

# A1 BRISTOL CITY COUNCIL



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## A1 BRISTOL CITY COUNCIL CROWDFUNDING FOR ENERGY EFFICIENCIES OF COUNCIL-OWNED BUILDINGS

“What started out as a relatively straightforward project to see whether crowdfunding could be used to finance energy efficiency projects ended up delving deep into the legal and financial mechanisms to best deliver a crowdfunding offer via a municipal bond.”

**RICHARD LOWE BRISTOL CITY COUNCIL**

### CONTEXT

**A1.01** All councils are facing enduring financial pressures, resulting in many placing emphasis upon commercialisation and privatisation in order to maintain service delivery.

**A1.02** Bristol City Council explored the feasibility of investment-based crowdfunding as a means of raising finance for energy-efficiency projects in community tenanted buildings across the city.

**A1.03** As a city, Bristol has a reputation for using its creative and independent spirit to lead on innovation, with its green initiatives leading to the award of the title of the European Green Capital in 2015.

**A1.04** A wider ‘eco-system’ of policy initiatives provide an excellent environment to hear innovative proposals for creating opportunities to raise finance via crowdfunding – e.g. One City Plan<sup>106</sup>, City Leap 2018<sup>107</sup>, and the legacy of the Bristol Pound community currency<sup>108</sup>.

**A1.05** The environmental agenda has to be considered in this frame. In November 2018, the city of Bristol declared a “climate emergency” and set itself the ambitious target of being 100% carbon neutral by 2030. Finding ways to finance this green transition is therefore an ever more urgent topic<sup>109</sup>.

“We’ve come from eight years of the Government supporting solar and wind, so that period has opened up a lot of community energy projects and with that experience now it’s almost a no-brainer. It’s like the knowledge that’s been gained over those years is now being applied to a number of different areas where the Government have made cuts to funding.”

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**A1.06** There is a significant amount of ‘local money’ from residents of Bristol that is invested outside of the city. With approximately 200,000 adults in Bristol alone, Bristol City Council calculates that there could be up to around £2bn held in Bristol residents’ ISAs.

**A1.07** A successful crowdfunding venture could see a proportion of this money, or any additional savings held by local residents, redirected into supporting the low carbon growth of Bristol.

### AIMS AND OBJECTIVES

**A1.08** Bristol has a strong track record in delivering energy efficiency projects in Council-owned buildings. Since 2005, Bristol City Council has been operating one of the UK’s largest Salix recycling funds for improving the energy efficiency status of public sector buildings<sup>110</sup>.

**A1.09** Bristol City Council’s Energy Service has developed significant experience in complex energy efficiency projects: from project concept, through to energy audits, payback calculations, negotiating service level agreements, procurement and contract management.

**A1.10** Salix has limitations, however, as it is not applicable to buildings where the energy savings do not directly benefit the public sector, typically charities and those providing socially-beneficial services. With these organisations being located in an energy inefficient building, they face either higher energy bills or compromises over how frequently the building can be heated and occupied.

**A1.11** The financial payback from energy efficiency works is considered to be more difficult to forecast compared to other energy generation projects. Solar PV, for example, has benefitted from the Feed in Tariff fixed subsidy payment as well as predictable data of sunshine hours<sup>111</sup>.

<sup>106</sup> <https://www.bristolonecity.com/one-city-plan/>

<sup>107</sup> <https://www.energyservicebristol.co.uk/prospectus/>

<sup>108</sup> <https://bristolpound.org>

<sup>109</sup> <https://www.theguardian.com/uk-news/2018/nov/14/bristol-plans-to-become-carbon-neutral-by-2030>

<sup>110</sup> <https://www.salixfinance.co.uk/recycling-fund>

<sup>111</sup> For a wider discussion, see Brown, *et al.*, 2019.

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**A1.12** This allowed for an accurate financial model to be created with easily defined payback periods meaning that these energy projects have been viewed as a more secure investment. These projects include many developed by community energy groups who have already utilised crowdfunding platforms to finance the delivery of solar PV installations.

“There’s tens of millions of funding being raised through energy crowdfunding projects, but I think that each individual that contributes is making their own financial assessment and risk assessment of the project. So each individual has got their own level of risk that they’re willing to take, and I think there the old Feed-in Tariff ensured that it was low risk”.

