



**Report of: Executive Member for Finance and Performance  
Executive Member for Environment and Transport**

<b>Meeting of:</b> Executive	<b>Date:</b> 14 October 2021	<b>Ward(s):</b> All
<b>Delete as appropriate:</b>	Exempt	Non-exempt

## **SUBJECT: COMMUNITY MUNICIPAL INVESTMENT (CMI)**

### **1. Synopsis**

- 1.1 Islington Council declared a climate emergency in June 2019 and launched 'Vision 2030: Creating a Net Zero Carbon Islington by 2030' in March 2020<sup>1</sup>. The vision includes a commitment to engage with residents to support the net zero carbon strategy and 'explore alternative funding opportunities such as community municipal bonds and crowdfunding.' The approved Net Zero Carbon Strategy also includes a commitment to 'investigate how we can employ innovative financial instruments such as community municipal bonds to fund onsite generation schemes.'
- 1.2 In February 2021 the Council approved the latest capital programme for 2021/22 to 2023/24 which includes investment in electric vehicles, electric vehicle charging infrastructure at the Waste Recycling Centre and LED lighting upgrades and solar panels on Council buildings. The alternative funding opportunities could part-fund a number of these approved programmes.
- 1.3 Officers have assessed the potential to launch a Community Municipal Investment (CMI) which is an opportunity to for residents to invest in specific projects in Islington. Islington's CMI scheme is fully regulated and specifically designed to be as beneficial and inclusive for residents as possible with a minimum investment of £5 and a competitive rate of interest alongside the environmental benefits. There is no additional cost to the Council to run the scheme. This opportunity was first highlighted in an earlier report to CMB and the Net Zero Carbon Executive Board in May 2021 ('Net Zero Carbon Programme Finance Update'). A CMI is a bond or loan instrument issued by local authorities directly to the public through an internet crowdfunding platform at a rate that is attractive to the Council and investors.

---

<sup>1</sup> [https://www.islington.gov.uk/~/\\_media/sharepoint-lists/public-records/energyservices/businessplanning/strategies/20202021/20201209vision2030islingtonzerocarbonstrategy1.pdf](https://www.islington.gov.uk/~/_media/sharepoint-lists/public-records/energyservices/businessplanning/strategies/20202021/20201209vision2030islingtonzerocarbonstrategy1.pdf)

This means that a CMI will need to match or undercut Public Works Loan Board (PWLB) borrowing rates whilst at the same time being competitive against other investments.

- 1.4 Officers have held a series of meetings with Abundance Investment who are registered by the Financial Conduct Authority and have launched all of the UK CMIs to date. The intention is to launch a CMI at the festival, titled "Islington Together: Let's talk about a greener future" (18 to 29 October 2021) and before the UN Climate Change Conference COP26 (31 October to 12 November 2021).

## **2. Recommendations**

- 2.1 To agree the launch of a CMI with Abundance Investment.
- 2.2 To note timeline so that a CMI can be launched at the "Islington Together: Let's talk about a greener future" festival and before COP26.
- 2.3 To note the plan to launch an initial CMI for £1.0m with a 5 year maturity at a rate which will match or undercut PWLB borrowing rates.
- 2.4 To note the plan to use proceeds to part-fund a package of approved programmes (paragraph 4.15) that contribute to a net reduction in carbon emissions in the Borough and authorise the Corporate Director of Environment to amend the schedule of projects following consultation with the Executive Member.

