Study of Issues and Opportunities for Asset Transfer and Ethical Property Development in NI - and the establishment of an associated fund – Community Assets (NI)

Executive Summary/ Key Findings

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1. Introduction

1.1 Morrow Gilchrist Associates (MGA), in association with Creation Ltd and Social Value Lab, has been appointed to undertake a study into the issues and opportunities for Asset Transfer and Ethical Property Development in NI. The Study Team is reporting to a Steering Group comprising the Community Foundation for NI (CFNI); the Department for Social Development (DSD); and Belfast City Council (BCC).

1.2 This Executive Summary should be read in conjunction with the main report in relation to the study.

2. Approach to the Study

2.1 The study has been informed by consultations with key stakeholders including statutory and third sector bodies in Northern Ireland and external best practice elsewhere in the UK with key stakeholders in respect of ethical investments in property and regeneration driven by a social investment approach. As such the intention is to apply best practice innovation and learning (both positive and negative) from many years of experience in the UK in this field - to take forward an initiative to establish a sustainable ethical property/ asset investment fund for NI. The working title for this fund that has evolved through the study is Community Assets (NI).

2.2 The Terms of Reference necessitate consideration of a number of steps on the 'journey' towards establishing the fund - from identifying and prioritising indicative ethical property investment opportunities, to consideration of a consortium of initial potential partners – from the third; public and private sectors – all bound by a common goal of seeking a return with a positive ethical impact; through modelling indicative returns on a triple-bottom line basis (accounting for financial; social and regeneration returns); to the mechanics of how the fund might be structured and organised in NI. Finally the study is required to consider the opportunity to transfer any policy lessons into the policy framework for community asset transfer in NI, which is under development via DSD and an Inter-Departmental Steering Group.

3. Context to the establishment of Community Assets (NI)

3.1 At a time when traditional, public, grant based finance is under ever increasing pressure and scarcity, there is an ever greater need for more sustainable approaches to financing community investment in Northern Ireland. Such approaches need to reduce reliance on non-repayable, grant based funds while at the same time maximising social and economic return on investment and helping government bodies deliver upon key policy commitments in areas such as urban regeneration, community development, neighbourhood renewal and rural development.

3.2 The approach of financing community projects on a repayable loan basis would also set the right tone in terms of the requirement for fund recipients to manage community assets on a sustainable, commercial basis when they have been transferred. However this is not to say that the fund could not operate in conjunction with other partners offering grant support, particularly in relation to grants for pre-feasibility and feasibility testing, for projects which has proved to be important elements of the 'ladder' of support in the community asset transfer policy arena elsewhere in GB. It is envisaged that the initial scale of the fund would be at least £10m, sufficient in scale to fund a number of demonstration projects, with contributions from a range of partners/ investors.

4. Key Findings of the Study

Learning from GB – Community Assets and Transfers

4.1 In recent times, community ownership and management of land, buildings and energy have been given impetus by a series of influential reports, government policy, and innovations in Great Britain. This agenda is now catching hold in Northern Ireland, with momentum quickly building and a desire to accelerate up the learning curve.

4.2 Elsewhere in the UK, Government has sought to create the conditions to enable and support community ownership of assets. A stream of reviews, policies and strategies starting with the Quirk Review in 2007 has created fertile ground on which to invest in and support locally-owned assets. For example, in Scotland, early action through the Land Reform Act and rights under national forestry and crofters programmes is culminating in a more coherent framework that will extend rights to urban communities as set out in the current Community Empowerment Bill. Critical in this has been the positive signal provided to local communities by Government.

4.3 The permissive framework elsewhere in the UK extends to the ability of public bodies, in particular local authorities, to facilitate the transfer of assets to community organisations at below market value. This takes the form of the General Disposal Consent in England and similar measures in Scotland, which provide considerable flexibility for public authorities in this regard. This type of enabling environment is critical to maximise the range of opportunities to place local assets in community ownership and to make supporting investments accordingly.

4.4 In other parts of the UK, concerted focus has been required to stimulate debate and support the transfer of assets. Two particular mechanisms are of particular interest to the Northern Ireland context – the Community Ownership Support Service (Development Trusts Association Scotland) and the Asset Transfer Unit (Locality, England).