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**A1.13** In Bristol, the Salix recycling fund has created over £4m of energy investments, with the benefits carefully monitored through the Council’s half-hourly energy bills. On this basis, Bristol City Council applied to the *Financing for Society* project for pilot funding to evaluate the possibilities of utilising crowdfunding to finance energy efficiency measures in council-owned buildings where the occupier is a charitable or community group.

## PERCEPTIONS AND PRACTICALITIES OF CROWDFUNDING

**A1.14** Bristol City Council recognised that the term crowdfunding has different meanings for different people. From a modest survey of the occupants of ten council-owned buildings, the term ‘crowdfunding’ suggested to these residents the idea of gifting money to a particular cause (i.e. donation-based crowdfunding), or receiving a token of appreciation for the funding provided (i.e. rewards-based crowdfunding). In all cases, crowdfunding was assumed to provide no financial return.

“In my narrow experience, people are keen to fund projects that are local to them so they can see a direct benefit to their facilities. For example, charities have been raising money for schools for a few years now. That’s a form of crowdfunding with no returns, but people understand there’s a direct benefit to their children’s school from them putting in 100 quid. Because with infrastructure, it can’t be something nebulous and something that’s distant to them.”

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**A1.15** A key learning outcome of the project is that engaging stakeholders and communities to understand the appetite for investment is vital to the success of any crowdfunding campaign.

**A1.16** In creating a new structure for local investment, and to ensure the widest social benefit possible, there is a need to ensure that local people understand the offer being made – i.e. the crowdfunding proposition needs to be both financially accessible and include individuals who may need additional support to understand the offer being made.

**A1.17** Many at Bristol City Council shared the above view of crowdfunding. Early engagement of internal Financial and Legal teams was crucial to explain the investment-based crowdfunding model. When this method was clarified with the help of the research team and external advisors, it was acknowledged that similar investment mechanisms had been thought about before but never properly pursued by the council.

**A1.18** Bristol City Council has not attempted crowdfunding as a method of raising finance before. Existing case studies were vital for helping to navigate internal stakeholders and decision-making processes.

**A1.19** The Swindon example was cited as having used crowdfunding successfully to raise capital for their own environmental project and using an ISA to facilitate local investment in local projects. They developed a special purpose vehicle (SPV) to raise funds locally in order to purchase solar panels for a community solar farm<sup>112</sup>.

<sup>112</sup> See paragraph 3.52 of this report.

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**A1.20** The fact that other local authorities had utilised crowdfunding successfully made it more of a palatable topic to take forward in Bristol. Having the evidence from another local authority that had embarked upon a similar pathway and had successfully commissioned and delivered a project provided a lot of confidence to the council's internal teams.

## BARRIERS AND CHALLENGES

**A1.21** Bristol City Council's Legal Services team does not have prior experience of crowdfunding but does have considerable experience of corporate structures and public procurement regulations.

**A1.22** In addition, the energy efficiency project does not involve the acquisition of valuable assets that could be sold in the future, but rather the purchase of lower-value fixtures and fittings. These would become embedded in the fabric of each building and therefore would not provide transferable value in the future<sup>113</sup>.

**A1.23** As a result, Bristol City Council's Legal Services team had some initial concerns regarding what risks this would expose Bristol City Council to. They wanted to know how the arrangement could be structured in a way that was both legally compliant and provided both the council and its investors with sufficient certainty and protection.

**A1.24** Following internal discussions with Bristol City Council Energy Services and Financial Services teams, and with the crowdfunding platform Abundance Investment, the Legal Services team developed initial answers to a number of their questions, and two options for pursuing a crowdfunding project were devised.

**A1.25** These two options were also considered with external lawyers who did not identify any significant impediments to proceeding with crowdfunding.

**A1.26** The feasibility of crowdfunding was also tested against the established model of borrowing from the PWLB, which is how most local authorities seek to raise finance.

**A1.27** There is growing recognition of the need to diversify these borrowing streams in order to 'future-proof' against any changes to the regulation or terms of PWLB loans. There is also some dispute over whether PWLB always presents the best value to the public sector. Bonds issued via a crowdfunding platform, for example, could well present an opportunity for lower interest rates.

