

## **POLICY AND RESOURCES COMMITTEE**

**Wednesday, 28 July 2021**

<b>REPORT TITLE:</b>	<b>COMMUNITY BONDS</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF RESOURCES</b>

### **REPORT SUMMARY**

This report provides an overview of community bonds and their uses, and how Warrington and West Berkshire Councils have used them to fund capital spend. The report assesses their use in Wirral and possible next steps.

Community Bonds/Community Municipal Investments are a form of debt/loan-based crowdfunding. Community Bonds are issued by a council corporate body, with residents and general public investors providing capital on the basis of receiving a financial return. The majority of community bonds are typically linked in some form to environmental or social criteria and provide tangible benefit to the local community beyond just financial.

Community Bond issues are generally related to a specific project. In 2020, West Berkshire and Warrington Councils issued Community Bonds to fund solar projects in the Borough. They each issued bonds to the value of £1m and worked with the crowdfunding platform Abundance to administer the bonds.

Community Bonds would support the inclusive economy strand of the Wirral Plan. Ordinarily, the interest that the Council pays on borrowing would be paid back to the lenders, typically outside of the borough. Community Bonds opens up the opportunity for local residents to become investors in the council, keeping both the investment capital and the interest payments in the local area.

There is also the potential to support the sustainable environment strand of the Wirral plan if the council decided to use community bonds to fund a project that tackles the climate emergency, as Warrington and West Berkshire have done.

Community bonds have a higher social value than mainstream borrowing. Social value could be in the form of increased community engagement, as well as directing the cost of borrowing (interest payments) back into the local area. However, Community Bonds are a more expensive means of borrowing, and at the moment, the social value attached to the bonds does not justify the extra costs.

This matter affects all wards in the borough.

This is not a key decision.

## **RECOMMENDATION/S**

The Policy and Resources Committee is recommended to:

1. Agree that guidance is developed to help assess if Community Municipal Bonds are a suitable funding stream for future capital bid projects.
2. Recommend to Council that Community Bonds be added to the Treasury Management Strategy as an alternative form of debt financing..

## **SUPPORTING INFORMATION**

### **1.0 REASON/S FOR RECOMMENDATION/S**

- 1.1 At this time, the use Community Bonds to finance capital projects would incur additional borrowing costs compared to alternative methods of financing. Members would need to weigh up any engagement advantages. Should the cost of inter-authority lending increase, Community Bonds may become a competitive source of capital borrowing for the council. To ensure that Community bonds are considered in the future, they should be added to the treasury management strategy as an alternative form of debt financing. Guidance should also be developed to help explore Community Bonds as a borrowing option at the capital bid stage.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 To not add community bonds to the Treasury Management Strategy. Should inter-authority rates change in the future, not considering Community Bonds as an alternative form of debt financing would reduce our borrowing options.

### **3.0 BACKGROUND INFORMATION**

At a Council meeting on 22<sup>nd</sup> March 2021, a motion on Community Investment Bonds was passed, which called on the Policy and Resources Committee to complete an examination of Community Investment Bonds. This work was to include:

- A review of the use of Community Investment Bonds elsewhere in the country.
- An assessment of their potential application to fund projects in Wirral.
- An outline of the practical steps required to set up Community Investment Bonds in Wirral.

As part of this, Wirral commissioned a report by Camdor Global advisors, for an overview of community bonds.

- 3.1 Crowdfunding is a way of financing projects, businesses, and loans through small contributions from a large number of sources, rather than large amounts from a few. Individuals deposit money on an online crowdfunding platform, committing that money to a specific project, business, or loan, and have that relationship mediated by a platform. Crowdfunding in the UK can be divided into three areas; donation based, civic crowdfunding and debt/loan-based crowdfunding.

#### **3.1.1 Donation/Rewards-based crowdfunding platforms**

This is usually a financing platform for charities, other smaller non-profit organisations and individuals undertaking charitable activities. Investors typically believe in the project's social/environmental goals with the donation furthering this aim. The returns are non-financial. This included platforms such as JustGiving and Crowdfunder.

#### **3.1.2 Civic Crowdfunding**

Civic crowdfunding uses the donation-based crowdfunding model to bring individuals to donate money for their local community, e.g. to a community fund. Example platforms are Crowdfunder, Spacehive, Hubbub, Abundance.