4.5 A variety of funds elsewhere in the UK have now built up considerable experience of investing in projects which involve asset transfer. In particular, the Big Lottery under its various country programmes has been instrumental in facilitating local action. Not least the Scottish Land Fund and Growing Community Assets (Scotland) which has pioneered much of the innovation in funding models and mechanisms, including the use of award partners and introduction of development support to awardees to maximise the impact and sustainability of projects. The more recent Community Asset Transfer programme in Wales adopts an interesting co-investment model with the Big Lottery charged with administering the fund by funding partner the Welsh Assembly Government.

4.6 The net effect of the policy attention, development and funding support has been to accelerate the scope and scale of asset transfer activity in other parts of the UK. Most asset transfer activity prior to the last few years has occurred on an incremental basis. However, the urgency with which local authorities are seeking to rationalise their use and ownership of assets has also stimulated some important innovation in the transfer of multiple assets to communities. This includes place-based transfers (a mixed portfolio of assets in a particular locality), service-led transfers (related to specific types of service, such as libraries), or asset-type transfers (specific types of buildings, such as community centres). A range of illustrative case studies are contained in the main study report.

4.7 The potential for the transfer, acquisition and development of multiple assets could help to accelerate the development of this fund in Northern Ireland. Indeed the consultations undertaken for the study suggest that there is interest in doing so, to support 'place-making' in a regeneration context or to support the transfer of specific services in a package of multiple assets, where they could be effectively managed in the community (e.g. libraries or leisure centres).

4.8 The growing interest in community asset transfer in Northern Ireland will soon culminate in the publication of the country's first Community Asset Transfer policy framework. To this end a consultation document was published in May 2013 by the DSD Minister entitled "Community Asset Transfer in Northern Ireland, Enabling and Supporting Community Ownership and Management".

4.9 In advance of publication of the final policy framework there are a number of key messages suggested from experience in Great Britain that are key in terms of this final policy framework which are set out below. These are detailed in full in the main study report but in summary encompass the following:-

- The need for **additional guidance from the Department of Finance & Personnel (DFP)** to clarify issues relating to the disposal of publicly held assets (particularly in relation to discretion in the **disposal of assets at less than market value**) with further enabling legislation (if legislation is needed) and regulation required in time.

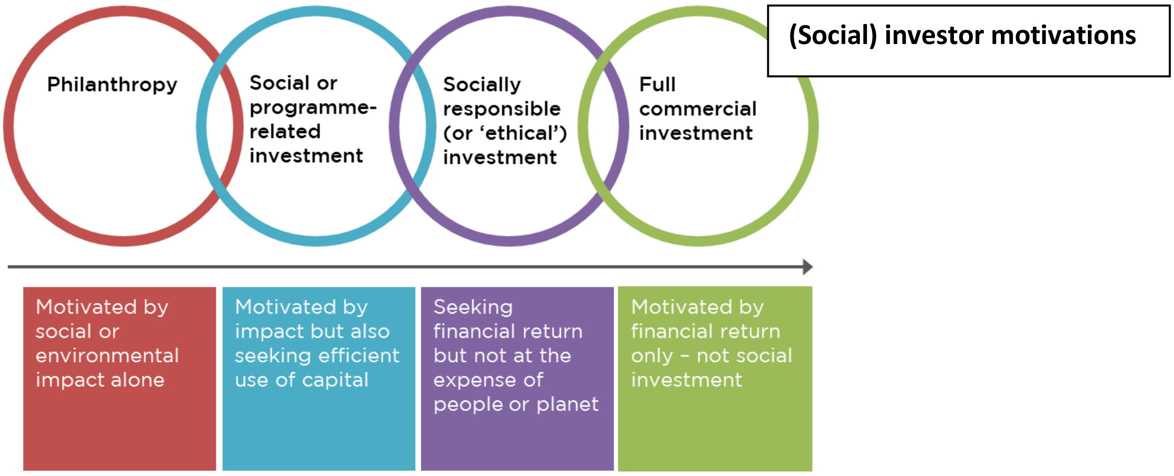
- The need to design and implement a **learning programme for public sector officials** in support of community asset transfer. A training programme to build requisite knowledge and skills might usefully focus on the broad area of property development appraisal and asset transfer, and help get back to basics on topics relating to financial planning, risk management, legal and technical issues relating to disposal, and the assessment of financial and social returns. This training programme could be supported by opportunities for best practice exchange and experiential learning in the form of a programme of joint study visits, involving statutory, third and private sector interests as appropriate.

- Building a pipeline of asset transfer projects will rely on the **more systematic identification of publicly-held assets in Northern Ireland** (or assets of 'community value') and development of a **small number of community asset transfer pilots** by key public sector agencies.

