Hackney

Title of Report	Community Municipal Investment - Green Loan Issuance	
Key Decision No	F S296	
For Consideration By	Cabinet	
Meeting Date	26 February 2024	
Cabinet Member	Cllr Robert Chapman, Cabinet Member for Finance, Insourcing and Customer Service Cllr Mete Coban, Cabinet Member for Climate Change, Environment and Transport	
Classification	Open with Exempt Appendix	
Ward(s) Affected	All	
Key Decision & Reason	Yes	Significant in terms of its effects on communities living or working in an area comprising two or more wards
Implementation Date if Not Called In	6 March 2024	
Group Director	Jackie Moylan, Interim Group Director, Finance	

1. Cabinet Members' Introduction

1.1. Climate emergency is one of the key challenges facing our borough, which is why the Council has committed to doing everything within our power to reach our net zero emissions target by 2030. When it comes to tackling the climate crisis, we see ourselves as one of the most ambitious councils in the country. Since we declared a climate emergency in 2019, we've planted thousands of new trees, installed new zero-carbon energy on many of our buildings, and transformed more than half of Hackney's streets to make them better for walking and cycling.

1.2. As we have set out in our Climate Action Plan we want everyone in Hackney to work together to; change what and how we buy and consume; make our buildings more energy efficient; change how we get around; adapt our infrastructure and protect the most vulnerable; and, make sure Hackney's public spaces are greener, cleaner and more biodiverse.

1.3. Our vision includes a commitment to engage with our residents to support our Climate Action Plan and our commitment to explore alternative funding opportunities to deliver our ambitions. The proposal set out in this report to issue a Hackney Community Municipal Investment arranged through a crowdfunding platform authorised and regulated by the Financial Conduct Authority is one of the alternative funding opportunities.

1.4. The Community Municipal Investment approach presents a chance for local residents to back initiatives delivered by the Council that empower others in their community to address the climate crisis. Through this method, they are also making an investment in the green economy for the future.

1.5. Residents will have the opportunity to receive guaranteed interest payments for an investment as small as £5, and also, throughout the duration of the Community Municipal Investment, they will be assured the return of their initial investment.

1.6. We commend this report to Cabinet

2. Interim Group Director's Introduction

2.1. The Council's capital programme has a number of schemes and capital projects over the medium term to contribute to delivering our net zero carbon ambitions as set out in the Climate Action Plan. These projects could be taken forward through the financial support of our communities.

2.2. We are looking to launch a Community Municipal Investment (CMI) on a platform that enables peer to peer (P2P) lending between the Council, its residents, and other lenders who want to invest in green projects throughout the borough. The CMI will be structured as a green loan and the capital raised will finance green initiatives. As part of the CMI administration we will report periodically to the lenders on how the capital is deployed.

2.3. Abundance Investment Ltd will be engaged to assist us in realising this our ambition and will host the platform through which the Hackney CMI will be available. This platform enables the Council to raise funding from residents and other retail investors, through a tried and tested operational model which will provide a robust and effective administration of the investment opportunity.

2.4. Abundance created this financial product and have successfully supported the launch of all the UK local authority CMI opportunities to date. They are the market leader for community municipal and local authority security, P2P loan arrangements having acted as the intermediary for several local authority arrangements across the country. Abundance's deep understanding of the market dynamics of renewable energy investments and their commitment to ethical, environmentally beneficial projects makes them experts in this field.

2.5. Council is always exploring alternative forms of financing as part of its wider borrowing strategy. This proactive approach ensures a diverse range of funding sources, crucial for effective risk management and financial stability.

2.6. The Treasury Management Strategy (TMS) proposed as part of the Budget and Council Tax Setting report to Full Council on 28th February includes the addition of lending via a peer-to-peer platform as a source of borrowing to paragraph 7.7 of section 7 of the Council's Borrowing Strategy. The Community Municipal Investments (CMI) Green Loan proposed in this report falls under this category of borrowing and therefore will be permissible under our TMS, if approved by Council. The Budget setting report recommended to Full Council is under item 10 of this agenda.

