



Financing Social Enterprise

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## TOP TIPS FOR BRIDGING COMMUNITY BASED CAPITAL GRANTS IN IRELAND

By Community Finance (Ireland)

### Tip No. 1:

- *Identify where possible, the maximum number of stage payments you can agree with your Contractor **AND** Grant Provider, and subsequently draw, on a phased basis, from the latter.*

There are numerous examples of groups matching all, or most, of the grant with a similar amount of bridging finance, intent on paying a contractor in one lump sum before seeking to draw down the entire Grant in one go. This is risky on various levels not least of which is the fact that should something be wrong with the way your works are being carried out, it may only be when all is completed that the issues are clarified, and then it's too late!

From an investor's perspective a lower level of borrowing, recycled through various, staged, contractor payments and grant claims, both mitigates the risk of something going wrong, and makes the monthly, interest only, repayments more manageable for the applicant.

### Tip No. 2:

- *Where possible utilise **YOUR OWN RESERVES** to bridge this Grant Aid.*

The ideal situation is that a group have gathered a war chest of reserves in advance of undertaking some project. Of course this is a very simplistic Utopia, which rarely is the case, or at least the level of reserve is shy of the total project cost.

However, where a group has a portion of funds which could be recycled through phased contractor payments and subsequent Grant claims as suggested above, this would be the way to go. It's immediate access to funds so no delay on contractor payments/progress on works, and as important, it's interest free. With every commercial borrowing there is a cost, both in terms of money and your voluntary time to compile paperwork. Take all these things and more into consideration when deciding on your approach to bridging.



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#### Tip No. 3:

- *Where Reserves are not an option – **Source a Local Corporate “Sponsor”** who may be agreeable to bridge the Grant interest free, on the understanding that the entire Capital will be redeemed to them upon payment of the grant to the Voluntary Group.*

The next step, where group reserves are negligible, is to identify the potential for local business(es) to step into the breach with interest free credit while you wait on the total Grant to be drawn.

It's a low/no cost solution to bridging. It affords an opportunity for local business to get involved in the community project at a relatively low level of risk. Probably better if a collaboration of local businesses become involved to spread whatever risk might exist, but also to share whatever PR opportunities arise among them.

#### Tip No. 4:

- *Engage closely with the Grant Liaison Officer throughout the project development phase to ensure eligibility compliance*

We don't need to tell you that grants can be tricky (a) to actually obtain, but also (b), to ensure you comply with eligibility criteria throughout, particularly where unforeseen issues arise mid-project.

The relevant Development Officers affiliated with the Grant Provider are there to ensure ALL THE FUNDING is drawn. It's in their interests you get everything that is due to you. USE THEM. We often here of "them and us" perceptions with respect to grant providers. Outside of something like a specific personality clash, it would be absurd to assume that ongoing close engagement with the Officers would do anything other than cement a professional relationship for this project, and as importantly, go a long way to build credibility for your next ask.



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#### Tip No. 5:

- *If you do need to access an Interest bearing Bridging Loan Facility, **"SHOP AROUND!"** for the **LOWEST** possible rate!*

Assuming your only option to draw a grant is by way of accessing interest bearing debt, you need to remain focused and keep costs to a minimum. Remember, by costs, you need to include your time and effort as well as monthly commercial repayments.

Often overlooked is the Credit Union route, in particular for low level borrowings. Our experience has seen numerous examples of groups where 4 or 5 personalities will have split the amount of bridging required through personal loans from the Credit Union. Thereafter the voluntary group they represented took care of the monthly repayments and, redeemed all debt in full upon receipt of the grant.

Community Finance Ireland recently surveyed 437 groups nationwide on the cost of their existing debt. The average rate charged/paid across this cohort was 6.1%.

Generally bridging loans should comprise INTEREST ONLY monthly repayments until such time as the grant is claimed and used to redeem the loan in full.

#### Tip No. 6:

- *Do not leave applying for bridging finance to the last minute!*

Just as you should not apply for a grant the night before the closing date, seeking bridging finance in a lastminute.com fashion may prove problematic. If nothing else, it smacks of desperation and poor forward thinking by the applicant.

As above, all commercial debt carries a degree of time in terms of getting approval and drawdown. We suggest you engage with the finance provider in tandem with your initial approach to the Grant Provider.

**Tip No. 7:**

- *Under no circumstances should Voluntary Directors or Trustees need to provide **Personal Guarantees** to access such Bridging Loans – **Steer Clear of Such a Request***

Little explanation needed here. Personal Guarantees were a substantial feature of Community Borrowing before the increased awareness of Community Finance in Ireland. One of our early deals consisted of refinancing commercial bank debt for a group whereby one volunteer director had signed a personal guarantee for €600,000. Our intervention removed this personal liability from the equation.

A second, more disturbing example, witnessed an organisation's member of staff providing the bank with a legal charge on their private residence.

Lending should be made, first and foremost on Repayment Capacity, or not at all. If you are asked for personal guarantees, understand this to be code for "**Your Group shouldn't borrow money from that source**".

**Tip No. 8:**

- *Be wary of additional charges, and ask for the APR. Do Not Pay **Arrangement Fees** on Bridging Loans.*

By their very nature, bridging loans are most likely to be repayable within a matter of months if not weeks! To the investor, they constitute the lowest level of return on investment, all things being considered, and often may actually cost money to administrate.

Therefore, it is not unusual to see arrangement fees being charged by financial institutions for a Bridging Loan. In some cases, this may approach 1% of the amount of finance offered.

Ideally however you should, in the name of community solidarity, seek to have this waived. Every little helps!!

**Tip No. 9:**

- *Budget for a possible delay in the eventual drawdown of the grant, and subsequent additional monthly interest costs.*

With all the best will in the world, and across so many grants being issued in a given year to communities, it is inevitable that a portion of grants will not be issued on schedule. This has the knock on effect of borrowers incurring additional monthly repayments, above and beyond those originally intended.

With that in mind, as a worst case scenario, we suggest groups budget for up to a 6-month delay in Grant receipt from the date of claim. This is highly unusual, and unlikely, but does happen from time to time, and can be a cause of great concern to groups on very tight budgets.

**Tip No. 10:**

- *Wherever there is the slightest query with regard to Planning Permission or the possible exemption of same, **GET IT IN WRITING** before commencing works.*

Again self-explanatory - plenty of stories where the engineer on the committee takes on to second guess the local authority planning department decision, only to meet with disastrous consequences.

**Tip No. 11:**

- If you are not incorporated as a Company, (i.e. but rather a club or association), **you must assign Trustees** to borrow legally on the club's behalf. They in turn must sign a **Declaration of Trust**.

To be fair, you don't get involved in the community sector with the intention of ever having to borrow money - but it happens. Whilst many groups are incorporated as Companies Limited by Guarantee, this is not a prerequisite for accessing most grants or bridging finance. Many clubs and associations also borrow from time to time through appointed Trustees.

We would normally advise you consult your local solicitor where the authority to borrow and the presence of trustees are absent. Experience would suggest that it's not every legal professional that has a clear understanding of trustee law so bear that in mind. Again, not for those of the lastminute.com persuasion!