- The opportunity to better align the infrastructure of support for community-led asset acquisition behind a **set of demonstration projects**. In other words, **co-ordinating better the available development support for communities** and the 'ladder' of funds available for basic capacity building, feasibility testing, and eventual acquisition and development. This should build on the work of existing third sector partners to Government.

Learning from GB – Ethical Property/ Asset Investment

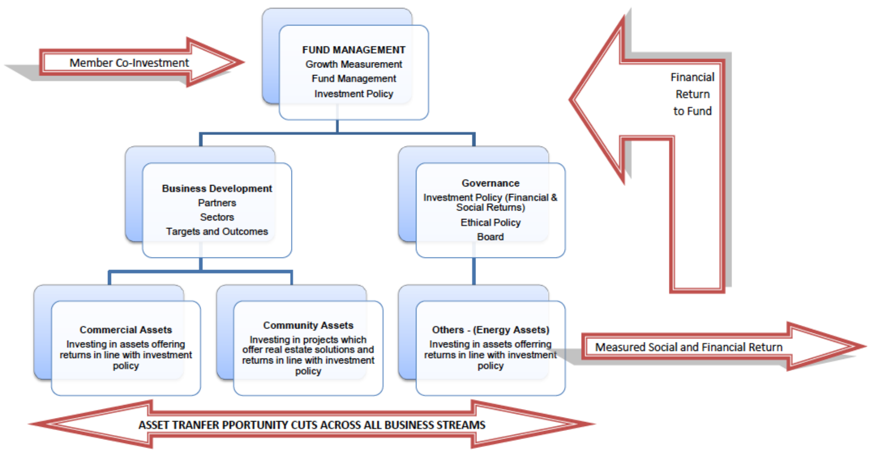
4.10 The motivation of investors varies considerably in relation to ethical property / asset investment, with a spectrum from purely philanthropic (where the objective is to maximise social, environmental or regeneration impact) and outright commercial (intended to maximise financial returns). In between, there are a set of blended value and socially responsible investors that seek to achieve social impact while also wishing to see their capital recycled, although the balance between required social and financial returns will vary.



4.11 The case studies in the main study report outline the range of investment mechanisms from large-scale managed funds through to small-scale community-based developers and presents detailed case studies on each. They illustrate the breadth of ways in which investors are investing in ethical property/asset portfolios. These are also intended to give a sense of breadth of activity from sustainable housing to waterfront regeneration to shared spaces for social enterprise.

4.12 In broad terms the ambition of stakeholders in Northern Ireland is to create an ethical property co-investment fund that would enable charitable and public sector funders to come together to share in the risks and returns (financial and social) from investment in a growing asset portfolio. The design assumes that the fund would act as a co-investor and manager of property assets and these assets are not held on the fund's balance sheet. Consistent with good practice this model separates out business development and governance functions of the fund. This would enable a mixed portfolio of assets (including commercial, community, and energy assets) generating balanced financial and social returns. This model is known as a Fund Co-Investment Model (and is depicted overleaf). A holding company for the portfolio of assets is assumed with the view that assets could be held in trust by the holding company for a defined period. Some similar funds in GB operate with the option of 'buy-back' clauses for third sector organisations to acquire the assets from the holding company at a stage when they have the resources and capacity to do so.

Fund Co-investment Model



Ethical Fund model where Fund acts as Co-investor and Manager. No Assets held on balance sheet.

Shaping the Fund/ Community Assets (NI)

4.13 The working title for the fund is Community Assets (NI) rather than ‘Ethical Property Fund’ so that the breadth of vision for the fund is not limited and that future projects centred on land and energy are not precluded. The intention is that the fund should be transformative in terms of community value and impact and distinctive, complementing existing funding provision and achieving leverage with other support.

4.14 The intention is that the fund should be sustainable – meaning profitable at the level of the Fund and supporting ongoing social, economic and environmental change at the level of projects supported by the Fund. In the context of sustainability the concept is based on a staged and mixed portfolio approach centred on assets graded A/B/C[1]. This approach should support an end vision of providing sustainable and strong financial, economic and social returns.

4.15 The main report sets out recommended operational arrangements for the Fund at this stage which are illustrative and which can be refined and modified by stakeholders as the process of developing the fund evolves.

