

LOANS

Guide for Applicants

April 2006



THE ARCHITECTURAL
HERITAGE FUND

Further information about other forms of AHF assistance can be obtained from:

The Architectural Heritage Fund
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Registered under the Charities Act 1960 No. 266780
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1. Introduction

- 1.1 The Architectural Heritage Fund's (AHF) Loan scheme is intended to assist registered charities by making short-term, low-interest loans for acquisition and/or repair and re-use of historic buildings. This Guide is intended to help a charity to ascertain whether a project is eligible, to show how much can be borrowed and on what terms.
- 1.2 There are instances when having a loan offer from the AHF can be very helpful in giving a project credibility, and in securing grant offers from elsewhere. Similarly, the AHF may be able to offer a loan for a project that is already on site and has hit unexpected difficulties.
- 1.3 An AHF loan may be used for the acquisition costs of a building, and/or to support the 'working capital' requirement during a project. The loan will normally be repaid from grant income and/or from the proceeds of the sale of the building at the end of a project, or, if the building is retained, by the loan applicant taking out a mortgage or other form of long-term borrowing.
- 1.4 In urgent cases the AHF may be willing to offer a loan for **acquisition** before a fully-developed scheme has been prepared.
- 1.5 Historic buildings have unique problems that must be dealt with sensitively and sympathetically. The AHF will require all works to be carried out under the supervision of an architect or qualified surveyor with appropriate experience in this field, and the loan applicant must ensure that everyone involved in the project has adequate experience. Several funders now require professionals to be formally accredited in work on historic buildings, and the loan applicant should check these requirements before appointing professionals, as well as the requirements regarding tendering for professional services.
- 1.6 If a new charity is being established primarily to tackle the restoration of historic buildings, it may be beneficial to be constituted as a building preservation trust (BPT). Please ask the AHF for information and advice about setting up a BPT. The AHF's publication *How to Rescue a Ruin - by setting up a local Buildings Preservation Trust* (see 10 below) is a useful step-by-step guide.
- 1.7 The four key stages of any project are:
 1. **The Options Appraisal:** this is an initial appraisal of options for reuse, containing a conservation statement, identification of the most beneficial option for a building and an outline viability assessment of the approximate costs of a project and the likely sources of funds to cover these. It should show clearly whether a project has a reasonable chance of success. Subject to criteria, any charity is eligible for an Options Appraisal Grant from the AHF.
 2. **Development:** detailed investigation of a preferred option, e.g measured drawings, costed schedules, a budget and a cash flow forecast, preparation of funding applications, planning and listed building consents. Once an options appraisal has established a project's probable viability and the trustees have decided to take it further, any charity may apply for an AHF Refundable Project Development Grant towards the fee cost of the work necessary to prepare applications for funding, including an AHF Loan. Only BPTs are eligible to apply to the AHF for a Project Organiser Grant to pay for the time of a suitable person to develop and co-ordinate the project and take it towards the start of work on site; and a Project Administration Grant towards the non-professional costs of the project.

3. Implementation: acquisition; repair/conversion/rehabilitation; disposal or management.

4. Evaluation: assessment of the project; lessons learned.

1.8 This Guide sets out what the applicant and its professional advisers will need to do to apply for an AHF Loan as part of stage 2 (see 1.8 above).

2. Eligibility

2.1 All loan applicants must have charitable status, powers to acquire and dispose of property, and powers to borrow money. If the loan applicant is not already a charity, please contact the AHF which may be able to help.

2.2 The project must involve:

- ♦ building(s) which are statutorily listed, scheduled or in a conservation area and of recognised architectural or historic merit. Buildings that are only 'locally listed' are not eligible.
- ♦ acquisition and/or repair for conversion or re-use
- ♦ a change of ownership and/or a change of use. Repairs and maintenance to buildings in long-term charitable ownership and use are outside the AHF's terms of reference and are not eligible. *The AHF may, however, be able to assist projects phased over a number of years where a charity is unable to carry out all necessary repair works within the initial phase after acquisition.*

2.3 The applicant must have acquired, or intend to acquire, title to the property for which the loan is sought ('title' being either the freehold, or a leasehold interest of at least 21 years and one day). *The AHF will consider making a loan to a charity for work to a building that it cannot acquire, provided that the owner is also a charity or not-for-profit organisation, or a local authority, and that all its other loan conditions can be satisfied.*

2.4 The charity's trustees will need to be satisfied that there is a strong case that the project can succeed. For this purpose the loan applicant will need to prepare:

