

A3 LEEDS CITY COUNCIL



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A3 LEEDS CITY COUNCIL CROWDFUNDING FOR REGENERATION PROGRAMME: COMMERCIAL, HEALTH, AND HOUSING

“So, I think what we felt through wanting to explore crowdfunding was, although it’s not going to be the way we’re going to fund everything, it’s an extra tool and in some circumstances it may be appropriate for us to deploy it. Particularly when there might be a community element to what we’re trying to achieve, or we want to ensure there is great buy-in to the scheme that we’re funding for.”

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CONTEXT

A3.01 Leeds City Council has an ambitious plan to decarbonise the city’s infrastructure and to make Leeds a centre for green innovation. Leeds Climate Commission, a collaboration between Leeds City Council, local Universities, and wider stakeholders, is mapping the city to commercialise an estimated annual £277m of profitable low carbon projects¹²⁷.

A3.02 Leeds City Council wants to ensure that the economic benefits of these projects are captured locally and that residents of Leeds participate in the low carbon transformation. This has been communicated through the city’s new Inclusive Growth Strategy 2018-2023 that prioritises “people, place, and productivity”¹²⁸.

A3.03 The council wanted to test if crowdfunding could provide a platform to communicate Leeds City Council’s low carbon projects whilst stimulating investment from local/regional citizens and businesses.

A3.04 Crowdfunding was little known within Leeds City Council at the start of our involvement in the *Financing for Society* project, but, as a direct consequence of our participation in the research crowdfunding is now seen as an exciting addition to the range of financing options that can be deployed.

“Within the local authority, I think it’s safe to say that our knowledge was pretty low, other than witnessing that there has been the Leeds Community Homes initiative that have used crowdfunding to help fund some social housing in the city. But I would say our knowledge was very low. Where would we go for information? I don’t think we knew where to look.”

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AIMS AND OBJECTIVES

A3.05 We wanted to test the suitability of crowdfunding in relation to financing a rooftop solar project on buildings across the Leeds City Council estate in order to supply electricity.

A3.06 Before our involvement in the *Financing for Society* research, this was going to be delivered via long-term Power Purchase Agreements (PPAs) with the solar panels held by a company owned by Leeds City Council.

A3.07 As a result of the learning outcomes of the research, however, the Financial, Commercial (Legal) and Energy (Low Carbon) teams within Leeds City Council are now looking to implement the project using crowdfunding (subject to further due diligence and internal review). This will be most likely through the Community Municipal Bond structure developed through the research process and led by Abundance Investment and the University of Leeds.

PERCEPTIONS AND PRACTICALITIES OF CROWDFUNDING

A3.08 Existing knowledge of crowdfunding within the Finance and Commercial (Legal) teams was low and it was apparent early-on that there was no easily accessible information or central repository of case studies for Leeds City Council to draw upon.

A3.09 Leeds City Council is also a very entrepreneurial and creative council, with lots of experience from a strong social enterprise sector, a Revolving Investment Fund of innovative finance solutions¹²⁹, and as mentioned some practical crowdfunding experience via the Leeds Community Homes initiative¹³⁰.

¹²⁷ <http://leeds.candocities.org/about-leeds-climate-commission>

¹²⁸ <http://www.leedsgrowthstrategy.co.uk>

¹²⁹ <https://www.leeds.gov.uk/business/investing-in-leeds/leeds-city-region-revolving-investment-fund>

¹³⁰ <https://leedscommunityhomes.org.uk>

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“Leeds City Council really encourages us to think in a kind of entrepreneurial way. So, to say, ‘right, we’re going to take part in a project to explore the use of crowdfunding’, no problem at all getting buy-in to that. Although it’s still relatively early stages of the overall project, our Finance and Legal teams are willing to participate, keen to learn.”

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A3.10 Four workshops were held throughout the research period with the *Financing for Society* project team and external organisations. These workshops:

- Introduced the concept of crowdfunding to key Leeds City Council stakeholders;
- Tested different approaches; and,
- Refined a model that could work within the constraints of council operations.