3. Recommendations

3.1. To approve the launch of the Hackney Community Municipal Investment - Green Loan in May 2024 to finance green initiatives.

3.2. To approve the conditions of the first Hackney Community Municipal Investment launch as set out at paragraph 9.3.5 and to delegate authority to the Interim Group Director Finance, in consultation with the Acting Director, Legal, Democratic and Electoral Services, to enter into any agreements that may be necessary.

4. Reason(s) for decision

4.1. Hackney CMI Green Loan will enable the Council to finance some of its green initiatives, thereby supporting the transition to a low-carbon economy and positively impacting the environment. The CMI benefits from Individual Savings Account status with its associated tax advantages to smaller investors.

4.2. The Abundance platform provides access to a community of ethical investors keen to support environmentally friendly projects. By financing environmentally friendly initiatives with a CMI Green Loan, the Council can engage and involve residents in local projects which will contribute to achieving our net zero targets. The interest rate on the CMI Green Loan will be lower than the borrowing rate for PWLB.

5. Details of alternative options considered and rejected.

5.1. The Council could choose an alternative source of borrowing to raise £1m to fund the projects in line with our Treasury Management Strategy, such as borrowing through the PWLB. This would result in the projects being funded but the financial impact to the Council would potentially be a slightly higher cost of borrowing as the CMI should match or undercut the PWLB certainty rate. In addition, this would test the opportunity to raise funding from a wider range of sources. This CMI is the Council's chance to engage in a new way of funding work to reduce carbon emissions and increase resident participation.

5.2. Council aims to test a range of approaches to increase funding available for wider climate-related projects.

6. Background

Policy Context

6.1. The CMI Green Loan initiative is in line with the Council's vision, which includes a commitment to engage with residents to support the net-zero carbon strategy and explore alternative funding opportunities. It will also be a permissible borrowing option included within the Council's Treasury Management Strategy to be considered by Full council on 28th February 2024.

Equality impact assessment

6.2. There are no equalities implications arising from this report.

Sustainability and climate change

6.3. The CMI Green Loan initiative represents a step towards addressing sustainability and climate change issues facing the borough. By financing projects that align with our climate action goals through a community led investment product we can work with our residents to actively contribute to mitigating the impacts of climate change.

6.4. This scheme will see investment in projects that will deliver Carbon emissions reductions for our Borough.

Communications Arrangements

6.5. The Council will promote the CMI Green Loan with guidance from Abundance based on their insight of what has worked well in other local authorities and to keep within Financial Conduct Authority rules. The promotion will be designed to incur the minimum cost to the Council so as to maintain the viability of the project. A multi-channel approach will be adopted with consideration to the particular drivers and motivators for such investments across Hackney's different communities. Abundance will provide appropriate and regulatory sign-off on all planned communications.

6.6. The Council will lead on a multichannel approach to communications, with guidance from Abundance based on their insight of what has worked in other local authorities and to keep within Financial Conduct Authority rules. Abundance will also provide regulatory sign-off on communications.

6.7. Our communications approach will be key to a successful launch. Our strategy will be to target the more affluent sections of the community, who are also motivated by action on climate change, these are likely to be the early adopters. Research indicates that the proposition is attractive to a broad section of the community. However, the broader sections of the community will need to see the model working for a while before they build the confidence to participate. We will also market the product to businesses and corporates to ensure we raise the target amount.

6.8. A list of frequently asked questions is attached at Appendix 2.

Legal Implications

6.9. Given the specialist nature of the CMI Green Loan product, external legal advice has been secured, via our legal team, who have expertise in this field and have advised a number of other local authorities on these matters. This expert advice will continue through the launch of the scheme.