A Budget

This is a summary showing all the anticipated costs of the project, the funds available to meet them and any funding gap. More detailed plans and costings will be required than those in the options appraisal. Funders should normally have been approached and have indicated the likelihood of support. The headings shown under 3.11 of the AHF's Loan Application Form may be helpful in compiling the budget. *The amount of any AHF loan applied for should not be included in the funding for the project in this or other funding applications, as it is a loan, not a grant.*

A Cash Flow Forecast

Although no cash flow forecast can ever be more than a best estimate, it is a vital component of every project and should be reviewed frequently throughout a project's lifetime. By showing the projected inflow and outflow of cash, the forecast highlights the amount and timing of the working capital requirement. A simple forecast should be prepared at the options appraisal stage and evolve with a project as it develops. The following is a tried and tested format. *To make it easier to produce a cash flow forecast, a model in Excel format is available free to loan applicants from the AHF either by e-mail or on disk.*

Periods	Opening Balance	Month/Quarter												Total			
		A	B	C	D	E	F	G	H	I	J	K	L				
Expenditure																	
(Options Appraisal)																	
Business Plan																	(£0)
Conservation Plan																	(£0)
Acquisition																	(£0)
Acquisition fees and costs																	(£0)
Preliminaries																	(£0)
Other pre-project costs																	(£0)
Building work																	(£0)
External works/landscaping																	(£0)
Professional and other costs																	(£0)
Non recoverable VAT																	(£0)
Insurance premiums																	(£0)
Project Management Costs																	(£0)
Project related overheads																	(£0)
Contingency (%)																	(£0)
Disposal: fees and costs																	(£0)
Financing costs (except AHF loan for which see below)																	(£0)
Other costs																	(£0)
TOTAL OUTFLOW	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Cumulative Outflow	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Income																	
(AHF Options Appraisal Grant)																	(£0)
EH/Cadw/Historic Scotland/DoE(NI) grants																	(£0)
EU funding: ERDF (objective?)/other																	(£0)
HLF grants																	(£0)
THI/HERS/SRB etc																	(£0)
Regional Development Agency																	(£0)
Local Authority grants etc																	(£0)
Donations/fundraising																	(£0)
Other income																	(£0)
Sale Proceeds																	(£0)
TOTAL INFLOW	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Cumulative Inflow	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
PROJECT CASH FLOW		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
CUMULATIVE CASH FLOW		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
AHF Loan (acquisition)																	£0
AHF Loan (working capital)																	£0
AHF Loan Repayment (acquisition)																	£0
AHF Loan Repayment (working capital)																	£0
Cumulative Loan		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
AHF Loan Interest Paid																	£0
NETT CASH FLOW	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
NET CUMULATIVE BALANCE	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Interest due on acquisition loan		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Interest due on working capital loan		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Accumulated Interest		£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Acquisition Loan simple interest	6%																
Working Capital Loan interest	4%																

Notes on costs

Inflation: it is essential to allow for cost inflation in the figures, and to make a realistic assumption about how much time will pass before the costs are incurred or fixed.

Professional and other fees: more than one quotation is required for the main items of professional work. If the professional team that carried out the initial options appraisal was appointed in competition and also quoted for the project itself, this should be sufficient to meet the AHF's requirements, although it may not satisfy other funders - the Heritage Lottery Fund, for example, will always require at least three quotations.

Insurance: see 7 below for guidance on what insurance an applicant will need.

Unrecoverable VAT: it is important that the effects of VAT are shown in the appraisal and cash flow, especially if any of it will be unrecoverable. VAT on historic buildings is a complex subject and a loan applicant should seek specialist qualified advice at an early stage.

The Association of Preservation Trusts (see 10 below) has a VAT advice scheme which may be helpful if the applicant is a BPT and a member of APT.

If there is any doubt, the AHF would strongly advise any charity not to start work until the exact basis of recovery of input tax has been agreed in writing with HM Revenue and Customs.

Project related overheads: overhead costs genuinely incurred by an applicant in relation to a project should be included.

Contingency: it is prudent to include an allowance for increased costs arising from the unexpected and from inflationary pressures if a project is delayed. This will vary (normally between 5-15%) according to the size, complexity and predictability of a project.

- 2.5 Any of the costs shown in 3.11 of the application form are eligible, and the list is not exhaustive. Some 'new' works like the fitting-out of kitchens and bathrooms and small additions necessary for viability, and appropriate in scale, (like a kitchen extension) are also eligible. Reconstructions and major extensions are not eligible, and nor is specialist fitting-out to equip a building for a particular use, e.g. as a museum.