4.16 In terms of legal structure the main report reviews the range of legal options open to the partners in terms of the Funds operating status. Based on consideration of the relative advantages and disadvantages of different governance models outlined above and the likely mix of early partners in Community Asset (NI) it is suggested at this

[1] Assets rated A, B and C will be tested in terms of risk and a balanced approach to property growth with assets A being high quality rented accommodation with strong tenant covenant (e.g. public sector body/ local authority); assets B will be less strong in terms of value, but may have strong social tenants and offer some growth potential; and assets C should be those with little (commercial) financial value but strong social value, such as community assets or assets in areas of market failure.

stage that the preferred governance model is a (Charitable) Company Limited by Guarantee.

4.17 In particular, this model offers a range of tax advantages and benefits in terms of limited liability to the members of the company if the company goes into liquidation and the company is separate from the individuals involved in it and can enter into contracts in the company name rather than in the name of its members. Taking the tax and limited liability advantages together, this model offers the optimum prospects for establishing and developing a sustainable, long term fund. This model is also consistent with approaches taken for comparable funds elsewhere in the UK.

4.18 The eventual preferred legal model should follow a due diligence process whereby the business model of the fund is fully determined (through the forward business planning process detailed later involving early partners and concrete investment projects at this stage) and the correct legal status followed to deliver the business case.

4.19 Community Assets (NI) will be targeted at potential investors representing the interests of 'the third sector' in the broadest sense and associated economic and regeneration policy imperatives. As noted previously, it is envisaged that the initial fund would be £10m minimum (with contributions from a range of investors) in order to have sufficient scale for a range of demonstration projects and associated sustainable investment and longer-term growth. The main report lists some indicative/ potential early partners for the fund.

Indicative Financial Modelling

4.20 The main report and appendices to the same set out the indicative modelling and related assumptions for five asset types, based on an ABC portfolio. Essentially, it shows that the highest performing assets, in financial terms, and with highest returns on investment, 'subsidise' the lowest returns found within some Class B and Class C asset types.

4.21 If Community Assets (NI) is to have a growth and expansion strategy, following this balanced portfolio approach will allow 'social investment' so long as it is balanced with more 'commercial investment'. As a rule of thumb, investing first in the high value low risk assets will provide the stability and confidence to move in to other assets which are both high risk and low financial return, but offer greatest social impact.

Delivering A Social Return

4.22 The total return on investments made through Community Assets (NI) should be made up of both financial and social returns. The aim is to achieve a well-balanced ethical portfolio that achieves a positive and growing social impact. Social impact in this context relates to the social, economic, and environmental changes that arise from investment decisions. This could include considerations relating to, for example, the location of the physical asset, its impact on local regeneration, the economic benefits arising for local communities (e.g. SME/Third Sector supply chain opportunities, the use of local labour, etc.) and most importantly the use the asset is put to (e.g. the mix of tenants and the additional social outcomes arising from the activities associated with the asset).

