
Launch of a Community Bond

Committee considering report:	Executive on 30 April 2020
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed report:	16 April 2020
Report Author:	Joseph Holmes
Forward Plan Ref:	EX3896

1 Purpose of the Report

This report seeks approval from the Executive for the Council to launch a Community Bond of £1m. This bond will be for retail investors, with marketing and promotion to West Berkshire residents, to enable the Council to fund some of its activities that deliver the Environment Strategy at a cheaper financing rate than using the Public Works Loans Board (PWLB), which is the Council's traditional source of borrowing.

2 Recommendations

- 2.1 That the Executive considers the results of the due diligence work and notes the summary
- 2.2 That the Executive approves the launch of the Community Bond subject to final sign off of the necessary legal agreements delegated to the Legal Services Manager in consultation with the Executive Director (Resources)
- 2.3 That the Executive delegates to the Executive Director (Resources) in consultation with the Portfolio holder for Finance the date of the formal launch of the bond, the bond length period, and bond issue rate so long as it is below the PWLB rate.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	Assuming a 5 year bond is issued at the prevailing rates in March 2020 and the bond is issued at around 50 bps below the prevailing PWLB rate, the net saving over the bond life would be just between £13k (for a 5 year bond) & £24k (for a 10 year bond). Though this is not a significant saving on its own, it does represent a reasonable reduction in the overall cost of borrowing as detailed below.

Launch of a Community Bond

	5 Year Bond	5 Year Annuity Loan (PWLB)
Arrangement Fee	£1,875	£350
Total interest payable	£40,026	£54,122
Net Cost	£41,901	£54,472

The Council is due to receive £20k of funding in three tranches to cover the cost of due diligence works for the bond issue.

Human Resource: None

Legal: This is a different structure of borrowing compared to borrowing from the PWLB. The due diligence work has concluded that the bond can be issued by the Council working with Abundance Investment. A summary of the Legal work completed as part of the due diligence period is included in the main body of the report.

The contract has been awarded to Abundance to administer the scheme directly and signed off by the Council's procurement board. Any further significant bond issue would need to be subject to a full procurement process.

Risk Management: Risks have been managed through the corporate PMM framework and considered by a specific project board with accompanying risk register.

One key risk with the launch of the bond is a lack of uptake from investors and the bond not occurring; Abundance in discussion with Legal & General to invest in order to support achieving the £1m raise target and so ensure that the bond is launched.

The key risk in light of C-19 is the lack of a developed Solar PV to apply the Bond to and the lack of public appetite for investment in the financial climate at the current time.

Launch of a Community Bond

Property:	The proposal itself does not have a direct impact on Council property; however, the schemes that Council chooses to fund through the bond are on Council property and the implications are considered through the individual schemes.			
Policy:	This proposal is strongly aligned to the Council Strategy through finding an alternative funding source to enable a cheaper way of delivering the Council Strategy priority of 'maintain a green district'. The scheme also supports the move towards carbon neutrality through delivery of schemes and this model assists in communicating the implementation of the Environment Strategy.			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		No impact
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		No impact

Launch of a Community Bond

Environmental Impact:	X			This scheme should enhance the environmental impact through enabling the delivery of the Environment Strategy.
Health Impact:		X		None
ICT or Digital Services Impact:		X		Information governance has been considered and the information security officer is content with the systems for security that Abundance have in place.
Council Strategy Priorities or Business as Usual:	X			Supports the delivery of CP5 'maintain a green district'.
Data Impact:		X		This has been completed and a stage 2 assessment has been completed and attached

<p>Consultation and Engagement:</p>	<p>Engagement has taken place with:</p> <ul style="list-style-type: none">• Environment Board• Portfolio holders with responsibility for finance and the environment• West Berkshire Parish Councils through the District Parish Conference• Abundance research – below is a highlight of a focus group that Abundance undertook comprising five individuals who provided a representative sample of West Berkshire. Respondents were recruited by the firm Independent Fieldwork. The research and supporting report will be published in May by PCAN and the University of Leeds following their review of the data and findings. <p>“In the quantitative survey 63% Strongly Agreed or Somewhat Agreed with the statement “I would like my local authority to take a more proactive approach to climate” and only 3% Strongly Disagreeing. In line with the quantitative data, in the focus groups, residents were very supportive of the council taking a leadership role in tackling climate change.</p> <p>Overall 73% of UK investors were Very or Quite interested in the concept of Community Municipal Investments. Focus group Respondents from West Berks were strongly supportive of the concept.</p> <p>In areas where residents have a strong sense of place-based community, the proposition was more immediately attractive. For West Berks residents, whose ideas of community were less “place-based”, the proposition offered potential to transform how people they felt about their relationship with their area and the local council – “for me it’s the local aspect of it that is the biggest appeal.”</p> <p>A key feature must be knowing exactly what the money will be used for, and having some level of choice over what they invest in - “If I have a choice over where my money’s going it gives me a sense of control”</p> <p>A communication plan is in place with Abundance and the Council jointly owning this and signing off communications.</p>
--	--