Risk Assessment

6.10. A summary of the schemes risks is set out in the table below;

Risk Category	**Mitigation Strategy**
Fundraising Risk	There is a risk the Council may not be able to raise the full value during the offer period as the demand could be insufficient. We will work closely with Abundance and the Council's communications teams to ensure that the messaging of the launch of the product is managed effectively drawing on the learning from previous Local Authority loan issues.
Interest Rate Risk	A fixed rate CMI green loan will be issued instead of a variable rate green loan to manage this risk.
Project Performance	Due diligence will be carried out on the proposed green projects to assess their feasibility and risks.
Investors' confidence	Transparent communication and regular updates will be provided to investors.
Inappropriate release of personal data	Abundance has a data privacy policy in place and is registered with the Information Commissioner for data protection purposes.
Reputational Risk	This risk can occur when the project or projects underperform. To mitigate this risk, the council will ensure that the included projects are carefully selected and managed to prevent underperformance. Council will maintain high standards of transparency and communication through Abundance.

7. **Comments of the Interim Group Director, Finance**

7.1. The community municipal investment, a green loan, should be viewed as an alternative means of green borrowing. It will have a duration of up to 5 years, which may require refinancing at the end of that period.

7.2. Abundance will act as Council's investment advisors for the CMI and will undertake the duties under paragraph 9.4.5.

7.3. The interest rate will be set by the Council, although it will be based on the PWLB certainty rate 24 hours before launch. The rate will need to be competitive relative to other financial instruments with a similarly low risk profile to attract investors. Abundance will provide support when deciding on the final rate.

7.4. Savings achieved for other Councils have averaged 0.26bps on the cost of borrowing after Abundance's fee. Abundance will agree a discount (after fees) with the Council based on assessment of the PWLB certainty rate and the retail saving market at the time of launch.

7.5. The potential need to refinance at the end of the term does not present any significant interest rate risk as the Council will likely be able to refinance the loan with better rates. Relative to the Council's capital programme and debt profile, the Community Municipal Investment will have a negligible financial impact.

8. **Comments of the Acting Director of Legal, Democratic and Electoral Services**

8.1. Mayor and Cabinet's approval of the the launch of the Hackney Community Municipal Investment - Green Loan intended for green initiatives will be subject to approval of The Treasury Management Strategy (TMS) addition proposed as part of the Budget and Council Tax Setting report of this meeting of Cabinet and to Full Council on 28 February 2024 .

8.2. Under Section 1 of the Localism Act 2011, the general power of competence, the Council has power to do anything that individuals with full capacity generally may do

8.3. More specifically Section 1 of the Local Government Act 2003 ("LGA 2003") gives the Council authority to :

> *"borrow money for any purpose relevant to its functions under any enactment or for the purpose of the prudent management of its financial affairs"*

8.4 The general power is very wide, subject only to two limits (s.2 LGA 2003). The first of these, contained in s.3 LGA 2003, is how much money an authority determines it can afford to borrow ("the affordable borrowing limit"). In this respect the system is self-regulatory in that, provided an authority remains within its affordable borrowing limit, no Government consent is required for that borrowing. The second limit to the general power is contained in s.4 LGA 2003. The Secretary of State has reserve power to impose limits on borrowing by authorities, by regulations, if the national economic situation requires. The reserve power may be also exercised, by directions, to impose limits on a particular local authority. The Government was keen to emphasise throughout Parliament's consideration of the LGA 2003 that these measures were "long-stop" measures only to be used as "a last resort"

8.5 The LGA 2003 provides the statutory power for the Council to enter into the arrangement set out in this report.

8.6 Given the specialist nature of the proposals, external legal advice has been sought and that advice is contained in exempt Appendix 1.

9. <u>Hackney Community Municipal Investment - Green Loan Proposal</u>

9.1. Introduction

9.1.1. Local Climate Bonds (LCBs), Green Bonds, have the potential to raise millions of pounds for Green projects. They are regulated investment products launched by Councils to access funding for specific projects. The Green Finance Institute, along with Abundance Investment, are the bodies behind the Local Climate Bond campaign, an initiative launched in 2021. These types of bonds are regulated debt instruments and are issued in the form of a Community Municipal Investment (CMI) Loan where money is raised through a regulated ethical investment platform.

