
Community Investment Scheme – Supporting Information

1. Introduction/Background

- 1.1 The Council has the opportunity to become part of a nationwide pilot exploring using community municipal bonds or loans (“bonds”) to fund infrastructure for the Council. The community bond would be focussed on capital schemes that would assist the Council in delivering its Environment Strategy and meeting the aims of the climate emergency declaration made by the Council in July 2019.

2. Supporting Information

- 2.1 The Council has a clear strategic intent to maintain a green district, whilst at the same time has an investment need to help achieve this priority. There is an opportunity for the Council to help address these challenges through the issuing of ‘Climate emergency bonds’ that utilise individuals’ spending power to deliver schemes at a cheaper borrowing rate for the Council. Recent research from the University of Leeds (<https://baumaninstitute.leeds.ac.uk/research/financing-for-society/>) highlights that alternative sources of finance are available, and this is an area of greater interest for the Council following the cost of traditional finance for infrastructure being increased by HM Treasury recently.
- 2.2 The Council would have the ability to raise finance, in a similar ease as it currently does through the Public Works Loans Board (PWLB), but this finance would come via residents and retail investors investing in a community bond specific to West Berkshire Council.
- 2.3 The bond would be issued with the help of a company, Abundance, who are FCA (Financial Conduct Authority) registered and would administer the bond. There is currently EU funding to provide local authorities with money to complete legal due diligence on this scheme and Abundance are the organisation that have been selected to run the pilot (<https://www.abundanceinvestment.com/>).
- 2.4 The scheme would work by the Council selecting a specific scheme and programme and a value for this scheme. The scheme would need to be capital in nature as the bond would need to fund capital works just as PWLB borrowing does at present. The scheme range would ideally need to be at a minimum of £1m. It is proposed that as part of this pilot, the Council selects climate change initiatives e.g. Solar PV or cycling infrastructure to be funded through this as a ‘Climate emergency bond’. This would clearly meet the Council’s strategic priority for improvement of ‘Maintain a green district’. This platform would then provide the Council with the ability to communicate effectively with residents and investors on the schemes selected and to improve social value created.
- 2.5 The cost to the Council of the bond would be to secure a borrowing rate of no more than the prevailing PWLB certainty rate; anything above this would in effect be to subsidise people saving into the community bond which would be an unintended

and undesirable consequence. The initial view (September 2019) was that the bond would be 5 basis points below PWLB with the potential to be up to 35 basis points lower. With the low rates that the Council could already borrow at, this could have been a further benefit of up to £10k on a £1m bond. It would also benefit the Council to have an alternative source of borrowing other than directly from government, where there is always the risk that the rates will change due to government policy rather than purely just the prevailing gilt market rate. The Council's treasury management policy is being updated to reflect a wider range of potential borrowing sources available. However, on 9th October 2019 the government increased borrowing costs to local authorities by 100 basis points (1%). As a consequence, the amount that the Council could save through issuing bonds, rather than borrowing directly from the PWLB, will now be greater than initially proposed. The final amount will be clarified once due diligence has been undertaken and the scheme is ready to commence issuing bonds.

- 2.6 The scheme would work by the Council having a borrowing rate of, for example, 1.5%, though this is purely as an example, the actual rate will be determined at the time of issue. Abundance would provide the administration of the scheme, arrange the issuing of bonds, work with the Council on communications literature on what the bond is supporting, manage the payments of interest etc, and would receive a margin on the issue of the bond to retail investors of, for example, 0.30%
- 2.7 Currently the bonds are not ISA eligible, however the interest earned would be covered under the Personal Savings Allowance so most ordinary investors will benefit from their interest being tax free regardless of whether it is ISA eligible or not. ISA eligibility is desirable as it will increase the interest from potential investors, however it is not critical for piloting the concept and we expect there to be significant demand in any case as many investors would be investing for altruistic reasons as well as for financial reasons.
- 2.8 Currently bonds that are issued by local authorities are not eligible for inclusion in the Innovative Finance ISA (crowdfunding ISA). This was simply because when the rules were originally written, the concept of local authorities issuing bonds had not been considered. However, crowdfunded loans are Innovative Finance ISA (IFISA) eligible and this inconsistency came about due to the fact that in the case of bonds the issuer is defined within the rules, whereas with loans the borrower is not defined. The Financing for Society team at the University of Leeds have engaged HMT & HMRC to secure an amendment to the IFISA rules so that bonds issued by local authorities are ISA eligible.
- 2.9 To provide an alternative option, Abundance has also sort a Variation of Permission from the Financial Conduct Authority to allow them to arrange loans. Abundance expect their loan permission by April. A decision will be taken ahead of launching the bond regarding what instrument to use based on the information at the time.
- 2.10 In the South East, 46.4% of adults hold an ISA with the average holding being £32,984, so there is a sizeable market of an estimated £1.8bn in the district. It should also be attractive as we are a very 'safe' haven for investors as we would be seen as equivalent to sovereign levels of financial risk, but offering an attractive return to the investor. There is a further benefit as the investment would have a very strong social and ethical basis for the investor, which is becoming increasingly important to the financial market and individuals. The investor also has the ability to

donate their financial return of interest back to the Council rather than take this as a financial return to support additional hard to fund measures and research indicates that there is appetite for this if the benefits are clearly stated. In addition, Legal & General (and the UK pension funds it represents) is exploring opportunities with Abundance to help supplement interest from retail investors.

- 2.11 There is no funding requirement for this at present. The pilot includes up to £25k of external funding for internal and external costs in setting up the bond. The due diligence is supported with external research from Trinity College Dublin on the success or otherwise of the bond issue so that there is a clear post implementation review of the project; the bond must be used for low carbon / green initiatives to qualify for the pilot.

3. Options for Consideration

- 3.1 The Council could continue to rely upon the PWLB for all future borrowing. This form of borrowing is very simple. The Council has no control over the rates being issued by the PWLB and, as has been shown recently in October 2019, PWLB rates can suddenly change which puts at risk schemes and makes longer term financial planning much more difficult.
- 3.2 The Council could also seek to fund schemes through other non PWLB sources. The Council is exploring those options at present, but this will take a longer period of time to explore and implement, if appropriate.
- 3.3 Both PWLB and non-PWLB borrowing do not have the benefit of engaging with the community on climate change schemes and do not allow for greater direct involvement from citizens in the Council's activities.

4. Proposals

- 4.1 For the Executive to approve that the Council is included in the pilot scheme to issue community bonds
- 4.2 Following successful admission as a pilot authority, for the Executive Director (Resources) to take a paper to the Executive on the scheme proposal, following due diligence, in 2020.

5. Conclusion

- 5.1 The Council has an opportunity to be part of a wider pilot for issue community bonds and so find an alternative financing source whilst meeting its strategic objectives.

6. Consultation and Engagement

- 6.1 The following groups and officers have been consulted on this report
- (1) Environment Board
 - (2) Corporate projects board
 - (3) Finance, legal and communications officers

Background Papers:

Public Works Loans Board (PWLb) update on Treasury change to margins on new loans
<https://www.dmo.gov.uk/responsibilities/local-authority-lending-pwlb/what-s-new/>

Wards affected: ALL

The proposals contained in this report will help to achieve the following Council Strategy priority):

☒ **GP2: Maintain a green district**

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