



UNIVERSITY OF LEEDS

FINANCING FOR SOCIETY

Assessing the Suitability of Crowdfunding
for the Public Sector

LOCAL AUTHORITY GUIDE

MARK DAVIS + LAURA CARTWRIGHT MAY 2019

LOCAL AUTHORITY GUIDE

Since the 2008 banking crisis, the UK financial sector has innovated and diversified and now boasts a world leading alternative finance sector which provided more than £3bn into the real economy in 2017. Regulated investment-based crowdfunding has made a significant contribution to that change delivering longer term patient capital (debt and equity finance) for private businesses.

The public sector experience of crowdfunding has mainly been donation-based crowdfunding (sometimes called civic crowdfunding). To date, Swindon Borough Council is the only local authority to use investment-based crowdfunding to finance projects in their local economy. The question therefore exists could the public sector benefit from investment-based crowdfunding as an additional form of finance and a new way of engaging local citizens?

In 2018, the Inclusive Economy Unit within the Department of Digital, Culture, Media and Sport awarded a research grant to establish the *Financing for Society* project at the University of Leeds.

This grant enabled a cross-sector research team to work with six public sector organizations to assess the suitability of crowdfunding for socially and/or environmentally beneficial infrastructure projects:

BRISTOL CITY COUNCIL ENERGY EFFICIENCY

ISLE OF WIGHT COUNCIL URBAN REDEVELOPMENT

LEEDS CITY COUNCIL ROOF-TOP SOLAR PV

DUDLEY CLINICAL COMMISSIONING GROUP COMMUNITY 'HEALTH HUB'

KINGS COLLEGE TRUST INSTITUTE OF HAEMATOLOGY (RESEARCH CENTRE AND HOSPITAL)

ROYAL DEVON & EXETER TRUST ELDERLY CARE FACILITY

The grant provided a 'pilot fund' for the six case studies to contract with professional services firms to provide technical and independent advice, including Archus Ltd., BDO, KPMG and Walker Morris.

Evidence from this research indicates that investment-based crowdfunding offers the potential to deliver a competitive new model of finance for the public sector, while also providing a new way to engage and communicate with residents in a way that builds new local networks of trust.

This Guide summarises the relevant findings of the research as they relate to Local Authorities.