## **3. Community Municipal Investment (CMI) Explained**

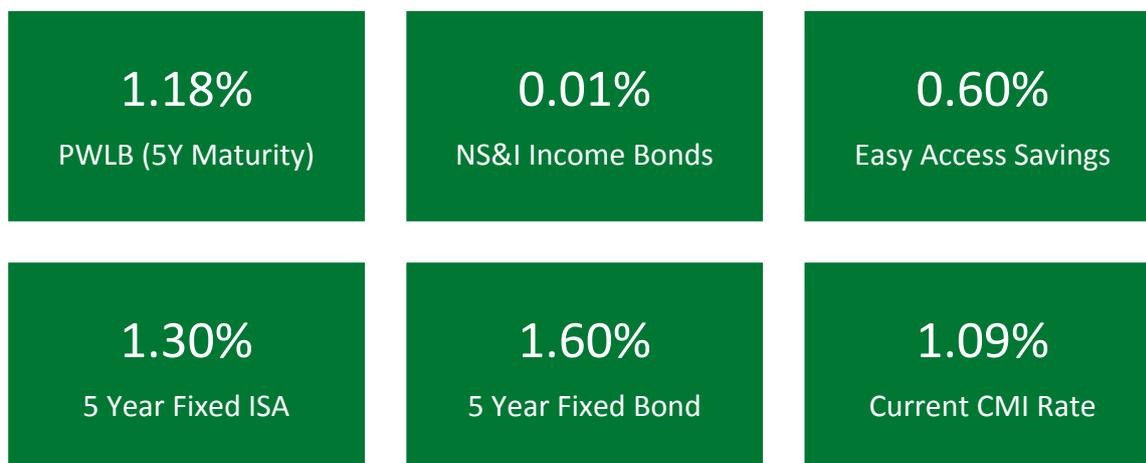
- 3.1 A CMI is a bond or loan instrument issued by local authorities directly to the public through an internet crowdfunding platform. It is considered an opportunity to engage with residents to support the net zero carbon strategy and due to the low-cost nature of crowdfunding a CMI can be issued via a proven, low risk, easy to use online process. A CMI will match or even undercut current borrowing rates whilst also providing a competitive 'safe' investment product as the risk of the investment is linked to the wider strength of the local authority.
- 3.2 The Council's Treasury Management Strategy approved in February 2021 outlined plans to 'investigate the possibility of issuing bonds and similar instruments' and on 23 September 2021 Council approved a change to include individuals lending via a peer-to-peer platform and investors in capital market bonds and retail bonds as approved sources of borrowing.
- 3.3 It is necessary to finance a proportion of the capital programme through borrowing and traditionally the Public Works Loan Board (PWLB) operated on behalf of HM Treasury provides loans to local authorities to support capital expenditure. Due to historically low interest rates if the Council were to borrow from the PWLB over a 5 year term the interest rate would be 1.18%<sup>2</sup>. This is the PWLB Certainty Rate which reduces the rate on standard loans (where interest payments are made throughout the loan and the principal borrowed is repaid at maturity) by 0.20%. The Council is eligible for this reduced rate because it shares information on its plans for long-term borrowing and associated capital spending with the PWLB. To ensure the cost to the Council is comparable a CMI will need to match or undercut the PWLB and in discussions with Abundance Investment a CMI could (based on current rates) be launched at 1.09%. This is the PWLB Certainty Rate less fees for

---

<sup>2</sup> <https://www.dmo.gov.uk/responsibilities/local-authority-lending-pwlb/current-interest-rates/>

arrangement and administration (0.09%), consequently a CMI launched at 1.09% will cost the same as borrowing from the PWLB. Note that the rate of 1.09% is for illustration only and is subject to change and should therefore not be relied upon by potential investors.

3.4 A CMI launched at 1.09% is competitive against other 'safe' investments:



3.5 Investors may secure more favourable returns from other products but some rates are not always guaranteed over the full term and may offer limited tax advantages. Even then the difference is marginal as using a 5 Year Fixed ISA as an example the estimated difference in compound interest on £500 over 5 years compared to a CMI is £5.51. A CMI like other fixed rate products is expected to be held for the full term however there is a secondary market available where investors can exit an investment early (if there is a willing buyer and value can be agreed). Across all CMIs launched to date the average investment was approximately £2,000 and research indicates that local investors invest more on average.

3.6 Furthermore evidence shows that there are many reasons why individuals invest in a CMI including but not limited to supporting climate action and supporting their local communities. Investors are also given the option of donating their interest payments to the Council which would reduce the cost of borrowing compared to PWLB.

#### 4. An Islington Community Municipal Investment (CMI)

4.1 Officers have held a series of meetings with Abundance Investment<sup>3</sup> who are registered by the Financial Conduct Authority and have launched all of the CMIs to date. These were at Warrington and West Berkshire Councils which have both launched CMIs for £1.0m in the last 18 months and both of these were fully subscribed from local and national investors. As a regulated firm Abundance Investment maintains a governance and risk management framework and holds high levels of regulatory capital to safeguard against risk of failure. As a B-Corp they are required to consider the impact of decisions on all stakeholders, including the environment, and they have also been awarded Best Buy Label from Ethical Consumer.