9.1.2. A CMI provides an opportunity to the Council to directly engage and empower residents, business and investors to make real progress in tackling the aim of achieving net zero, by pooling local investment and represents an opportunity to increase funding available for climate projects by tapping into new sources of investment. A CMI also offers the Council an alternative source of funding to its investment plans and is a way to diversify the funding base available for capital projects.

9.1.3. The loans offer local people an opportunity to invest their money into projects that will reduce carbon emissions in the borough in a way similar to crowdfunding and to make a return from doing so. A member of the public can invest as little as £5. The Council will pay guaranteed regular interest payments to investors and in addition, over the life of the CMI, investors will receive the guaranteed return of their original investment.

9.1.4. The CMIs are fixed term (typically 2 to 5 years), and the capital is either repaid by the Council at the end of the term (maturity) or in instalments over the life of the investment (annuity). Interest can be paid to investors on a quarterly, half-yearly or annual basis. Investors will earn interest from the day after they invest. An example arrangement is that the first interest period will last approximately 3 months when investors will be paid interest for the number of days they have been invested up until that point. (i.e., the end of the first interest period). After that, interest will be paid to investors every 6 months until maturity.

9.1.5. West Berkshire UA were the first adopter and they raised £1m from 640 investors nationwide, with 23% of total investment coming from West Berkshire residents. Islington and Camden have also introduced schemes. Islington has 661 investors and also raised £1m with a fifth of the investment coming from Islington residents; and.Camden has 400 investors. Two other London boroughs have introduced schemes (Westminster and Lewisham) together with five other councils outside London.

9.2. **Rationale for this type of Investment offer**

9.2.1. This product is referred to as CMI because loans to councils are eligible for Individual Savings Account (ISA) and the ability to put this investment into an ISA should encourage a greater range of investors, including those who may only want to invest a small amount. The loan is used as it is ISA eligible whereas a bond is not and there are tax advantages for the investor. This is the primary rationale for launching this financial product as a CMI.

9.2.2. For the Council there are no material differences between a bond and a loan the terms are the same. The return is attractive vs other things people can do with their money. The rate offered might not be the highest investors can find in the market, however it tends to be the best rate for a green or ethical saving account.

9.2.3. Also, as well as providing the Council the opportunity to diversify the source of its funding for climate related projects and enabling greater awareness and participation in the Council's net-zero carbon objective; there is also potential in the longer term, after review, to use of this kind of financial instrument to potentially raise larger sums of money.

9.3. **Community Municipal Investment Loans**

9.3.1. The CMIs are fixed term (typically 3 to 5 years), and the capital is either repaid by the Council at the end of the term (maturity) or in instalments over the life of the investment (annuity). Interest can be paid to investors on a quarterly, half-yearly or annual basis. Investors will earn interest from the day after they invest. An example arrangement is that the first interest period will last approximately 3 months when investors will be paid interest for the number of days they have been invested up until that point. (i.e., the end of the first interest period). After that, interest will be paid to investors every 6 months until maturity.

9.3.2. The TMS, to be presented to Full Council on 28th February 2024 for approval, sets out the Council's approach for ensuring that capital investment plans remain affordable, that the associated financing is properly planned, and any cash held by the Council generates optimum returns in respect of security and liquidity.

9.3.3. Any new funding undertaken under this amendment would be a relatively small proportion of the Council's total debt portfolio and would therefore not exceed the authorised limit as approved by Council under the Prudential Code.

9.3.4. The council sought independent legal advice, to support the development of key legal documents for the implementation of Hackney CMI. Furthermore, independent treasury advice from the council's treasury advisors was obtained, revealing no material concerns.

