

3. Finance and budgeting

Understanding costs

When taking on an old building project, arguably the biggest risk is financial. That's why it's crucial, before you seriously entertain the idea of purchase, to understand as much as you can about the extent of repair and alteration needed to your building and the likely value of it afterwards. It is in the nature of such projects that you uncover more as you go along, especially once you've started building works, and this may affect the length or extent of your project and thus the cost, but there's still a great deal you can learn before that point. Having a financial contingency in place is therefore essential.



With our own building, St Andrews, we commissioned an architect to produce a pre-purchase condition report so that we fully understood what we were taking on before we bought the building. This report was supplemented by costings for the suggested repairs and alterations the architect had identified as necessary to make the building habitable once more. The costings were provided by an experienced builder-member who was well placed to estimate 'real world' costs, but it would be sensible for any homeowner to approach two or three reputable contractors (the SPAB can offer suggestions, via its technical advice line, if required) to whom it would be worth paying a

fee for the experience they bring. Alternatively, we would suggest involving a quantity surveyor (QS) experienced in building conservation. This will involve greater expenditure but should make you much better informed and prepared for the long term. Quantity surveyors will cast a cold, shrewd gaze over your project's costs, working out what each material and building process can be expected to entail. Of course, some savings may be possible if there are areas in which you intend to do work yourself, but the QS's conclusions should still be invaluable. The QS's figures will help you assess contractors' formal estimates when sought, and a QS's involvement can continue subsequently in helping to monitor and manage costs on-site. The SPAB called on the help of accredited conservation quantity surveyor Stephen Scammell at the point when draft proposals were available and this will help us determine a final scheme that is affordable. Our approach doesn't quite amount to the 'value engineering' that might be applied to a commercial project, but will still manage what's possible within available funds.

The second piece of work to undertake before you purchase your building is an independent valuation. In a negotiated purchase, it is advisable that both the owner and the buyer undertake a valuation of the property. Both valuations for St Andrew's came back in the same region: circa £660,000 for a repaired domestic dwelling of its size and location. This meant that with a repair bill of around £600,000 for works and fees (as per our costed condition report) a net value for the building could be established. Armed with this information we were able to agree a £60,000 purchase price with the previous owners, though it helped that they were sympathetic to the SPAB and its aims. Reaching agreement of this kind is obviously less possible with an auction purchase – where there is also the financial risk of getting carried away with the bidding - though it can still

help as purchase is sometimes secured through negotiation when a building has failed to achieve its reserve at auction. Potential lenders (see below) have requested re-valuations of our building, due to the time that has passed since the negotiations with the previous owner and the point at which a loan was sought. For this we returned to the original valuer who was prepared to update the report for a reasonable charge (about one third of the original report's £1500 cost). The building's estimated end value has risen slightly over this time, in accordance with the property market's change and the effect of our clearance of the site.



Loans, mortgages and grants

There are many ways to fund your project, depending on what your project model is. If you plan to live in or let out your building, a long-term loan or mortgage may make more financial sense than a short-term loan. Discuss the options with your financial adviser or preferred lender and make sure you shop around before making any commitment.

The SPAB's aim is to repair St Andrew's and sell once the project has achieved its educational objectives. That final sale should recoup the repair costs and so for us the best financing option is to secure a short-term loan that can be repaid in full once the building is sold. Private owners might be able to negotiate a loan of this kind from a commercial bank or building society, and there are also specialist lenders who have experience

with new builds, self-builds or repair projects. One of these is the Ecology Building Society. As they were a lender known to the SPAB and have ethical principles similar to our own, we were keen to seek their quote. They proved willing to support our project with a loan involving a reasonably competitive interest rate. The Ecology Building Society was also attracted by the community benefits the project set out to deliver, as well as the environmental credentials of the proposed repair scheme.