3. Procedure and timing

- 3.1 When submitting an application, please refer to this *Guide* and complete the list in the application form to ensure that all the information required has been provided. Any other information relevant to an application should also be included. The form must be completed and signed by a trustee or other authorised signatory of the applicant charity. The AHF will not accept applications signed by an appointed professional.
- 3.2 An application can be submitted at any time, but decisions are taken at quarterly meetings of the AHF's Council of Management. Thorough preparation of cases can take time, and an application must reach the AHF's offices **at least six weeks before the meeting at which it is to be considered**. Please contact the AHF as early as possible to ask about deadlines, which are also posted on the AHF's website: www.ahfund.org.uk.
- 3.3 The AHF's Council of Management will consider each application on the basis of the information provided. The outcome of each application is notified in writing as soon as possible after the meeting at which it was considered. The decision as to whether or not the AHF will offer a loan is final.
- 3.4 During the loan period, the AHF will expect the loan applicant to submit brief quarterly progress reports in February, May, August and November (before each meeting of the AHF's Council of Management). These should include one or two photographs (prints or digital images; photocopies are not acceptable) to illustrate the stage work has reached.
- 3.5 An AHF loan is normally for up to two years from the date it is contracted and must be repaid if the building is sold before then, or if the loan applicant ceases to use the money for the purpose for which it was advanced. Loans will only be extended beyond their due date if a special case can be made by the borrower. *The AHF can provide separate loans for different phases of a large project.*

4. Loan amount

- 4.1 The AHF can lend up to a normal maximum of £500,000, subject to security (see 5 below). As the AHF does not provide long-term finance, a charity may need to seek funds from other sources to repay the AHF's loan once the project is completed. In this case the applicant

should approach potential lenders before applying to the AHF to seek confirmation of its eligibility for a long-term commercial mortgage. *The AHF will not be able to proceed with a loan without confirmation that the project is fully funded, or that the applicant charity will be able to service a mortgage that can be used to repay the AHF if the building is to be retained; or if it is to be sold, that the sale proceeds will be adequate to repay the AHF's loan.*

5. Security

- 5.1 The AHF requires all loans to be secured to protect its charitable funds. This can either be by a formal repayment guarantee or a first charge.

Guaranteed Loans

- 5.2 The AHF can lend against a formal repayment guarantee from a bank, local authority or other corporate body it has approved, but not from a private individual. The guarantor must undertake to repay the loan, together with all outstanding interest, within a month of the end of the loan period, should the borrower default. A copy of the AHF's standard form of repayment guarantee is available on request.

5.3 Bank

Banks generally charge an annual fee for a guarantee, based on a percentage of the total sum, and sometimes a flat-rate arrangement fee as well. Some banks offer concessions to charities or are prepared to negotiate. Costs can vary widely, and it is well worth shopping around. *Please let the AHF know what the bank is charging as this information is useful.*

5.4 Local Authority

Local authorities have powers enabling them to guarantee loans for certain projects (except in Northern Ireland). A local authority guarantee can often be the most cost-effective option, especially if a project's borrowing requirement is high and the valuation is insufficient to support a charge. If a local authority is prepared to guarantee an AHF loan, this may leave any security an applicant is able to offer available to other lenders if additional borrowing is required. The AHF will require the local authority to cite the power under which the guarantee is to be provided. *If the loan applicant has difficulty obtaining a guarantee from a local authority, please contact the AHF which may be able to help.*

5.5 Other corporate bodies

The AHF may be willing to accept a repayment guarantee from a corporate body other than a bank or local authority, provided that it has the powers to give one: please contact a member of the AHF's projects team for advice.

First charge loans

- 5.6 The AHF can normally lend up to 70% of the estimated open market resale value of any acceptable property or land over which it takes a first charge. If this is the project building for which the loan is required, it can lend up to 70% of the property's estimated "end value" (the projected value once work has been completed). *If the 70% limit is insufficient for the applicant's needs, please contact a member of the AHF's projects team.*

- 5.7 The AHF will not accept a first charge over a property that is essential to the continuing operation or existence of the applicant charity, or whose loss might have a seriously adverse effect on its ability to achieve its charitable objects.
- 5.8 Valuations for first charge loans
The AHF will require the loan applicant to provide a recent valuation report on the current open market value of the security property. The valuation should not be more than six months old and should take into account marketability and any conditions or features of the title that might affect resale. If the security for a loan is to be the project property, the valuation must also state its forecast open market resale value once the project has been completed and must refer to the loan applicant's approved plans for the property.
- 5.9 The valuation must be carried out by a member of the Royal Institution of Chartered Surveyors and must acknowledge specifically in writing that the AHF will be relying upon it to support a loan.
- 5.10 The loan applicant may also find it useful to ask for the property's reinstatement value for insurance purposes and estimates of any projected rental income upon which the end-value is based. *The latter is especially important if the applicant charity does not intend to dispose of the property but to convert the AHF's loan to a commercial mortgage when the project is finished.*

It is beneficial for both the AHF and the applicant if a loan can be secured by a repayment guarantee. Because less legal work is needed, the process is usually quicker and cheaper and the entire loan can be disbursed to the applicant from the start. If cost is the deciding factor between a guaranteed or a first-charge loan, please discuss this with a member of the AHF's projects team.