9.3.5. It is suggested to launch an initial CMI on the following conditions:

- The Council will enter into an agreement with Abundance Investment Limited to launch the project.
- For a total of £5m over 5 years with the first raise of £1m in first year split in two tranches.
- During which interest payments will be made, with the investor's original capital returned by the end of this period.
- At an interest rate that will be set just before the launch date as mentioned above in point 7.3, to enable the Council to receive best value for money, relative to current borrowing rates.
- The intention is to launch the CMI to the public late May 2024.
- The proceeds raised from the CMI will fund an agreed package of programmes (need to develop), which will contribute to the financing of a low-carbon future and a net reduction in carbon emissions in the Borough.

9.3.6. This first launch, as stated above, is to raise a total of £1m. However, repeat issuance and repeated communication over time will build awareness of the model in our community and in time build the community of lenders making it easier and easier to raise larger sums. Abundance has advised that in their experience it takes 3-5 years to gather 5-10 thousand investors. With that many investors it should be possible to raise circa £10m per issue. proceeds raised from the CMI could fund green projects throughout the borough.

9.3.7. Abundance sets the interest rate for the loan in the following way:

- PWLB Certainty Rate – (Any discount on the Certainty Rate) – (amortisation provision for Abundance arrangement fee of 75 basis points) – (Abundance Annual agency fee of 20 basis points)
- Assuming a 5-year loan is being issued, the PWLB Certainty Rate is 4.99% and the agreed discount is 26 bps, the interest rate received by investors on the loan will be:

$$4.99 - 0.26 - (1/5 \times 0.75) - 0.20 = 4.38\%$$

The interest rate paid by the Council will be 4.58%. This allows Abundance to charge its annual management fee.

The Council will pay the arrangement fee upfront (if it is taken off the proceeds transferred to the Council from Abundance).

9.3.8. Other projects included in the capital programme, such as community-based projects could potentially be supported by interest donations or subsequent future CMIs.

9.4. **Steps in implementing a CMI**

9.4.1. The first step in issuing a CMI involves appointing an Investment Adviser for the launch. In this case it will be Abundance Investment Limited (registered with the Financial Conduct Authority). Abundance created this financial product and have supported the launch of all UK local authority CMI's to date.

9.4.2. Abundance Investment Ltd, established in 2009 in London, specialises in crowdsourced funding for green and social infrastructure and has seen increased interest from UK local authorities in recent years. It is overseen by five directors, with two holding significant roles approved by the Financial Conduct Authority (FCA). The company is subject to FCA regulation, evidenced by its diligent submission of reports including Client Money & Client Assets Reports, and Audited Annual Accounts.

9.4.3. Financially, Abundance has a strong track record, having raised over £150m for more than 50 projects since 2012. Abundance has also issued around ten Community Municipal Investment bonds/loans directly for UK local authorities since 2020. The company's adherence to FCA regulations extends to its comprehensive Financial Crime, Know Your Customer, and Anti Money Laundering policies, ensuring all borrower communications and promotions meet stringent standards.

9.4.4. Notably, Abundance is recognised as a registered ISA provider and a certified B Corporation, reflecting its commitment to broader stakeholder interests, including environmental considerations. To ensure stability and investor protection, Abundance maintains a Business Continuity Plan and holds substantial insurance coverage, including Professional Indemnity and Cyber Security Insurance. All the contractual documentation, which will underpin the arrangements, has been provided to the Council by Abundance and has been prepared in a reasonably fair manner, as per the legal review.

9.4.5. Abundance will administer the scheme and will carry out the following tasks:

(a) create and agree with the Council, the investment terms that fit the nature and phase of the project and arrange the issuing of investments. It will administer the scheme, including managing the payments of interest etc. In return Abundance Investment will charge an arrangement fee and on-going management fee which are estimated to be around 0.2% of principal and on-going management costs of 0.15% of principal plus due diligence costs.

(b) provide the crowdfunding platform and launch the CMI on behalf of the Council with an initial offer period of three months or until the CMI is fully subscribed.

(c) work with the council to create local engagement through bespoke local communications and PR, to ensure the key benefits for the local community are promoted.