### 3.1.3 Debt or loan-based crowdfunding platforms

This type of platform enables debt finance to companies or businesses, bypassing the traditional need for banks. Typically, the lender will receive interest on the money lent and the lender will either be repaid the principal at maturity or amortised over the life of the loan. Community municipal investment (community bonds) are in this category. Example platforms are Funding Circle and Abundance.

3.2 Community Municipal Investments are issued by a council corporate body, with residents and general public investors providing capital on the basis of receiving a financial return. Issuances are typically small and in the region of £0.25mn – £10mn for a single issue. The investments give a mix of financial and social returns, typically providing investors with certainty of returns (i.e. in line with a low risk appetite) and often meeting the funding requirements of a specific project. It is important to note that the majority of community bonds are typically linked in some form to environmental or social criteria, e.g. funding solar projects, regeneration etc., or in other words, providing tangible benefit to the local community beyond just financial.

3.2.1 In principle, any local authority capital project could be financed through a Community Municipal Bond, as there are no obvious restrictions on purpose. However, from research conducted by the University of the Leeds, it is clear that the social and environmental aspects are important to investors.

3.2.2 As there is also no restriction on using multiple sources of financing, a Community Municipal Bond could theoretically be run alongside a traditional borrowing or investment process, e.g. cash balances, PWLB, etc. For example, in the case of the Warrington bond, the community bond was used to part fund the solar farm with other borrowing and sources of finance making up the rest.

3.2.3 Debt or loan based crowdfunding platforms are fairly new, with the first Community Municipal Bond, issued by Swindon Council in 2016. The main platforms in the UK that host investment-based crowdfunding are Funding Circle and Abundance. Funding Circle focusses on small businesses, while Abundance has worked with a number of Local Authorities (Swindon, Warrington and West Berkshire) to issue Community Municipal Investments. Warrington and West Berkshire issued the following bonds in 2020:

<b>Issuer</b>	West Berkshire	Warrington
<b>Year Issued</b>	2020	2020
<b>Investment Funding Target</b>	£1m	£1m
<b>Maturity</b>	2025	2025
<b>Internal Rate of Return</b>	1.2%	1.2%
<b>Platform</b>	Abundance	Abundance
<b>Purpose</b>	Tackling the climate emergency by building new solar installations.	Helping Warrington to tackle the climate emergency by part funding a new solar farm.

3.2.4 It is important to note that Community Bonds are classed as borrowing and as a result:

- Will have an impact on the revenue budget in the form of interest payments and the minimum revenue provision (MRP).
- Will have to be paid back at maturity.
- Will be subject to the normal Local Authority borrowing rules and the Prudential Code.
- Can only be used for capital spend and cannot be used for day to day running of the council (revenue spend).

### Cost of Capital

3.3 One of the main arguments for Community Bonds is that they provide a competitive source of capital for Local Authority compared to the Public Works Loan Board (PWLB). The current PWLB rates are below. The West Berkshire and Warrington bonds, issued at 1.2% had the aim of matching the PWLB rate, however it is up to the issuing authority to set the rate at their chosen level – choosing to either match or undercut the PWLB rate. There are also additional costs to consider such as the arrangement fee and legal costs associated with establishing the bond issue. Warrington and West Berkshire also had legal documents relating to the bond issue reviewed by external lawyers at a cost of £2,500.

Issuer	Maturity	Annuity Rate (%)	Maturity Rate (%)
PWLB	3 years	1.10	1.21
PWLB	5 years	1.16	1.40
PWLB	10 years	1.43	1.86

3.3.1 However, the PWLB is not the only source of capital available to the council. Currently, the Council's main source of external capital is from inter-authority lending. Indicative rates are below. Inter-authority lending is for a shorter time frame, however the treasury management team are able to ensure that borrowing is always at the correct level. The rates for inter-authority lending are significantly lower than the PWLB and community interest bonds.

Indicative Inter-authority Lending	
Maturity	Rate (%)
1 month	0.01
3 months	0.02
6 months	0.03 - 0.05
9 months	0.05 - 0.07
12 months	0.08 - 0.12

The table below shows comparison of indicative borrowing costs. Please note that these are estimates.

Lender	Amount (£)	Term (years)	Rate (%)	Arrangement Fee/Broker Fee (%)	Total borrowing costs (%)	Total borrowing costs (£)
PWLB	1,000,000	5	1.4	N/a	1.4	70,000
Inter Authority	1,000,000	5	0.12	0.5	0.62	31,000
Community Bond	1,000,000	5	1.2	0.2	1.4	70,000

Currently inter-authority lending is the cheapest source of borrowing for the council.