**A1.28** To be viable, internal stakeholders at Bristol City Council needed to be convinced that crowdfunding could match these rates and cost of capital, whilst also not creating additional transaction and administrative costs.

**A1.29** Only at that point was it possible to assess the suitability of crowdfunding as a means of place-based social impact investing for Bristol's residents. Nevertheless, engaging with stakeholders and communities to understand the appetite for investment remains vital to ensure both social and financial 'buy-in'.

**"The challenge is developing a business case that has a clear profit and positive cash flow proposition quite quickly. So, energy projects lend themselves well to that, as principally you are trying to reduce energy use or switching your generation to a clean source of energy and not buying energy from the grid. So those are clear profit positions. But, if you were going to help fund new park equipment, then that's going to be a much more challenging profit position."**

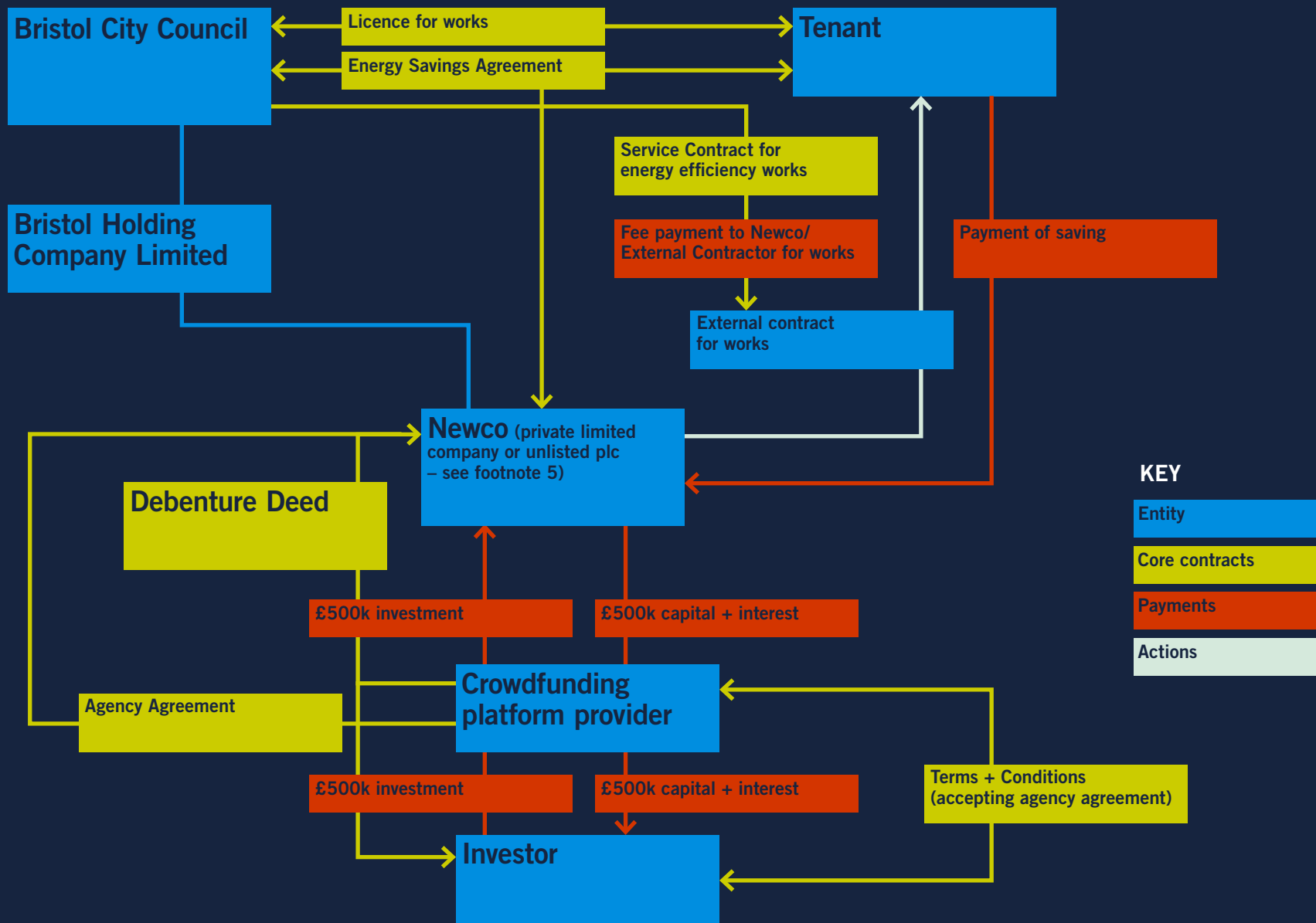
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**A1.30** Bristol City Council are now far more confident in the potential for crowdfunding to provide an alternative funding stream for the Council, provided that:

- the risks identified are adequately mitigated and external legal and financial advice is sought where needed;
- the project is structured in a financially viable way;

<sup>113</sup> This is a marked difference to other local authority crowdfunding projects that were considered successful, such as the Swindon case.

FIGURE 4: BRISTOL'S "NEWCO" OPTION





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- there is appropriate political appetite to proceed with the project; and
- there is sufficient Bristol City Council capacity and resource to implement the project.

## MAIN FINDINGS

**A1.31** Throughout Bristol City Council's involvement with the *Financing for Society* project, three potential options for pursuing crowdfunding were co-developed with the research team that would see a bond offer being made via a crowdfunding platform:

- 1 Bristol City Council would issue bonds directly ("Community Municipal Bond" option);
- 2 A newly-incorporated company, wholly owned by Bristol City Council, would issue the bonds ("NewCo" option);
- 3 A community interest company, wholly owned by a charity, would issue the bonds ("CIC" option).

**A1.32** At a very early stage, the "CIC" option was excluded. This was due to its structural complexity and the fact that it would not sit within Bristol City Council's existing corporate group or be owned by the Council itself. This left two viable options.

## THE "NEWCO" OPTION

**A1.33** The "NewCo" option was initially prioritised as it would sit within Bristol City Council's existing corporate group of companies. It could ensure the new company had public liability in case the overall project did not succeed.

**A1.34** On further analysis by internal and external stakeholders, however, this option was downgraded due to:

- additional governance arrangements required (i.e. appointment of company directors; board meetings; reporting requirements, etc.);
- complex contractual arrangements as Bristol City Council would require contracts with building tenants, the new company, and a third-party contractor for the energy efficiency works, creating multiple procurement arrangements that would need to be compliant with the Public Contracts Regulations 2015<sup>114</sup>;
- a complex flow of funds between Bristol City Council, the new company, the third-party contractor, and the community tenant;
- and finally, a resultant high cost of capital to manage the project.

## THE "COMMUNITY MUNICIPAL BOND" OPTION:

**A1.35** Analysed in more detail following the above conclusions, the "Community Municipal Bond" option was discussed with Bristol City Council's Treasury Team and external lawyers to establish the following benefits:

- no new corporate structure would need setting up or managing;
- contractual arrangements and the flow of funds would be simplified as Bristol City Council would be both landlord and bond-issuer; and therefore,
- the cost of capital would be reduced; and finally,

- as bond-issuer, the crowdfunding investments could be secured against the long-term revenues of Bristol City Council.

**A1.36** Under the "Community Municipal Bond" option, investor capital would be transferred from the investors to the sponsoring crowdfunding platform and on to the Council, which would then deploy the funds on the energy-efficiency project(s) to be carried out either by Bristol City Council or a third-party contractor.

**A1.37** Bristol City Council would then need to enter into an 'Energy Savings Agreement' with the community tenant of the council owned buildings where the energy efficiency measures are to be installed, in order to regulate the payment process.