The Ecology Building Society's offer was welcome and viable, but ultimately we resolved to take another route. As a charity the Society was eligible for a loan from the Architectural Heritage Fund (AHF). A new funding stream managed by the AHF with partners Historic England and the National Lottery Heritage Fund, seemed to suit us well. It is called the Heritage Impact Fund, and requires community activities beyond the repair work itself to secure eligibility. As with a commercial lender, an AHF loan still involves an application fee, legal costs and has reporting requirements attached, but it is well-suited to a charitable project that has educational aims in addition to the conservation of a structure. We are currently putting in place the information needed to finalise the offer, and agreeing a drawdown schedule based on the plan of works and expenditure. Needless to say, the AHF will require us to secure planning permission for re-use of the building at an early point in order that the site has greater value as an asset against which funds are secured. We have agreed to link the loan to St Andrew's only so that the financial risks are contained within the project. This is another crucial reason why we had to have a good understanding of the repair costs and end value of our building in the early stages. Any lender will want to know that the asset you have is worth enough to guarantee your loan and you must make the case for this.

Any mortgage or loan will have a repayment plan for the loan's duration and so it is important that

you work the monthly or quarterly costs of your loan or mortgage into your budget. We are seeking an interest-only loan, which means we only pay back interest and not capital costs during the loan term. Some lenders will ask for capital repayments as well as interest payments, which - if your project doesn't make any income from elsewhere - could end up meaning that you don't have enough funds to cover fully your ongoing repair costs, even though on paper the loan should be enough to foot the bill. Talk to your lender about repayment models and your expectations up front. Really think about when you might need money and for what. Even if you're uncertain about the exact timetable of your repair and building programme in the early stages, it is worthwhile thinking about how much you will be likely spend on works and when - including the planning and investigations stages. This will determine how you time your loan drawdowns, which lenders may want to know in advance of approving a loan.

If your project is as long as ours (5 years) a staged drawdown programme can save you thousands on interest costs over the project duration - especially if you don't need the full loan amount up front. It's worth noting that some lenders will be more flexible than others about your drawdowns, which is an important factor to consider when looking for a lender.

Conservation deficits

If your repair bill is bigger than the value of the repaired building, that's called a conservation deficit. You may be able to get grant funding if your project has a demonstrable conservation deficit but you, and your building, must fulfil certain criteria.

Sadly, grants are hard for any organisation to find these days, and even harder for private owners, but some possibilities still exist. The best way to check is through the Heritage Funding Directory, managed by The Heritage Alliance and

Architectural Heritage Fund
(www.heritagefundingdirectoryuk.org).

The SPAB has already been fortunate to secure support from the Pilgrim Trust for the Old House Project. This grant has only been possible because the SPAB is a charity, and has objectives that align with the funding aims of the Pilgrim Trust. We are extremely grateful for their help.

Another way of tackling your conservation deficit is to sell a portion of land from your plot separately with planning permission to create more income from your project. Of course, this is not viable with all sites. But where new development, either built by you or sold as a separate site with planning permission, allows you to close the gap on your conservation deficit, it's called 'enabling development'. Enabling development means that a special case exists for granting planning permission, where it would not otherwise be permitted, since this would facilitate repair of an important historic building at risk. Further guidance on this is provided in an Historic England guide: historicengland.org.uk/advice/planning/enabling-development/

It is vital that you understand and explain the impact any new development will have on your old building and its setting, and whether it might lessen the value of your final project house. The Society is exploring with Historic England and the local council, the possibility of a modest facilitating development to cover some of the educational and management costs of the Old House Project. Whether this is acceptable remains to be agreed, but we have only entertained this idea on the basis that the plot is sufficiently large to allow this without any significant harm to the setting of the grade II* listed building. We have also taken valuer's advice on the difference this development would make to the overall value of the site.