6. Contracting a loan

6.1 Accepting a loan offer

Once the Council of Management has agreed a loan offer, a formal offer letter will be sent in duplicate. As soon as the loan applicant knows it will be able to comply with the AHF's requirements, one copy must be signed by an authorised signatory and returned to the AHF. The loan offer will remain open for six months from the date of the offer letter. If delays to a project mean that an offer cannot be accepted within this time, a request for an extension of the offer period can be applied for.

6.2 Contracting a loan

The AHF's lawyers will draw up an agreement for both sides to sign. Before the AHF can instruct them, it will need:

- ♦ evidence that sufficient funds will be available to complete the project and to repay the loan by the end of the loan period.
- ♦ copies of anything listed in the Schedule attached to the offer letter that has not already been supplied.
- ♦ an up-to-date cash flow forecast for the project (see 2.4 above).
- ♦ a summary of the detailed specification for the project.
- ♦ confirmation of a satisfactory tender price.
- ♦ evidence that any property charged to the AHF is adequately insured.

6.3 Legal costs

- ♦ The AHF will not take any action that might incur legal costs until it has received a formal acceptance of its loan offer.
- ♦ The AHF will bear its own legal costs incurred in contracting the loan up to £3,000. It reserves the right to recharge costs exceeding this figure to the borrower, with whom the position will be discussed before it is exceeded.
- ♦ If asked to take a first charge over two or more properties, the AHF will ask the loan applicant to meet all the AHF's legal costs incurred in charging the additional building(s).
- ♦ If any legal costs are incurred by the AHF after a loan has been contracted (other than releasing its security), the applicant will be expected to pay these.
- ♦ If the AHF does have to ask a loan applicant to contribute to its legal costs it will not seek to recover from the charity any VAT the AHF has been charged.

Disbursements

- 6.4 A loan secured by a **repayment guarantee**, or by a **charge over a property other than the project building**, is normally released as a single advance not earlier than two weeks before the start of work on site. If the loan is needed for acquisition, part or all of it can be released when necessary.
- 6.5 A loan secured by a **first charge over the project building** will normally be disbursed in instalments as work proceeds, as the value of the property at the time of acquisition may be low or negative. As the property acquires more value, further funds are released. The initial instalment will be based on an assessment of the property's current value (if any) and of the project's needs. Subsequent advances must be supported by the value of architect's certificates and other invoices as work proceeds.

If a loan applicant is under pressure to pay professional fees, but cannot because the project has been unavoidably delayed, and it is not yet able to contract an AHF loan, please contact a member of the AHF's projects team.

7. Insurance

- 7.1 Once an applicant charity has acquired the building its trustees will need to know that it is properly insured. A valuation showing the reinstatement value, though not an AHF requirement, should provide the comfort of knowing that the sum insured is adequate.
- 7.2 Where a loan from the AHF is to be secured by a first charge, the AHF requires that any property charged to it is adequately insured throughout the lifetime of the loan. Perils covered should include: fire, lightning, storm, tempest, explosion, impact, aircraft and articles dropped therefrom, riot, civil commotion, malicious damage, flood, bursting or overflowing of water tanks, apparatus or pipes, subsidence and heave, and terrorism if possible.
- 7.3 Payment of the first loan instalment is conditional upon the loan applicant supplying evidence that the charged property is insured for full reinstatement including clearance of debris and architect's fees, and that the AHF's interest is noted on the insurance policy. The AHF will require confirmation that satisfactory insurance remains in place throughout the life of a loan.

- 7.4** Once work has started a "contractor's all risks" policy is likely to cover the value of work done, but it remains the responsibility of the owner to ensure that the pre-existing fabric is fully covered as well.
- 7.5** Sometimes a building may be in such poor condition that no insurer is willing to cover it at the outset of a project. The AHF may be prepared to make an initial advance in the absence of insurance. Once work has reached the stage where the building is insurable, appropriate insurance must be put in place.
- 7.6** The loan applicant is also advised to arrange suitable public liability insurance.

Insuring historic buildings is a specialised business. The AHF can suggest insurers familiar with projects of this kind.