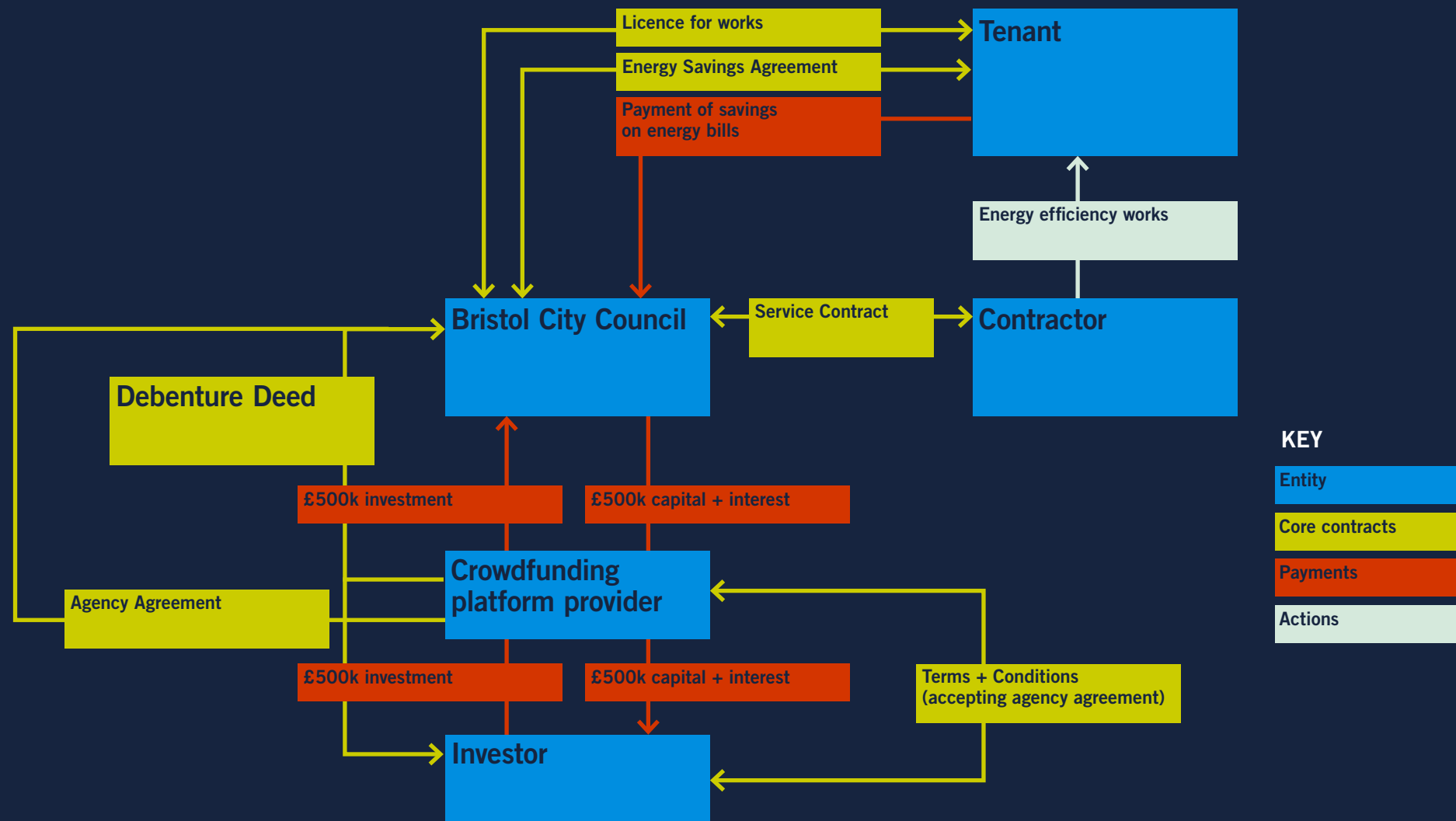
**A1.38** The saving on utility paid to the council would need to be carefully calculated based on the level of energy saving achieved by the proposed efficiency measures within each particular building. There may be limitations on what can be achieved in each building and further hurdles to cross in instances where the council did not directly own the building.

**A1.39** Once the saving has been calculated, however, this could be equated to a percentage of a revised utility bill, subject to a de minimis (e.g. if the building is empty, or there is a seasonally warm period, a minimum payment would still be made to the council). A cap on that payment could also be included to provide some protection for the community tenant.

<sup>114</sup> <http://www.legislation.gov.uk/ukxi/2015/102/contents/made>

<sup>115</sup> <https://www.gov.uk/government/publications/patient-capital-review>. See also the work of Mazzucato, 2013; 2018.