Pre-application advice

Pre-application meetings with conservation and planning officers can be the key to bringing local authority staff on board with your project and allowing them more time to get to grips with the conservation issues and pressures of your building. Even if you don't end up needing the time, for instance if your project is quite straightforward, do factor in the cost of some pre-application advice in your budget – and importantly also factor in the time it takes for councils to respond with advice. It may feel like an unnecessary step but it could save you time, hassle and money in the longer term. Some councils do not charge for pre-application advice, though a charge is now the norm. Conservation officers may make a number of suggestions of surveys and reports that they will require or that will help to gain LBC and planning permission, such as ecology and wildlife (bat) surveys, structural surveys, dendrochronological surveys, archaeological watching briefs, statements of significance etc. Talk to your conservation officer as soon as possible to get an understanding of what they might require beyond the normal application documentation, and then budget accordingly. They may also be able to help you find local specialists to undertake these surveys, but you can also call the SPAB advice line for suggestions of specialists.

The first year: Emergency works, getting to know our building & architect appointment.

In early 2019 when this document was written we were still in the early period of our project and had not yet begun the main works programme, but of course in the process of understanding our



building and working up our works programme and LBC/planning applications there have been a number of costs.

Here are the key ones that we have incurred to date:

Purchase £60k plus legal fees; pre-purchase condition survey c.£1500 plus VAT

Lender application fee: Ecology Building Society £2500 (plus valuation costs and further legal and acceptance fees had the application been pursued)

Insurance: this is expensive at around £3000 per year, including tax. The high cost is partly the result of the Society taking out a builder's insurance, because of the range of activities that will be taking place and the way in which contracts will be managed. Of note is that only one insurer approached by our brokers would offer cover, and then only because that insurer had a strong existing relationship with the SPAB.

Security: old buildings are vulnerable and you should definitely. We have been able to secure a video system, installed free for us as a charity by Axis Communications. The cost of such systems is well worth considering if you are not on site daily. In addition, we have sought permission for a temporary caravan to allow an informal 'caretaker' to be resident on site throughout the works.

Emergency works: if your building is neglected or at risk in any way you must be prepared to undertake emergency works immediately after

purchase. We had to do some immediate roof repairs at St Andrews and temporary propping at the west. Cost has been extremely modest in our case through the generosity of members, including Ashford and Cranbrook roofing and army engineer trainees led by Peter Egan, but some financial allowance for such work would otherwise have been needed.

Council tax: we are fortunate to be exempt from council tax until the building use as residential dwelling is reinstated. This saved us £5486pa (Band F, at 200% as a vacant property) but be aware that this could be a cost you need to factor in if your building is not exempt.

Portaloos: if yours is a busy, often-visited site and has no working WC, you may have to hire a portaloos, the cost of which can add up. c£100per month plus VAT



Post purchase surveys: digital laser scan (pro bono by Terra Measurement), ecological scoping survey £330 plus VAT, archaeology, CCTV drain survey £270 plus VAT, structural (pro bono), three bat surveys £767 plus VAT, paint analysis (£500), dendro (paid for by Historic England), timber decay and damp (pro bono).

Architect for Phase 1: £23 000, including condition surveys and significance report; preparation of pre-application and application proposals and liaison with the council and specialists. Our architects

were appointed after a competitive tendering and interview process.

Site clearance: although voluntary help has been drawn upon for much site clearance work we have used tree surgeon and landscapers to deal with some of the more specialist tasks. Cost: tree felling £1000; ground clearance (supported by considerable voluntary help) £400.

Contingency planning

Although having a well-costed condition report is helpful to give you a good understanding of the overall repair bill, it's often the case that you will not be able to form a full picture of your old building's repair and alteration needs until you start your works programme, which will be some time after you've drawn up your budget. Other factors such as adverse weather and planning permission/LBC outcomes (and even global pandemics) may also force you to change your plans, having an impact on cost.

To mitigate the risk of overspend, make sure that you allow a good amount of contingency in your budget – we would encourage at least 10-15% of the overall project cost. You don't want to be in a position where you have to abandon your project due to overspend. Talk to your lender as they may be able to ringfence a contingency amount for you that you only drawdown if needed and only pay interest on if used. This is particularly helpful if your project is especially complex and when a full survey of the building has not been possible for whatever reason.