A3.11 Engaging with internal and external stakeholders during the research has secured high levels of support with Leeds City Council for replacing traditional capital (i.e. PWLB) with crowdfunding for three main reasons:

BUILDING A MORE ACTIVE AND ENGAGED CITIZENSHIP WITHIN LEEDS:

- Crowdfunding connects residents with Leeds City Council activities in a new relationship and offers the chance to build new connections and new communication channels with residents, to catalyse new models citizenship for socially-beneficial outcomes;
- Direct investment via crowdfunding is perceived as a way to build new connections and new communication channels with residents;

LOCAL ECONOMIC BENEFITS:

- Crowdfunding enables more local investment in Leeds City Council activities and helps to retain economic benefits within the community via material projects in the city and wider city-region;

DIVERSIFYING LEEDS CITY COUNCIL'S FUNDING SOURCES:

- Crowdfunding provides a new means of financing projects that secures some protection from any future changes to existing borrowing practices (e.g. PWLB).

“Now it’s administratively and logistically simple to administer through the internet, I think it’s important that a crowdfunding option is available to whoever is procuring for, or project managing, the project. So, when you’re on the cycle of project management and you get to write ‘well, how are we going to pay for this thing?’, that you know crowdfunding is a respectable option alongside all the other existing ones; and in the local authority case, that’s going to be the Public Works Loan Board.”

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BARRIERS AND CHALLENGES

A3.12 The principal barrier was that any borrowing from residents had to meet Leeds City Council’s test of being “affordable, sustainable, and prudent”. This meant the crowdfunding model being developed had to ensure that capital and transaction costs were not higher than existing forms of borrowing.

A3.13 Even with expectations of additional social and environmental benefits from crowdfunding, it was felt that there was a risk this new financing mechanism could increase costs at a time when front line services were already under considerable threat.

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MAIN FINDINGS

A3.14 To overcome the above challenges, three different crowdfunding models were explored with the research team:

MODEL ONE: LEEDS GREEN INFRASTRUCTURE TRUST (LGIT)

- A charitable ownership structure could be developed for holding the solar assets off-balance sheet for Leeds City Council;
- This new organisation would sell electricity back to Leeds City Council via its own Power Purchase Agreement (PPA), with crowdfunding used to provide project finance to the organisation to pay for installation and operation of the solar panels;

MODEL TWO: LEEDS PROJECT COMPANY

- Leeds City Council assume ownership of a project company that sells power back to Leeds City Council via a PPA;
- As with LGIT model, crowdfunding is deployed to provide project finance to the company to pay for installation and operation of the solar panels.

MODEL THREE: COMMUNITY MUNICIPAL BOND

- This involves on-balance ownership of the solar assets, with the electricity produced being used on site to displace the purchase of power from Leeds City Council's existing energy provider;
- In this case, crowdfunding is used to raise finance for the installation and operation of the panels via a Community Municipal Bond;

- An important difference is established, however. Under the Community Municipal Bond structure, crowdfunding investors are assuming council risk not project risk.

A3.15 Over the course of the research, Models One and Two were discarded on the basis that:

- they would likely increase Leeds City Council administrative costs; and,
- the capital and transaction costs for the project finance would be too high to pass the council's test of being "affordable, sustainable, and prudent".

A3.16 The off-balance sheet approach of Model One was also rejected on the basis that the long-term PPA could be perceived as being on-balance sheet. Any future changes to accounting rules could also formally bring the project back on-balance sheet at some stage.

A3.17 The Community Municipal Bond model was therefore explored in more detail. It was deemed attractive providing that the total cost of capital (both interest and transaction costs) could match or better existing PWLB rates¹³¹.

A3.18 If this affordability test could be met, then the broader social benefits of raising capital from residents would make the Community Municipal Bond proposition highly attractive for Leeds City Council.

A3.19 This assessment represents a marked shift in the thinking and appetite for crowdfunding within Leeds City Council from the start of the *Financing for Society* research project.

LOOKING AHEAD AND NEXT STEPS

A3.20 The first task was to conduct a technical and commercial assessment of the Community Municipal Bond option that emerged from the research.

A3.21 This assessment centred on three key issues:

- the ability of Leeds City Council to issue a bond on a crowdfunding platform;
- the ranking of debt alongside other Leeds City Council debt; and,
- the risk to the investor of lending money to the Council.