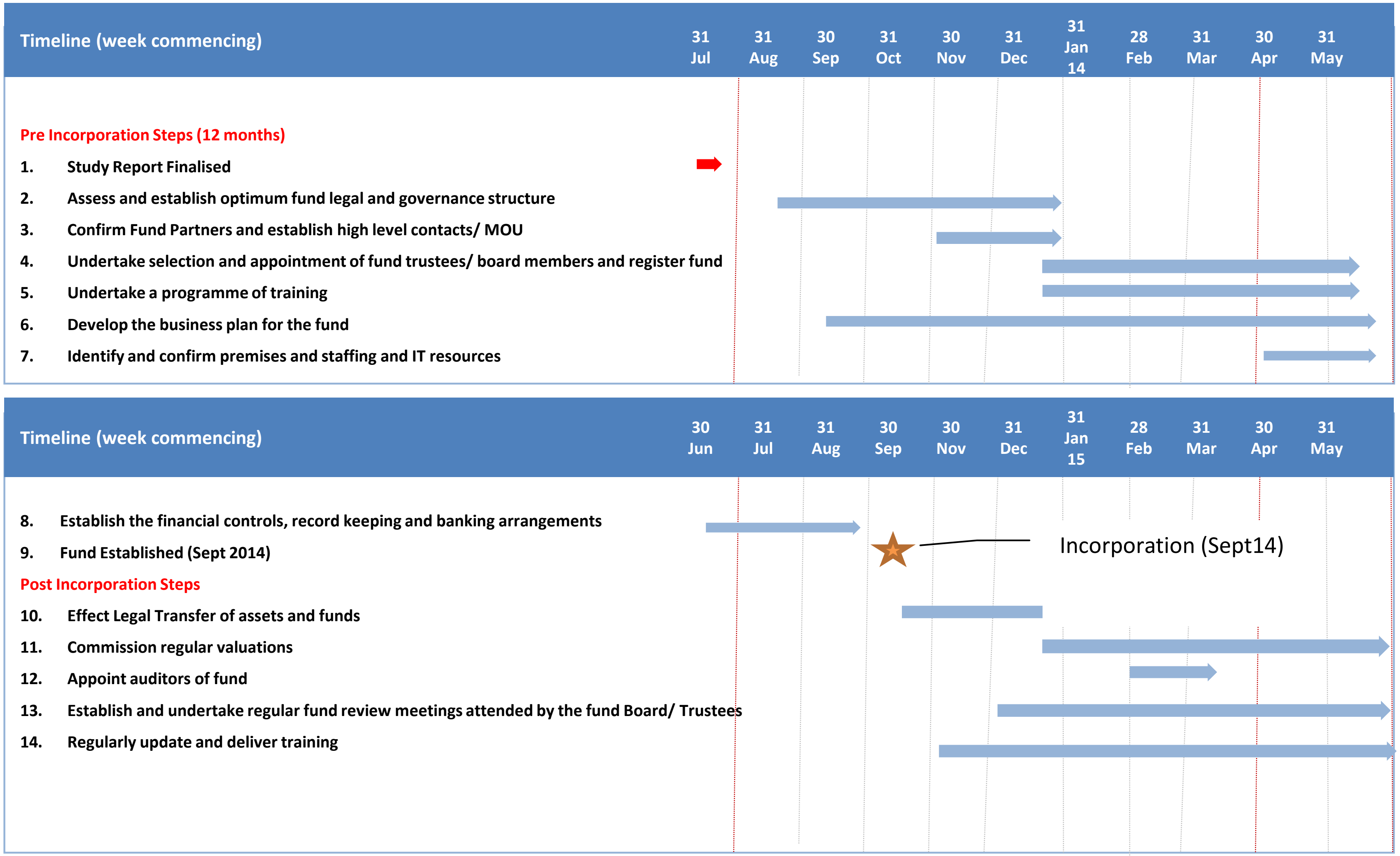
4.23 To maximise social impact, these and other factors must be taken into account in investment decisions alongside more traditional financial criteria. The balance must be struck here between financial risk and social return. At a fund level, early financial return is important if funds are to be recycled and social impact is to be maximised over time.

4.24 In order to fully gauge the social returns from any investment, Community Assets (NI) would seek to systematically assess the social impact of a project alongside any financial analysis and due diligence. This requires a framework to gauge impact investment decisions. The main report sets out illustrative matrices providing a way to assess social impact and therefore to manage the balance (trade-off) between financial and social return.

5. Implementation and Action Planning

5.1 The practical implementation steps, actions and timeframes required pre and post incorporation of Community Assets (NI) are summarised in the programme timeline overleaf.

Indicative Programme



6. Concluding Remarks

6.1 The study team would like to thank the Steering Committee for their guidance and all of the stakeholders consulted with and who were critical to informing the study and who engaged with enthusiasm – reflecting the growing interest in community asset transfer in Northern Ireland, which will shortly culminate in the publication of Northern Ireland's first Community Asset Transfer policy framework. As such the intent to establish an enabling fund in this arena through Community Assets (NI) offers the potential to expedite activity and bring additional momentum to the evolving policy framework and at the same make a tangible contribution to community based initiatives.

6.2 The study has demonstrated that Ethical Property and Ethical Asset Investment initiatives elsewhere in the UK have helped deliver transformative community social and economic benefits, whilst simultaneously contributing to key public policy priorities.

6.3 A specific fund of this nature does not presently exist in Northern Ireland and therefore the opportunity exists to learn the lessons gained from Ethical Property and Ethical Asset Investment initiatives in the rest of the UK and for Northern Ireland to realise the same range of benefits.

6.4 The establishment of Community Assets (NI) comprising five or six initial projects, spread across Asset Classes A to C can form the starting point for creating a sustainable fund that can grow and contribute to community economic and social regeneration across Northern Ireland.

6.5 The Steering Group have found sufficient evidence in this research study to plan to proceed to the next stage as articulated above in terms of the pre-incorporation steps (i.e. detailed business planning and associated due diligence) towards a target to incorporate the fund in September 2014.