4 Executive Summary

- 4.1 This report sets out the outcome of the work undertaken on due diligence of the community bond issue, and the next steps for issuing the Council's first ever bond.
- 4.2 In December 2019 the Executive approved for the Council to enter into due diligence on a pilot, with other Councils, for issuing 'community bonds'. The pilot scheme was for the issue of a single bond for £1m, and the Council will use this bond to help finance its Environment Strategy. To begin with, the bond will fund the Solar PV pilot and some of the activities in the Capital strategy approved by Council in March 2020. These schemes include:
- Further Solar PV scheme
 - Natural carbon reduction measures
 - Urban Tree Fund
- 4.3 The due diligence is being concluded and the Council has utilised external advice where appropriate, that the scheme conforms to our legal and financial requirements and that the bond can be launched from the 1st May 2020 subject to a final legal review per the recommendations.

5 Supporting Information

Introduction

- 5.1 The report is seeking approval for the Council to launch a bond to help reduce its financing costs for schemes related to the Environment Strategy and more effectively communicate the Council's policies.

Background

- 5.2 In December 2019, the Executive approved for the Council to be included as a pilot scheme, with other local authorities, to consider launching a 'community bond'. As part of the pilot, the Council has needed to undertake due diligence of the scheme itself and of Abundance Investment, the organisation who are overseeing the pilot scheme and who will administer the bond issue.
- 5.3 The other pilot authorities are Blaenau Gwent, Warrington Borough Council, Leeds City Council and the London Borough of Kingston upon Thames. The Council will be working with the other pilot authorities to share learning from the scheme, though West Berkshire is likely to be the first Council to launch a bond from the pilot authorities.
- 5.4 As part of the pilot scheme, the Council is due to receive £20k of monies via SocialRes and these are detailed further in the report. The Council also receives the benefit of a subsequent report from the Trinity College Dublin, who will research changes in the attitude of investors to the Council and sustainable development / climate change more broadly.

Proposals

- 5.5 There are a variety of elements contained within the scheme and the due diligence has been completed on these areas. As part of being in the pilot scheme the Council is due to receive £20,000 to undertake due diligence work and to have the benefit of an independent study on the impact of the scheme. The Council has received just under £10k initially, with a further tranche due from September 2020 of £7k. The residual amount will be paid from October 2022.
- 5.6 The scheme works, and is structured, as a bond. Retail investors will invest money, with £5 being the minimum investment, for a fixed period (the initial bond will be for a 5 year period), and will receive income at regular intervals. The initial rate offered to the Council is expected to be at around 0.5% below the PWLB rates.
- 5.7 The Council is expected to benefit through this offering as a cheaper alternative to PWLB borrowing. The prevailing rate of a PWLB loan over 5 years is around 2%. The Council will pay a rate around 0.5% below this rate. The financial implications section includes the model of a 5 year bond (though over 10 years, if that bond length was considered, the saving would be £24k after fees are paid). The investor or Council will pay a fee to Abundance Investment, depending on the final agreement.
- 5.8 The issuing of the bond and regular interest payments, gives the Council a good opportunity to communicate and engage with investors, as alongside interest repayments, the Council can promote what the investment has delivered for the Environment Strategy. The Council will also be able to promote future schemes that it is completing as part of the strategy and engage with residents and investors on these.

Outcome of due diligence work:

Legal summary

- 5.9 Work has been completed on the legal due diligence. To date this is progressing well with no significant issues raised. The bond issuance document is being reviewed externally on behalf of a number of the pilot Councils.

Finance summary

- 5.10 Firstly, the finance service has undertaken checks on Abundance Investment and these satisfy the Council's standard credit checks.
- 5.11 The scheme has been reviewed by an external firm, Link Asset Services, for the accounting and auditing implications of the scheme. This includes the accounting treatment of the bond and the auditing requirements for the bond and any impact on the audit of the financial statements by Grant Thornton (the Council's external auditors).
- 5.12 The summary of the work completed by Link Asset Services is that the Council has clear accounting treatment guidance to follow and that, for the external audit of the financial statements, there is no significant additional impact
- 5.13 There are a number of key elements in the scheme proposals

Launch of a Community Bond

- (1) Successful launch and marketing of the scheme. This scheme will be open from a date after the 1st May for people to invest in. The investment will be targeted at retail investors, i.e. individuals. The marketing material will be focussed on residents of the district, and ideally the Council would want a majority of investors to come from within the district. However, it will take time for people to be aware of this scheme, so the first bond may have a broader mix of investor.
- (2) Establishing an initial pipeline of activities that the bond can be utilised against. To commence with, this will fund the Solar PV pilot and be utilised on the further roll out of Solar PV across other sites up to a maximum of £1m. If other schemes in the capital programme are commenced beforehand, this bond could be used to fund this, to be the initial focus is for the bond to fund Solar PV schemes. Ensuring that there is a minimum of £500k pledged in the initial bond offer. Anything below this level will be refunded to investors. Legal & General (and the UK pension funds it represents) are exploring opportunities with Abundance to help supplement interest from retail investors, to protect against this eventuality, and so this provide protection to the Council to deliver a £1m bond issue.
- (3) Delivering a simple administration of the bond for investors. The Council is working with Abundance Investment to deliver this. The Council will not be involved in the day to day running or management of the scheme.