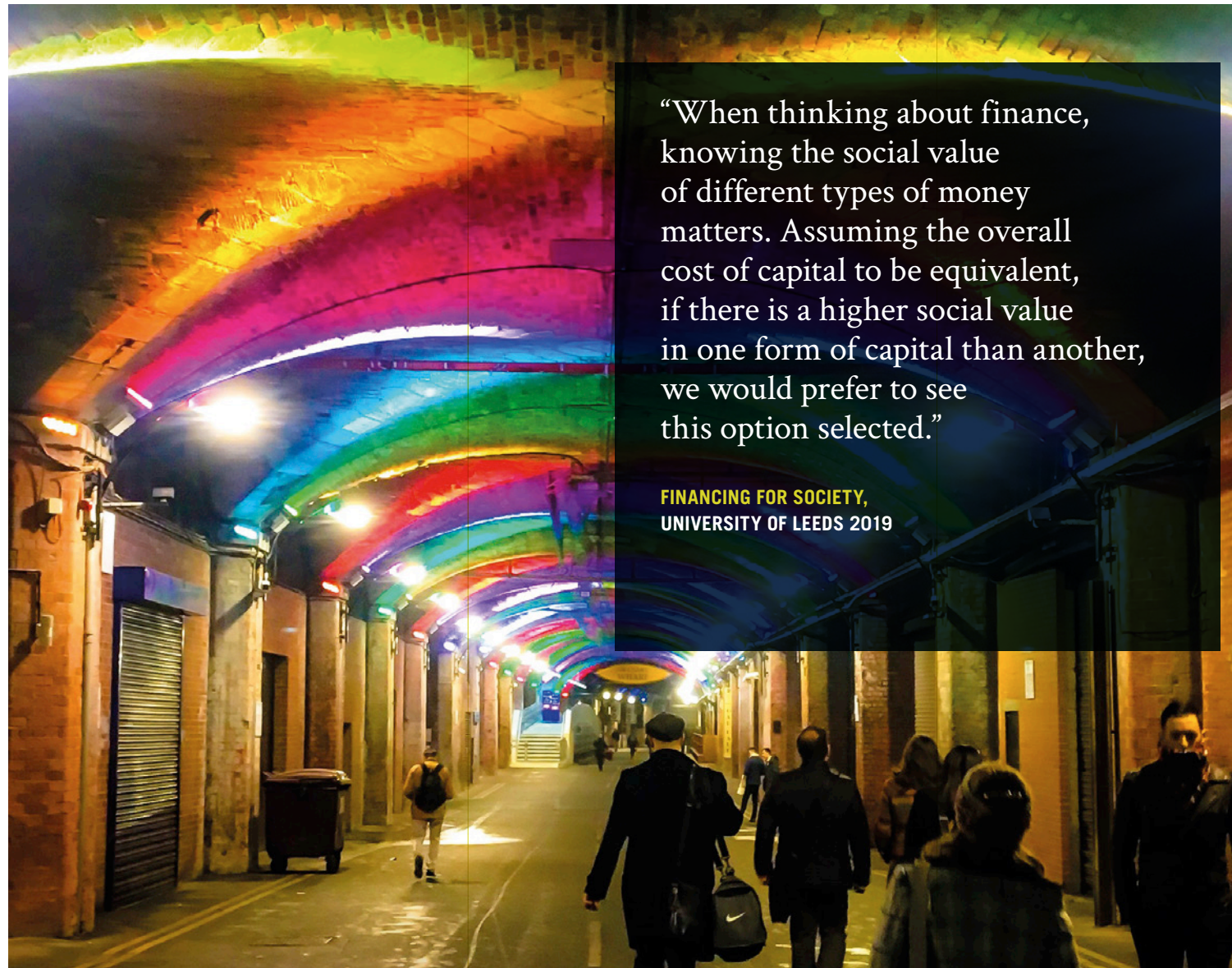


LOCAL AUTHORITY GUIDE

THE CHALLENGE

Against a background of overall borrowing prudence and austerity, UK local authorities are being asked to lead on some of the biggest issues facing the country, including decarbonisation, the building of social housing, and providing effective social care to an ageing population. Delivering on this agenda within such constraints requires service and operational innovation whilst maintaining the support and trust of local residents, which Local Government Association research has shown to have fallen significantly over the past five years.

If Local Authorities are to meet these grand challenges over the coming decade, sourcing competitive capital and working with residents to find solutions will be essential.



“When thinking about finance, knowing the social value of different types of money matters. Assuming the overall cost of capital to be equivalent, if there is a higher social value in one form of capital than another, we would prefer to see this option selected.”

FINANCING FOR SOCIETY,
UNIVERSITY OF LEEDS 2019

LOCAL AUTHORITY GUIDE

WHAT IS CROWDFUNDING?

Crowdfunding is a process by which people provide money to projects, companies or organisations via a website (platform). Depending on the nature of the financial arrangement, people receive a return that is either financial (investment-based) or non-financial (donation-based).

Perceptions of crowdfunding amongst the general public still reflect its roots in financing creative and social projects via donations. The UK, however, is a global leader and innovator in creating regulated investment-based crowdfunding that brings together individuals as investors and lenders with businesses and projects to meet a range of finance needs.

The UK Government has led the way by developing an innovative and robust regulatory framework for the sector, including bringing investment-based crowdfunding (i.e. debt) into the flagship ISA investment framework that is the mainstream mechanism for saving and investing in the UK beyond pension.

The result of these policy innovations is that the UK enjoys the most diverse ecosystem of alternative finance and crowdfunding in the world. The application of crowdfunding to the public sector, therefore, opens up opportunities for more people to invest directly in the projects they care about (locally or in a specific place) at a scale that is meaningful and accessible for both local authorities and local “citizen investors” alike.

SWINDON CASE STUDY

Across 2016-2017 Swindon Borough Council, working with the crowdfunding platform Abundance Investment, raised a total of £4.3m of project finance for two companies wholly owned by Swindon Borough Council which developed and subsequently operated a solar park each.

- 1200 individuals invested
- 35% of investors came from Swindon or local postcodes
- 18% invested £100 or less
- 2% invested £5.

The council also reported that the exercise helped build local understanding of the council’s low carbon and financial strategy.



RESEARCH FINDINGS

The three local authority case studies provided scope to test crowdfunding against a range of project types and delivery models. Bristol City Council and Leeds City Council case studies focused on low carbon infrastructure. The Isle of Wight Council case study focused on new build developments and redevelopments of existing sites that play a role in the council-led ‘Isle of Opportunity’ regeneration programme.

You can explore further details of each case study, including their assessment of investment-based crowdfunding, in the Appendix to the main report.