FIGURE 5: BRISTOL CITY COUNCIL'S “COMMUNITY MUNICIPAL BOND” OPTION



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**A1.40** The savings from the tenant would provide the basis for repaying the capital plus interest to the investors at prescribed intervals. Any shortfall would have to be met by Bristol City Council's own funds, but any surplus could be potentially applied to other council projects and services provided that this was made clear in the information provided to investors at the outset.

**A1.41** Whilst theoretical at this stage, the "Community Municipal Bond" model developed with the research team could provide a steady stream of 'patient capital' to the council<sup>115</sup>.

**"People don't have good confidence in a bank or private investment that they might have had before, so I think a council backed thing does present a more confident platform for people to invest in."**

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**A1.42** Bristol City Council concludes that there is a likely investment opportunity for 69 council owned buildings occupied by a community tenant to a total value of £600k. Issuing a Municipal Bond for this volume of work is feasible, but may not be worthwhile given the additional resources required to pursue the "Community Municipal Bond" option.

**A1.43** Whilst the "Community Municipal Bond" option appears to be favourable, providing a suitable structure for a crowdfunding project, Bristol City Council still requires further legal, financial and technical advice before embarking upon the next phase of the project. This advice would need to clarify:

- Whether or not, if the Local Authority (Stocks and Bonds) Regulations 1974<sup>116</sup>, as amended (the Bonds Regulations), have not been repealed, they grant the council the power to issue bonds without any restrictions that would materially affect the project;
- If the Bond Regulations have been repealed, that the council has the power to issue bonds under the general power of competence granted under s.1 of the Localism Act 2011<sup>117</sup>, again without any restrictions that would materially affect the project;
- Whether unpaid tax would rank above the security awarded to bondholder debt;
- Whether an investor with less than £10,000 invested in the project who has not had such debt repaid would be able to group together with other investors in order to benefit from section 13(5) Local Government Act 2003<sup>118</sup>;
- Whether there are any VAT implications in relation to Bristol City Council issuing the bonds;

- If the "NewCo" option was instead to be pursued, whether the s.756(3)(a) of the Companies Act 2006 exemption applies to crowdfunding through a crowdfunding platform provider, such that private limited companies can be used as issuing vehicles; or whether unlisted public limited companies should instead be used in order to comply with s.755 of the Companies Act 2006<sup>119</sup>.

**A1.44** Certain internal approvals would also need to be obtained before progressing with the project. The section 151 officer would be required to approve the borrowing, in accordance with the Council's scheme of delegations.

**A1.45** In addition, in order to make the expenditure required to implement the project (e.g. installing the energy efficiency measures), it is likely that Cabinet approval would be required. This would need to be considered further depending on the extent of the cost, and whether Bristol City Council or a third party was implementing the measures.

**A1.46** Aside from the legal considerations above, the following will also need to be completed in order to take the "Community Municipal Bond" structure further:

- Further financial modelling of the buildings in question needs to be completed. This will determine percentage return figures and allow for the offer to be built on this basis;
- Procurement of crowdfunding platform;
- Design and build of bond offer;
- Launch of bond offer.