(d) administer the onboarding of new investors and provide the first point of contact for customer queries.

(e) issue regular investor updates including return on investment and other performance metrics.

(f) work with the Council to make sure any promotional work the council undertakes is compliant with FCA requirements.

(g) provide dedicated customer care to the investors for the life of the project, including calculating and distributing cash returns for the lifetime of the project. They will also provide an opportunity for investors that wish to sell before the end of the full term – or others to buy into the project after the offer has closed.

9.4.6. The Council will be responsible for:

(a) agreeing the CMI rate and terms, leading on communications with residents to target and raise awareness among potential local investors and local groups, and to encourage participation and investment within the borough.

(b) working with Abundance to provide regular communication updates to investors during the CMI period.

(c) delivering the capital projects which will be funded by the CMI within the 5-year term and communicating the progress of projects and the rate of return to investors.

(d) setting out the specified purpose for each investment funded by the Green Loan and managing and delivering the project. It is a requirement of the CMI that any project it finances must be part of the approved capital investment programme.

9.4.7. A CMI could offer several benefits to investors, such as:

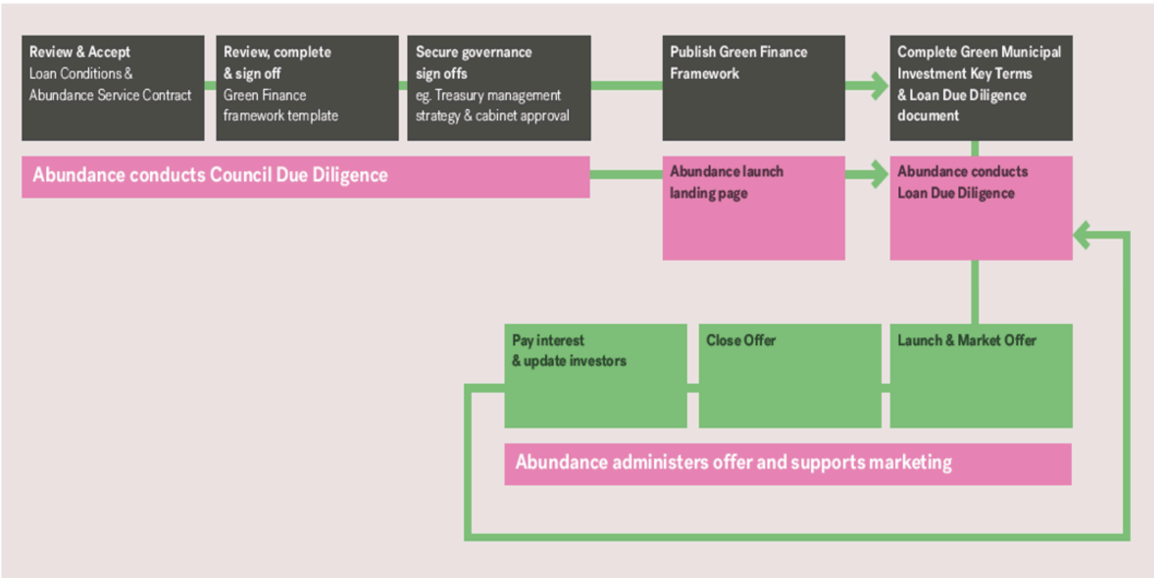
(a) facilitating the engagement of residents to work collaboratively with the Council to help reduce carbon emissions across the borough.

(b) feeling a sense of ownership as sustainable projects are delivered in their own areas.

(c) undertaking a low-risk investment to mitigate the climate crisis.

(d) ISA eligibility means that investors will not pay any tax on investment returns.

9.4.8. A schematic of the process is shown below:



9.5. Project to be financed by CMI funding

9.5.1. It is intended that the £1m raised is used to fund a package of approved programmes agreed in consultation with the Cabinet Member for Climate Change, Environment and Transport, Cllr Coban. An example of the type of projects, taken from the current capital programme is illustrated in the table below. The range of capital schemes shown are those considered attractive to investors due to the range of positive environmental impacts and will align to the Council's Climate Action Plan. We will also ensure that the arrangements for selecting the projects are transparent and that the projects chosen are ambitious and not focused on one part of the borough or one type of investment.