4.2 The Financial Conduct Authority regulates the UK financial services industry and will review company reports (including quarterly management accounts and audited annual accounts). The Financial Conduct Authority will monitor and investigate firms that breach specific Key Performance Indicators and require that all complaints are resolved within an agreed time. Abundance Investment have not been subject to any sanctions by the regulator, nor have

<sup>3</sup> <https://www.abundanceinvestment.com/how-it-works/about-municipal-investments>

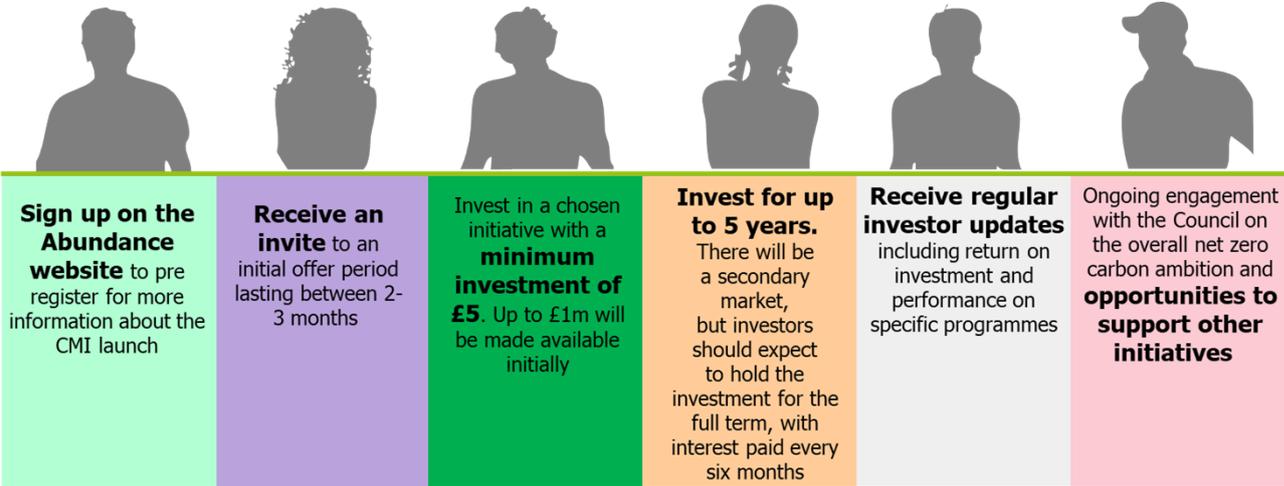
any customer complaints been reviewed and upheld by the Financial Ombudsman Service. There have been no claims on professional indemnity insurance to cover key risks and no operational errors have been identified which cause client money or reputational damage.

4.3 The Council has requested independent treasury advice from Arlingclose who provided a report on Abundance Investment and its activities which highlighted no material concern. The Council has also requested independent legal advice from Sharpe Pritchard who have provided a report on the key legal documents which is referenced in the legal implications.

4.4 Abundance Investment make clear in offer documents and factsheets for investments that part/all of an investor’s capital may be at risk and that investment values can rise and fall. Since inception no investments have failed however some have been restructured and the Council should be aware of the reputational risks even if the risks for a CMI is much lower. Abundance Investment have also partnered with Northern Gas Networks which is engaged in primarily fossil fuel activities and this could be seen to be at odds with the net zero carbon strategy. Abundance Investment recognise this and say that they are helping to create a hydrogen-ready gas network and investors on the platform can choose whether or not to invest. Nonetheless the Council should be cognisant of these wider issues in appointing Abundance Investment and this should be monitored as part of due diligence.

4.5 Abundance Investment will launch a CMI on behalf of the Council with an initial offer period of 2 to 3 months or until the CMI is fully subscribed at a minimum investment of £5. Abundance Investment would charge an arrangement fee and ongoing management fee which is not disclosed in this report for commercial reasons however the combined fee over the life of the product is comfortably within the procurement rules for a single quote (£5,000 to £24,999) therefore negating the need to secure three or more quotes.

