housing and others.

<sup>6</sup> The report will be available shortly on [www.ccmh.coop](http://www.ccmh.coop) and [www.cch.coop](http://www.cch.coop). The report will also be available on Homes & Communities Agency, Chartered Institute of Housing and National Housing Federation websites.

## What will be developed?

Our primary aim in this programme is to establish democratic community membership organisations, based on co-operative and mutual principles, that will steward and control the management of the housing assets developed. However the programme will ensure flexibility and freedom around the funding model and will encourage diversity – using the best available means to meet the local needs and aspirations of individuals, communities and partners to the project.

Freehold ownership of assets may not be possible for co-operative and mutual housing organisations. Agreements could be made to transfer freehold ownership in the future (once development costs have been paid for), provided assets developed are able to provide security for future co-operative and mutual housing development. Alternatively, it may be appropriate for local authorities providing land or other resources to retain freehold ownership. Structures that most closely resemble ownership could be developed from the outset (eg. community leasehold ownership).

The CCH (and others) will provide information on existing types, models and structures of co-operative and mutual housing, but local communities may choose to use other methods to set up co-operative and mutual housing. The CCH will also advise regarding facilitation and support arrangements, and long term community governance arrangements<sup>7</sup>. The type, scale, value and tenures of projects developed will depend on resources and local circumstances.

The following routes may be used to generate co-operative and mutual housing schemes:

- a) A community organisation may generate organically from groups of local people who want to set up a co-operative and mutual housing scheme. This may be the best way for a scheme to develop - the local people involved will bring their own energy and enthusiasm for the scheme. However, we know from experience that organic generation like this happens only occasionally, and even where it does, it is not always easy to match it to the resources and infrastructure needed to develop a scheme. Nonetheless, wherever possible the programme will seek to achieve that match.
- b) A local authority, having had discussions with local communities through its existing consultation mechanisms, may choose to develop and facilitate one or more co-operative and mutual housing schemes. Depending on the tenures of the scheme envisaged, the local authority can generate interest in the scheme through its housing register, its

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<sup>7</sup> A condition of funding will be that new organisations comply with the CCH accreditation framework for co-operative housing, ensuring appropriate and effective governance and viability.

housing advice provision, and through encouraging people wishing to buy into co-operative and mutual housing, through working with existing tenants of their own homes. The CCH and other bodies will provide advice to local authorities as necessary and required, to assist them to turn interest generated into co-operative and mutual housing groups.

- c) A housing association or other housing organisation that wishes to participate in this programme, may choose to generate a co-operative and mutual housing organisation through the sources it normally uses to develop schemes.
- d) An existing co-operative and mutual housing organisation with unrestricted assets may wish to expand. It will generate a group of either existing or prospective members who will lead consideration of their expansion proposals.

## Numbers and types of homes

This first phase of lending (£200m to £300m) will enable the development of between approximately 1,500 and 2,500 homes. This is calculated on the basis of developing homes at an average cost of between £130K and £170K per home (the range dependent on the locality), which could be subsidised either through provision of land to enable greater affordability, through any public grant that may be available, through local authority Right to Buy capital receipts or other sources.

These numbers may be increased by the inclusion of homes for sale or shared ownership. Difficulties in the housing market have led financial institutions to be cautious about cross-subsidising affordable homes from the sale of homes, attracting higher interest rates for such products. However, we anticipate that co-operative and mutual housing schemes that rely on less cross subsidisation may be possible.

We consider that a significant proportion of homes developed are likely to be intermediate co-operative and mutual housing. The greater the degree of subsidy through land or other resources provided will enable greater affordability. Current discussions with the Homes & Communities Agency indicate that there will be some public grant available, but the amount available and the purposes it can be used for are not clear at this time.

Existing co-operative and mutual housing organisations are of varying size, but the developments in this programme will be limited by what land is available to develop homes. We estimate that the average size of developments will be 50 homes, although some could be bigger and some could be smaller.

## Aspirations for the programme

The criteria we have defined as being aspirational in developing this programme include:

1. **democratic community control** – plans to ensure democratic community membership of the co-operative and mutual housing organisation and significant levels of control of the assets developed
2. **community empowerment facilitation** – plans to ensure the development of sustainable community governance, viability and management (adopting the CCH accreditation framework), including the development of community skills and confidence; the involvement of the local community in the planning, development and delivery of projects; development of potential life skills for participants
3. **design quality, creation of quality of place and civil society infrastructure** – the development of well designed schemes that enhance the quality of place and civil society in the local neighbourhood – with ongoing involvement of local people in the development, promoting wellbeing and social interaction and inclusion
4. **environmental sustainability** – promotion and use of innovative design and sustainable environmental practices and ways of living
5. **scheme subsidy** – available land and other subsidy for each scheme to ensure that number and affordability of homes developed can be maximised
6. **diversification of housing providers** – developing broader and more innovative models to improve the scale and quality of housing delivery