9.5.2. Summary of projects that could be funded or part funded through a CMI.

Projects	**Environmental Impact**	**Capital Budget**
Community Energy Fund	Carbon reduction and improved air quality through community led projects	£240,000

Projects	Environmental Impact	Capital Budget
School Streets	Improved air quality due to traffic measures implemented at school locations	£1,135,000
Greens Screens	Carbon reduction and improved air quality.	£500,000
Green initiatives on housing estates	Carbon reduction and improved air quality through projects across our housing estates	£1,555,000
Cycle Facilities on housing estates	Promoting Active Travel	£405,000

9.5.3. Other future projects included in the capital programme, such as community based projects could potentially be supported by interest donations or subsequent future CMIs.

9.5.4. As part of the launch of the CMI we will take advice from Abundance on the type of projects that will result in a successful launch based on the experience they have seen with other local authorities.

Appendices

Appendix 2 - Frequently asked questions

Exempt Appendix 1- Legal Advice

By virtue of Paragraph 5 using Part 1 of schedule 12A of the Local Government Act 1972 this appendix is exempt because is subject to legal professional privilege and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information . It is considered that the public interest is best served by withholding the exempt information to avoid disclosure of the legal guidance provided in confidence to the Council.

Background documents

None

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Appendix 2

Community Municipal Investment - Green Loan
Frequently asked questions

Question	Answer
Who is eligible to invest?	Any legal person/entity can be a holder of the debt so long as not a Restricted Person (they must be a UK resident). This means institutions such as schools or other organisations in the borough (and elsewhere) could buy a portion of the CMI and participate.
Is investors' capital at risk?	No, it is backed by the Council. This operates as a loan and the Council is committed to pay interest throughout the CMI period and repay capital back at the end of the CMI period.
What are the tax implications for investors?	This CMI is eligible for inclusion in an Innovative Financing ISA. If included, no tax is paid on investment gains.
Why raise £1m?	All councils that have raised money in this way, to date, have targeted £0.5 to 1m and been able to raise this funding. Two councils have not reached their target, both these councils are intending to launch further raises however.
Can the Council elect to raise more than £1m?	Once the CMI is issued, the value of the amount raised is fixed and cannot be changed under the terms of the loan conditions. If the Council wishes to raise more funding in this way, the recommended approach to increasing the amounts raised would be to issue a follow-on municipal investment (which can be initiated at any time).
What happens if the Council has not raised £1m at the end of the three-month raise period?	The Council can seek to extend the period to raise investment or close the fundraising process and deliver projects on a smaller scale. Alternatively, the Council can supplement the funding from alternative sources.
Does the Council need a credit rating to issue the CMI?	The Council does not need a credit rating to issue the CMI. It is worth noting that the CMI is low value and the risk to investors extremely low as it is backed by the Council. The council also has good prudential indicators and a strong track record, as well as low levels of borrowing relative to the size of our General Fund. If the Council were to issue a larger raise in the future a credit rating could be considered.
Is the model designed to be a	The model is designed to complement traditional

Question	Answer
one-off event?	borrowing sources. Once the framework is set up it is simple to issue follow on tranches. The first time an investment is launched it is likely to attract the early adopters within the community, however through repeat issuance and as viral / word of mouth marketing effects start to take hold the local investor community will grow rapidly.
Can investors donate their interest back to the council?	Yes the Loan Conditions, include a provision, allowing investors to donate interest back to the council on average 10% of interest has been donated back to other councils using the model.
Can the investment be issued in compliance with the Green Loan principles?	Yes the framework has been reviewed by the International Capital Markets Association and it complies with the Green Loan Principles. This is the same framework that underpins the UK Government's Green Gilt.