4.6 The following graphic shows how a CMI will work for residents:



4.7 At Warrington and West Berkshire Councils between one fifth and one third of investors were local residents, and officers are committed to increasing this percentage if possible. Subject to approval it should be the first CMI to be launched in London and there is scope to proceed with additional launches in tranches of £1.0m if the initial launch is successful. Warrington Council raised £1.0m to put towards an innovative new solar farm with battery storage and is part of the Council’s strategy to become the UK’s first carbon neutral town. West Berkshire Council raised £1.0m to help fund electric vehicle charging infrastructure and solar panels and intend to issue several CMIs in the future to help fund this strategy.

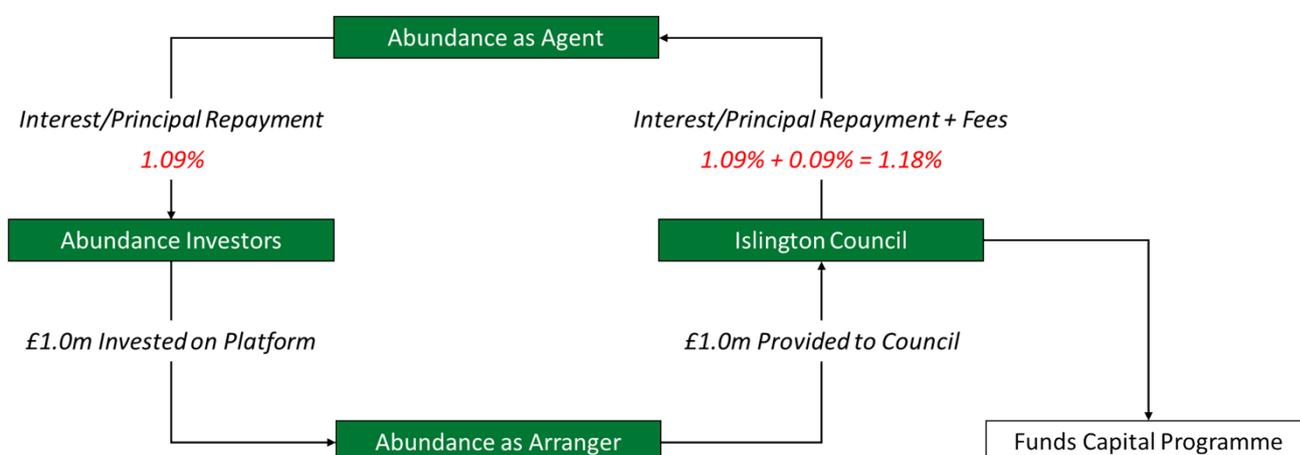
Abundance Investment say that it is important to make the initial launch a success and build the market and an initial CMI for £1.0m should help to achieve that for the Council. The ambition is to have multiple launches in tranches of £1.0m to help to secure funding more quickly for the capital programme which aids decision making on capital financing.

4.8 In contrast to earlier CMIs a CMI at Islington can now be launched as a loan rather than a bond which will result in the benefit of ISA status with its associated tax advantages to some residents. The reason a loan is ISA eligible and not a bond is due to the wording of the Innovative Financing ISA (a new type of ISA for debt crowdfunding products) which states that for bonds the ISA rules define who the issuer is and this does not currently include local authorities whereas the issuer is not specified for loans and it is therefore ISA eligible. The loan option is a more favourable route for the Council and residents and will be comparable to products launched by other local authorities (also expected to be loans). Abundance Investment expect Sutton Council and Blaenau Gwent County Borough Council to issue loans in late 2021, followed by West Berkshire Council and other Councils in early 2022. As mentioned in 3.2 a paper was presented to Council on 23 September 2021 who approved a change to the current Treasury Management Strategy to issue a loan.

4.9 Abundance Investment will administer the onboarding of new investors (including all Know Your Customer and money laundering checks) and are the first point of contact for queries. Investors will be investing for 5 years and whilst a secondary market is available investors should expect to hold the investment for the full term, with interest paid every six months. Abundance Investment will work with officers in the Communications Team to issue regular investor updates including return on investment and performance on specific programmes. Crucially the Council will be able to engage with residents and other investors on the net zero carbon strategy and investors may choose to support future crowdfunding activities.