A3.22 Leeds City Council's own assessment was informed by a history of issuing municipal bonds to retail investors, with the last of these bonds repaid in the 1990s. This previous bond issue was overseen by the current Senior Treasury Manager at Leeds City Council, who recalled the cost of administering the bonds prior to the internet becoming too high as compared to other sources of capital.

A3.23 Following advice from both legal (via Walker Morris LLP) and financial (via Abundance Investment) organisations facilitated by the council's involvement in the research, Leeds City Council has identified no technical barrier to the council issuing Community Municipal Bonds via a crowdfunding platform.

A3.24 In terms of the financial model, the assessment concluded that direct ownership of the solar assets on balance sheet via the Community Municipal Bond offer was the most attractive route for Leeds City Council.

¹³¹ For further details, see Section 6 of this report.

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A3.25 It is now our view that the risk to both the council and the bond investors to the low carbon project is low.

A3.26 The question that remains at this stage is how attractive such an offer would be to retail investors, especially those within the city and wider city-region, given the additional social and citizenship benefits anticipated via the use of crowdfunding.

A3.27 A Community Municipal Bond pilot is planned by Leeds City Council for 2019 to evidence this appetite further.

“So, hopefully it will be possible for a lot of people to participate in terms of geographical boundary. And if it’s successful, and this sort of model starts to develop, and we start to explore other financial mechanisms of which crowdfunding is an important element, then I can see those sorts of funding opportunities also at a larger geography, say, the region level. But they would still have some sort of local residence, rather than at the national level.”

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RECOMMENDATIONS

A3.28 Reflecting on our participation in the research project, Leeds City Council cite a number of key learning outcomes and offer recommendations, which are primarily addressed to HM Government.

A3.29 Renewable energy projects that are supported broadly across all political parties appear to be well-suited to crowdfunding as an alternative form of finance. It remains to be proven if other public infrastructure projects – such as roads, schools, social care facilities, and so on – are equally attractive or will be forced to confront the claim that these should be funded through general taxation.

A3.30 Large-scale and nationally significant infrastructure projects (NSIPs) may not be as viable for crowdfunding to provide the full finance required and/or may no longer represent value for money beyond a given threshold.

A3.31 In order to be credible as a mainstream alternative to traditional PWLB borrowing, the cycle of project management and procurement ought to include crowdfunding as part of the respected mix of financing options to embolden local authorities to assess alternatives.

A3.32 Given entrenched city-based and region-wide socio-economic inequalities, it is an open question as to how far the local community will be willing or able to invest in local authority projects.

“How much potential community finance is available in Leeds? Leeds is an enormously diverse city, with some areas which are very wealthy and some areas which are desperately poor. And those desperately poor areas will not have spare cash to put into crowdfunding projects.”

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A3.33 A central repository of easily accessible information and case studies of crowdfunding for public infrastructure would be extremely valuable.

A3.34 It is vital to share the expertise and findings from this research across the public sector and to distribute the learning outcomes and new models of finance developed through this important collaboration with the University of Leeds.

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“There are other things that could be provided, and it would make more sense to provide them centrally, such as tool kits, guidance, professional training, development training for finance and legal officers, and so on, benchmarking set examples of good practice, things to avoid, all that kind of stuff which would make much more sense to be provided centrally. It doesn’t mean that it has to be done by Government, but it should be part of a national approach.”

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A3.35 A coherent policy framework for crowdfunding and alternative forms of financing for the public sector would further encourage local authorities to explore their borrowing and investment options.

A3.36 Being able to acquire development finance to take projects through a business case / legal advice process would also encourage further innovative and creative thinking.

A3.37 Working with the FCA to establish and to communicate the rights and protections for the ordinary retail investor will be vital if ‘place-based’ community financing options are to be successful.

A3.38 To ensure that the findings from this landmark research are shared with, and become part of the culture inside, HM Treasury, BEIS and MHCLG to ensure a coherent and consistent message from the centre is communicated to local authorities.

“The main problem in the field is the lack of Government consistency in policy terms, which makes investment really tricky because people are nervous about future policy shifts. It’s not actually acquiring finance. If you’ve got a good project, you can get finance for it. It’s having the correct policy environment that’s stable. That is the biggest barrier.”

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