<sup>116</sup> <https://www.legislation.gov.uk/uksi/1974/519/contents/made>

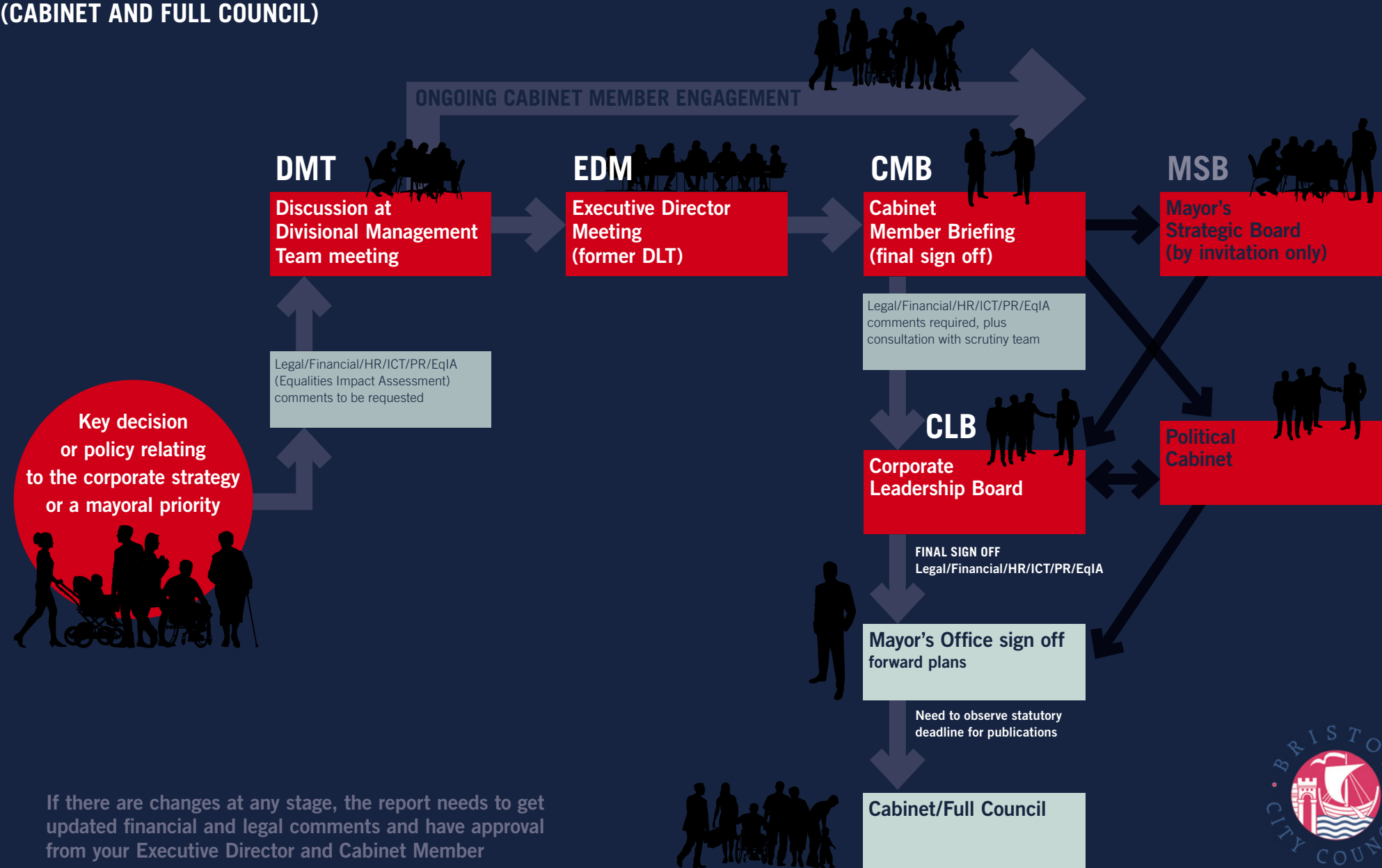
<sup>117</sup> <http://www.legislation.gov.uk/ukpga/2011/20/contents/enacted>

<sup>118</sup> <https://www.legislation.gov.uk/ukpga/2003/26/contents>

<sup>119</sup> <https://www.legislation.gov.uk/ukpga/2006/46/contents>



FIGURE 6: BRISTOL CITY COUNCIL'S KEY DECISION PATHWAY  
(CABINET AND FULL COUNCIL)



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## LOOKING AHEAD AND NEXT STEPS

**A1.47** Looking ahead, there is certainly significant interest in the “Community Municipal Bond” option at the corporate level, but in order to progress this option Bristol City Council’s decision pathway will need to be followed to get the relevant permission and agreement.

**A1.48** Politically, the “Community Municipal Bond” option will need to demonstrate that there is confidence from investors in this type of bond instrument. At this stage, it is not clear what financial returns investors will see, and this could be a constraint depending on how attractive these rates will be and/or how appealing the social benefit to the community is deemed to be. As such, strategic marketing and community engagement will be key.