Success factors

5.14 The bond will be considered against three critical success factors

- (a) The ability to provide a £1m financed budget for the 'maintain a green district' priority that is at the same or cheaper cost compared to the PWLB in 2020 at launch
- (b) Provide consistent administration and returns to investors through the life of the bond
- (c) To deliver regular communications material to inform investors, and improve social value and the reputation of the council

5.15 These success factors will be considered over a period of time, however, within 3 months of the launch period, the ability to deliver on items a) and b) above will have been tested. The final success factor will need to be considered through further research though, to an extent, the successful uptake of a bond will demonstrate that there is willingness, from investors, to trust the reputation of the Council.

6 Other options considered

- 6.1 The Council could opt to remain utilising PWLB; this is at a higher cost to the taxpayer than this route.
- 6.2 Seek alternative financing routes; the Council is actively considering these, though in the current timescales, further due diligence is required before utilising any of these options.

Launch of a Community Bond

6.3 Neither of the other options include the ability to enhance engagement with residents over the Council's Environment Strategy.

7 Conclusion

7.1 The outcome of the respective legal and financial due diligence has identified no significant issues to prevent the Council from launching the bond. The bond will be subject to a review as part of the closure of the project, with any decision to proceed with future issues based on the outcome of that review.

8 Appendices

Appendix A – Data Protection Impact Assessment

Appendix B – Data Protection Impact Assessment stage 2

Background Papers:

West Berkshire Council Executive report - 19th December 2019

Abundance Data privacy policy and data protection policy

Subject to Call-In:

Yes: No:

The item is due to be referred to Council for final approval	<input type="checkbox"/>
Delays in implementation could have serious financial implications for the Council	<input type="checkbox"/>
Delays in implementation could compromise the Council's position	<input type="checkbox"/>
Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months	<input type="checkbox"/>
Item is Urgent Key Decision	<input type="checkbox"/>
Report is to note only	<input type="checkbox"/>

Wards affected: ALL

Officer details:

Name: Joseph Holmes
Job Title: Executive Director (Resources)
Tel No: 01635 503540
E-mail: joseph.holmes1@westberks.gov.uk

Launch of a Community Bond

Document Control

Document Ref:		Date Created:	
Version:		Date Modified:	
Author:			
Owning Service			

Change History

Version	Date	Description	Change ID
1	6.3.2020	Distribution to project board	
2			

Data Protection Impact Assessment – Stage One

The General Data Protection Regulations require a Data Protection Impact Assessment (DPIA) for certain projects that have a significant impact on the rights of data subjects.

Should you require additional guidance in completing this assessment, please refer to the Information Management Officer via dp@westberks.gov.uk

Directorate:	Resources
Service:	Finance & Property
Team:	
Lead Officer:	Shannon Coleman – Slaughter
Title of Project/System:	Community Bond
Date of Assessment:	6.4.20

Do you need to do a Data Protection Impact Assessment (DPIA)?

	Yes	No
<p>Will you be processing SENSITIVE or “special category” personal data?</p> <p><i>Note – sensitive personal data is described as “data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership, and the processing of genetic data, biometric data for the purpose of uniquely identifying a natural person, data concerning health or data concerning a natural person’s sex life or sexual orientation”</i></p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>Will you be processing data on a large scale?</p> <p><i>Note – Large scale might apply to the number of individuals affected OR the volume of data you are processing OR both</i></p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>Will your project or system have a “social media” dimension?</p> <p><i>Note – will it have an interactive element which allows users to communicate directly with one another?</i></p>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>Will any decisions be automated?</p> <p><i>Note – does your system or process involve circumstances where an individual’s input is “scored” or assessed without intervention/review/checking by a human being? Will there be any “profiling” of data subjects?</i></p>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Launch of a Community Bond

	Yes	No
Will your project/system involve CCTV or monitoring of an area accessible to the public?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Will you be using the data you collect to match or cross-reference against another existing set of data?	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Will you be using any novel, or technologically advanced systems or processes?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<small>Note – this could include biometrics, “internet of things” connectivity or anything that is currently not widely utilised</small>		

If you answer “Yes” to any of the above, you will probably need to complete [Data Protection Impact Assessment - Stage Two](#). If you are unsure, please consult with the Information Management Officer before proceeding.