LOCAL AUTHORITY GUIDE

The research found that there was a potential crowdfunding option for each different project delivery model. These were:

DONATION (CIVIC CROWDFUNDING)

Donation-based crowdfunding provides a model for accessing community capital to fund non-core Local Authority services or to support the development of assets that might have value to a specific section of the community but less value for the wider community. An example could be where a community adjacent to a park redevelopment donate money for additional non-core facilities within a park e.g. a skate park. The research identified risks derived from existing wealth inequalities between different groups in a community, but it was considered that this model could also be used to encourage wealthier sections of a community to contribute funds to provide additional facilities for poorer areas. Overall the model was considered feasible and desirable in the right context and with a Local Authority championing a project via its role as convener in the community.

DEBT CROWDFUNDING (PROJECT FINANCE)

In projects where the council decides to transfer project risk or ownership to non-state actors (not-for-profit or for-profit), the research demonstrated that the project procurement process could be used to direct bidders to consider incorporating crowdfunding on the basis it does not increase project costs for the council. Using the procurement process to drive more social value from the financing of local projects is an exciting idea identified within the report, which in turn could help to localize the economic benefit of project development, while also building better community engagement.

COMMUNITY MUNICIPAL BOND

A key output of the research was the development of a Community Municipal Bond structure. This is a new model of public sector crowdfunding, created by the research team working with the local authority case studies, which offers the potential of providing low cost capital for local authorities while also delivering socially and environmentally positive outcomes.

For example, with the value of low carbon and social housing infrastructure being driven to a large extent by the cost of capital, the report identifies Community Municipal Bonds as a powerful concept with the scope to mobilize capital from civic-minded investors through 'place-based' offers to deliver projects under the banners of Green Bonds and Social Housing Bonds.

Community Municipal Bonds are issued by the council corporate body and administered by a crowdfunding platform, with resident and general public investors purchasing the bonds. The research indicated that there was a multi-billion market of retail investment money that could be directed into local authority funding via the Community Municipal Bond approach.

The research with Bristol City Council and Leeds City Council concluded that investment-based crowdfunding had the potential to provide capital on terms that were both better than the main council borrowing channel, Public Works Loan Board ("PWLB"), and through a process that emulates the ease of use of PWLB, while also offering the potential to deliver significant wider benefits to their communities.

LOCAL AUTHORITY GUIDE

“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

POTENTIAL SOCIAL BENEFITS OF COMMUNITY MUNICIPAL BONDS

Beyond the potential to reduce borrowing costs for a council, the research found that Community Municipal Bonds could provide wider co-benefits:

Building engaged and active citizenship. Community Municipal Bonds can be delivered with a minimum investment of £5 and are ISA* and pension eligible, which combined make them highly accessible for ordinary savers. They also create a new platform for engaging and communicating with local residents. Earlier research from the Local Government Association (2008)¹ indicates that higher levels of local government transparency and communication increase resident's support and trust;

Local finance for local investment. By engaging citizens, Local Authorities would enable locally saved capital to be invested in local infrastructure – thus opening a virtuous circle of citizens enabling investment that both improves the local economy, environment and society whilst returning value to local people;

Support for philanthropic donations. Community Municipal Bonds, similar to charity bonds, can also be used to encourage new donation-based income streams for Local Authorities. For example, civic-minded resident investors would have the ability to donate part or all of their bond interest payments back to the Local Authorities for non-core services.