### **Why Issue Community Municipal Investments?**

3.4 Evidence from the University of Leeds suggests that community bonds, when compared to existing sources of local authority financing (e.g. PWLB, Municipal Bond Agency, Bond Issuance to institutions, Inter-Authority Lending), the issuance of a Community Municipal Bond has several key social impact benefits that help to make it attractive for public sector bodies. It:

- Drives local engagement in local authority activity by offering a new channel for communicating strategy and progress to residents, increasing awareness and fostering ongoing support for local authority activities;
- Redirects returns on capital to local residents who have invested in the bonds, which are then likely to be spent in the borough; and
- Has the potential to encourage new donation-based income streams from civic minded resident investors, who may begin to donate bond interest payments back to the local authority for non-core services

3.4.1 For investors, the attraction is the opportunity for their money to create socially and environmentally positive outcomes.

### **Risks Associated with Community Bonds**

3.5 There may be reputational risks if the council was unable to repay the bonds at the maturity date, and local investors lost capital. However this is extremely unlikely. There are additional reputational risks should the Council fail to deliver the project as anticipated.

3.5.1 There is also the risk of not being able to raise sufficient capital. This might be easier to manage on smaller scale projects, as the risk of not raising the required funding decreases. Warrington and West Berkshire were able to hit their £1m funding target well before the deadline.

3.5.2 As this is a new avenue, the council would need to engage with platforms and other providers to create and distribute these bonds. This would open the council up to operational and counterparty risks.

- 3.5.3 It is also important to consider, given the level of deprivation in some areas of the borough, Community Bonds could exclude some residents from being engaged with the project.
- 3.5.4 Community bonds would be a new source of funding for the council, and many investors for the project have to be found. This could take a significant amount of time and could lead to delays of the overall capital project. To reduce this risk, alternative sources of funding such as community bonds should be considered as early as possible, ideally at the capital bid stage.

### **Community Bonds in Wirral**

- 3.6 Community bonds have the potential to fund capital spend in the Wirral, however they are currently a much more expensive form of borrowing than inter-authority lending. The extra cost of borrowing would have to be considered against the additional social value of a community bond issue. In light of the current budget position, the extra revenue costs generated by financing capital spend via a community bond issue rather than inter-authority lending would need to be justified.
  - 3.6.1 Alternative forms of capital finance such as Community Bonds should still be considered as a future source of potential financing as interest rates for other financing sources may change making the advantages of Community Bonds more advantageous.
  - 3.6.2 The advantage to not use community bonds as a source of capital funding while inter-authority lending rates are so low. However, as inter-authority rates may increase in the future it would be useful to develop guidance to help assess if community bonds could be a suitable source of capital funding for a project. Any bond would require proper regulatory oversight, marketing and administration. It would therefore be likely that as others have done a partner would need to be procured to undertake the administration. Fees for this are assumed to be 0.2% of the bond value but would need to be confirmed

## **4.0 FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications involved with the recommendations in this report. There would be implications were there be a decision to proceed with a bond issue and these would be reported back to a later committee meeting. Any bond issue would require repayment on maturity and likely annual provision for repayment so would require financing identifying.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 There are no legal implications associated with the recommendations in this report.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 6.1 Time required to develop the criteria can be worked into existing staff resources. There are no direct implications on ICT and assets.

## **7.0 RELEVANT RISKS**

- 7.1 There are no relevant risks to the recommendations of this report. Risks of Community Bonds more generally are included in the background information at 3.5.

## **8.0 ENGAGEMENT/CONSULTATION**

- 8.1 Crowdfunding platform, Abundance was contacted to gather information on arrangement fees for a community bond issue.

## **9.0 EQUALITY IMPLICATIONS**

- 9.1 There are no equality implications involved with the recommendations in this report. Any further decisions related to community bonds may need an equality impact assessment.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

- 10.1 Warrington, West Berkshire Councils issued bonds to fund projects that had a clear aim of tackling the climate emergency. If Wirral Council were to choose a project to fund similar to Warrington and West Berkshire then there would be a positive environment and climate impact. There are no direct environmental and climate implications of this report.

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## **APPENDICES**

No appendices.

## **BACKGROUND PAPERS**

- Community Bonds Overview; Camdor Global for Wirral Council
- Financing for Society: Assessing the Suitability of Crowdfunding for the Public Sector. The University of Leeds.

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Motion passed at Council</b>	<b>22/03/2021</b>