8. Publicity

- 8.1** When a loan is contracted, the AHF will supply a self-adhesive sign which must be displayed at the project site while work is in progress.
- 8.2** The AHF requires unrestricted rights to use any photographs the loan applicant provides. Quarterly reports, accompanied by photographs, are required once the loan has been contracted.
- 8.3** The AHF's help must be acknowledged in full in all appropriate material the applicant charity produces, including, but not limited to, press releases, leaflets, posters, invitations and displays. Please provide the AHF with copies.

9. Interest and Repayment

- 9.1** The AHF currently charges interest at 6% simple per annum on any amount required for acquisition and 4% on amounts required for other working capital, payable at the end of the loan period. If a loan is not repaid when due, the AHF reserves the right to increase interest to 3% above National Westminster Bank plc base rate, but should it agree to extend the loan period will normally increase to 6%. It may agree not to exercise this right if the delay was outside the borrowers control and the AHF had been kept fully informed of the position.

If a borrower thinks it may be unable to repay a loan by the due date it should contact the AHF at the earliest opportunity.

- 9.2** The AHF will send the borrower a statement shortly before repayment is due showing the total sum it is expected to repay. Repayment must be made by electronic transfer to the AHF's account, details of which will be provided with the statement.
- 9.3** If the borrower contracts to sell any property charged to the AHF it should ask for a statement showing the sum due at the completion date so that repayment can be arranged simultaneously with the release of the charge.

The AHF will not be responsible for any loss by a trust caused as a result of it relying on this Guidance Note or any other guidance given by the AHF, whether verbally or in writing.

10. Useful information

Organisations and addresses

The Architectural Heritage Fund

Alhambra House
27-31 Charing Cross Road
London WC2H 0AU
Tel: 020 7925 0199
Fax: 020 7930 0295
E: ahf@ahfund.org.uk

English Heritage

23 Savile Row
London W1X 1AB
Tel: 020 7973 3000
E: grants@english-heritage.org.uk

Historic Scotland

Longmore House
Salisbury Place
Edinburgh EH9 1SH
Tel: 0131 668 8600
E: hs.grants@historic-scotland.gov.uk

Websites

The Architectural Heritage Fund:
www.ahfund.org.uk

English Heritage:
www.english-heritage.org.uk

Historic Scotland:
www.historic-scotland.gov.uk

The Heritage Lottery Fund:
www.hlf.org.uk

Royal Institution of Chartered Surveyors:
www.rics.org.uk

UK Association of Preservation Trusts

Alhambra House
27-31 Charing Cross Road
London WC2H 0AU
Tel: 020 7930 1629
Fax: 020 7930 0295
E: apt@ahfund.org.uk

Cadw: Welsh Historic Monuments

Plas Carew
Unit 5/7 Cefn Coed
Parc Nantgarw, Cardiff CF15 7QQ
Tel: 01443 33 6000
E: cadw@wales.gsi.gov.uk

DOE Northern Ireland Environment and Heritage Service: Historic Monuments & Buildings

5-33 Hill Street
Belfast BT1 2LA
Tel: 028 9054 3145
E: hb@doeni.gov.uk

UK Association of Preservation Trusts:
www.heritage.co.uk/apt

Cadw:
www.cadw.wales.gov.uk

Environment and Heritage Service:
www.nics.gov.uk/ehs

The Charity Commission:
www.charity-commission.gov.uk

Royal Institute of British Architects:
www.architecture.com

Useful reading

How to Rescue a Ruin - by setting up a local buildings preservation trust by Hilary Weir.
Available from The Architectural Heritage Fund. Price £8.00 incl. p&p.

Funds for Historic Buildings in England and Wales - A Directory of Sources.
Available free of charge as a searchable internet database (www.ffhb.org.uk).

Sources of Funding Help for Scotland's Historic Buildings.

Available from The Scottish Civic Trust, The Tobacco Merchant's House, 42 Miller Street, Glasgow G1 1DT
Tel: 0141 221 1466 E: sct@scottishcivictrust.org.uk.

Directory of Funds for Historic Buildings Northern Ireland.

Available from Ulster Architectural Heritage Society, 66 Donegall Pass, Belfast BT7 1BU
Tel: 028 9055 0213 E: infor@uahs.co.uk.

APT Guidance Notes

Available free to members, and for sale to non-members (£65), from UK APT (see Organisations and addresses above).

Revolving Fund Building Preservation Trusts - Guidance Notes

Available free in English or Welsh from The Architectural Heritage Fund for revolving fund BPTs applying for HLF funding.

NOTES