DECISION TOOL

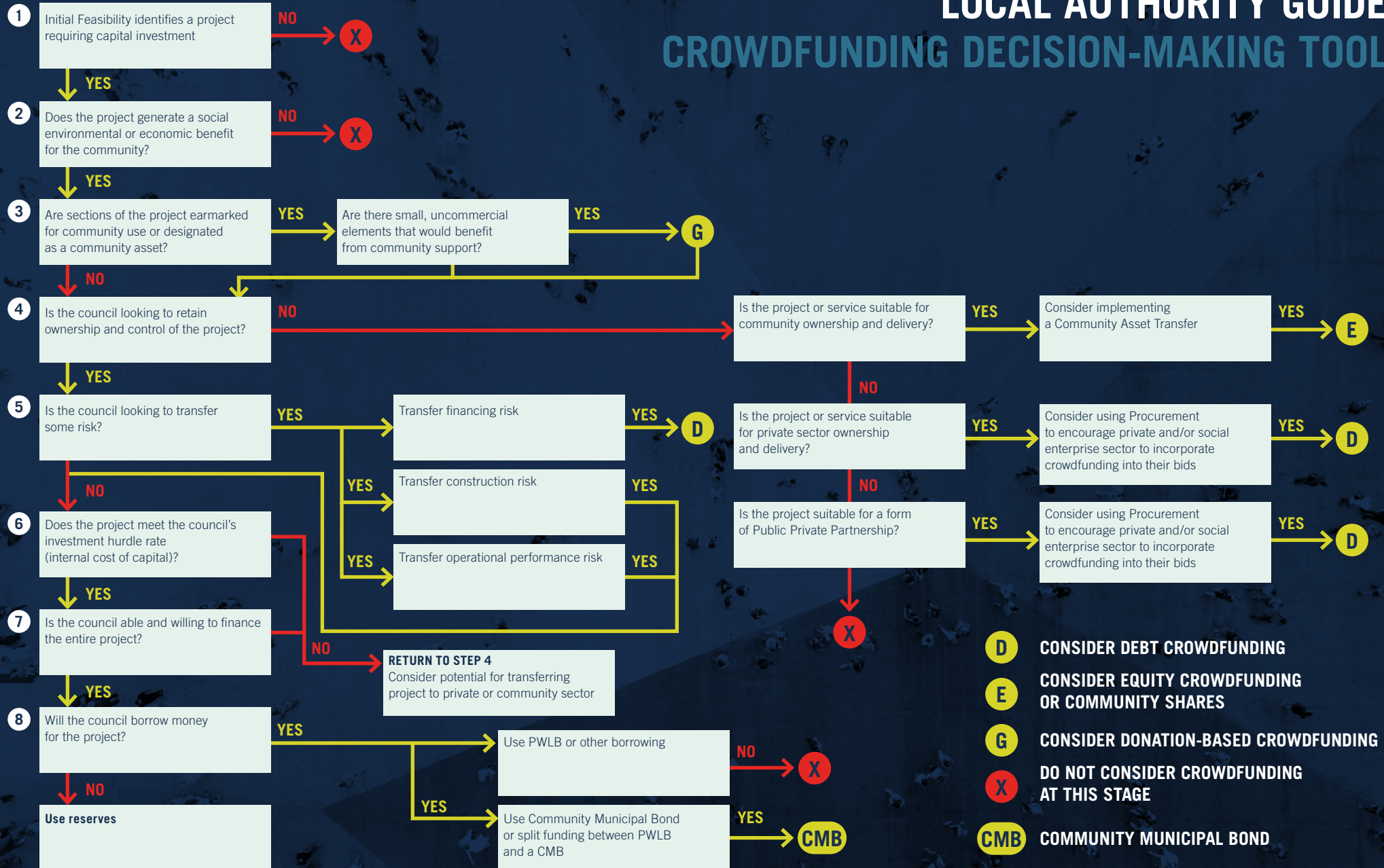
The report identified that a major barrier to the uptake of investment-based crowdfunding was a lack of knowledge and experience within capacity-pressed local authorities. To help with this, the research team worked closely with all public sector case studies to co-produce the following decision tool as a summary of how the different crowdfunding models could be used for different project types.

* Crowdfunding Loans are ISA eligible; the Government are currently considering the option of making Crowdfunding Bonds ISA eligible; a Community Municipal Bond can be effectively structured as a loan note or a bond.

¹ https://www.ipsos.com/sites/default/files/publication/1970-01/sri_localgovt_the_reputation_of_local_government_092008.pdf

LOCAL AUTHORITY GUIDE

CROWDFUNDING DECISION-MAKING TOOL



LOCAL AUTHORITY GUIDE

WHAT NEXT?

If you would like to learn more about the research findings and consider exploring or piloting the use of crowdfunding within your authority, there are a number of opportunities to engage further with this agenda:

DOWNLOAD THE FULL REPORT FINANCING FOR SOCIETY: ASSESSING THE SUITABILITY OF CROWDFUNDING FOR THE PUBLIC SECTOR.

Davis, M. and Cartwright, L. (2019) University of Leeds. DOI: <http://doi.org/10.5518/100/7>

CONTACTS

Contact the research partners Local Partnerships, University of Leeds or Abundance Investment for more information.

KARL HARDER karl@abundanceinvestment.com

ROSIE PEARSON rosie.pearson@local.gov.uk

MARK DAVIS m.e.davis@leeds.ac.uk

PARTNERS

abundance.



UNIVERSITY OF LEEDS

CASE STUDIES