**A1.49** Part of the benefit of a crowdfunding initiative versus more traditional borrowing is that it presents an opportunity to engage a new cohort of potential investors. This is where social investment comes in, as it is unlikely to be purely a financially driven decision, but instead one that people feel will benefit their own local community.

**A1.50** In addition to this, there is the added benefit of getting people to think more about energy efficiency. It is important to make sure that the motivations of potential investors are understood fully before embarking on a marketing campaign.

## CONCLUSION

**A1.51** The participation of Bristol City Council as case study in the *Financing for Society* project has generated extremely useful and transferable insights that have opened up the possibility of crowdfunding being used in different applications.

**A1.52** Bristol citizens need to be reassured that the Council is always seeking the best value for money by being innovative. Crowdfunding not only presents the opportunity to raise finance differently, but also offers benefits as a community engagement tool that has the potential to increase the participation of local people in decision-making processes within their community.

**A1.53** Directly through *Financing for Society*, an exciting opportunity is being presented to Bristol residents to save and invest in local projects for social and environmental benefit. Many of the savings or investments made in traditional high street banking schemes will flow off-shore.

**A1.54** In contrast, the Community Municipal Bond will contribute to local economic multipliers through stimulation of the supply chain and reduction in energy bills for the building occupier.

**A1.55** Examining the potential that crowdfunding could bring has been an extremely valuable exercise and has brought about a genuine opportunity to finance energy efficiency projects and others across the whole council.

## RECOMMENDATIONS

**“I would ask the Ministers to understand the value to the local economy of retaining investment locally, for local benefits, and to listen to the needs of that community in making that happen. The projects won’t happen by accident, so we need the kind of incentive and confidence building that results in getting solar on a million roofs in the country, and then it will contribute considerably to the country’s energy needs. It can’t be relied upon solely for champions in each area. It has to be done centrally.”**

**RICHARD LOWE BRISTOL CITY COUNCIL**

### TO UK GOVERNMENT:

A1.56 Further small-scale ‘seed funding’ to enable other local authorities to explore the feasibility of crowdfunding for public projects (i.e. legal, financial, technical expertise).

A1.57 To facilitate a central repository of case studies for local authorities to draw upon as examples of best practice<sup>120</sup>.

<sup>120</sup> We hope that the case studies presented here will provide the important first step in building this evidence base for local authorities.

<sup>121</sup> As a direct response to these suggestions, see Sections 5 and 6 of this report.

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## TO CROWDFUNDING BUSINESSES:

**A1.58** Further analysis from those in the crowdfunding business sector about what structures would be advisable for local authorities to consider when crowdfunding, particularly in relation to local authorities issuing bonds directly<sup>121</sup>.

**A1.59** The development of template documentation to keep the transaction costs low of the bonds. This would greatly aid the competitiveness of the interest rate to PWLB (i.e. standard documentation available for all local authorities to use).

## TO LOCAL AUTHORITIES:

**A1.60** Find a colleague to champion crowdfunding. This doesn't necessarily have to be a finance or legal representative, but someone who can act as a project manager to all the information and make sure they keep up momentum in the exploration.

**A1.61** Engage finance and legal colleagues as early as possible. Without them, your ideas will not come to fruition. By involving them from the outset, you are all working together on the journey and will end up with a much more cohesive outcome.

**A1.62** Don't be afraid to get some external advice from experts in crowdfunding mechanisms.

## GENERAL:

**A1.63** Generally the concept of bonds needs to be made more accessible. Education campaigns would perhaps go some way to achieving this, focusing on the positives and the risks that investing in bonds can bring with it, e.g. perhaps delivered by the UK Crowdfunding Association (UKCFA)?<sup>122</sup>

**A1.64** Training opportunities for other local authorities based on the findings from all the pilot partners in this *Financing for Society* project, e.g. CPD training workshop perhaps run by a national organisation (such as Regen)? This would likely need to be funded externally<sup>123</sup>.

**“There are some 400 unitary authorities in the country and we don't want each one of them having to go and learn this stuff each time. So, once it's been understood in one area, it can then be shared out.”**

**RICHARD LOWE BRISTOL CITY COUNCIL**

<sup>122</sup> <https://www.ukcfa.org.uk>

<sup>123</sup> <https://www.regen.co.uk>