4.10 It will be incumbent on Council departments including Finance and Communications to help publicise a CMI and administer it once established (including for example investor updates). However, technological advances in crowdfunding mean this is now much less burdensome as it is also possible to connect with investors through the Abundance Investment platform. The impact on Council resources will need to be monitored because it is also accepted that regular engagement with residents is a major component of the net zero carbon strategy.

4.11 The following diagram is designed to show how a CMI will work in practice:



4.12 An Islington CMI delivers a return on investment for investors many of whom may be local. More importantly, it is an opportunity for residents to help tackle the climate emergency

and support the Council in delivering a net reduction in carbon emissions in the Borough. Residents who invest will be making a difference in their local area and should feel more engaged.

4.13 Similarly for the Council a CMI represents a genuine example of resident-led, democratic finance and could also help the Council to develop long-term relationships with residents. This innovative form of funding should also help to optimise social value. Furthermore if it is the first CMI to be launched in London the Council could connect and communicate with an even wider audience and promote the net zero carbon strategy.

4.14 The following graphic highlights the key benefits for residents:

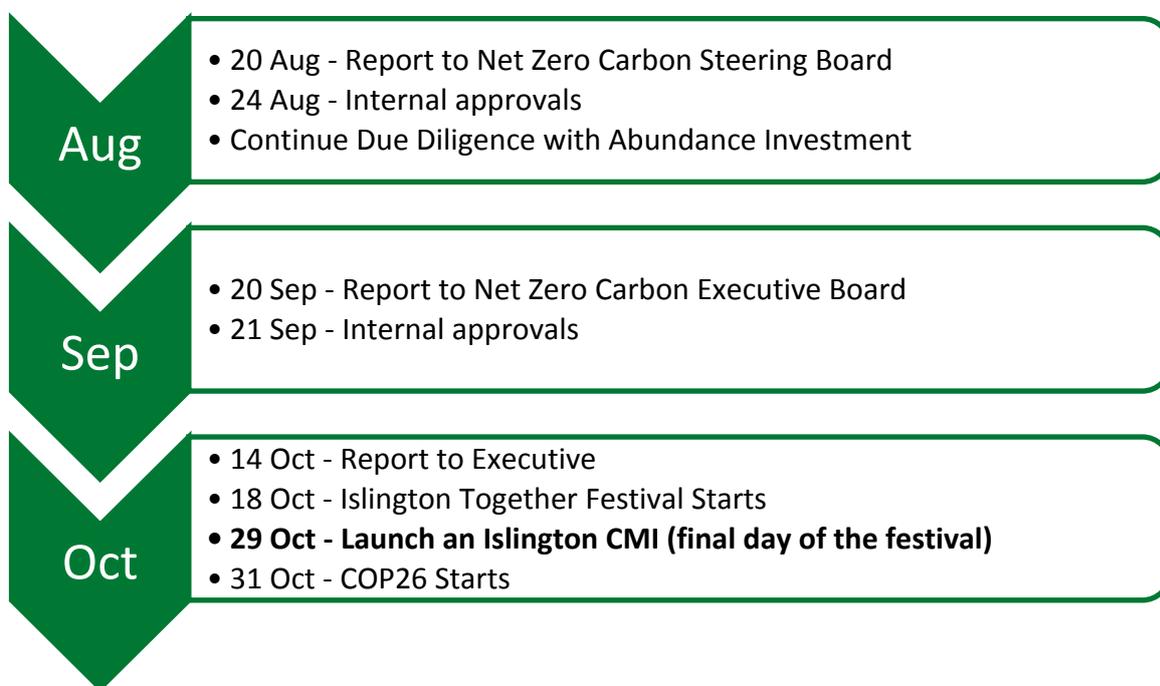


4.15 It is intended that the £1.0m is used to part-fund investment in a package of approved programmes and the table below agreed in consultation with Executive Members shows planned expenditure between October 2021 and September 2022. These programmes are considered ambitious both in value and scope and are therefore attractive to investors. Other projects on the capital programme including electric vehicle charging infrastructure at the Waste Recycling Centre (£2.9m) could be supported in subsequent launches. Abundance Investment will work with officers in the Communications Team to develop a communications plan informed by experience launching CMIs with other local authorities.

Project	Expenditure
School Streets Greening and Air Quality Programme	200,000
Zero Carbon Recycling & Waste Collection Lorry (Unit Cost, Conversion from Diesel)	280,000
Electric Vehicle Charging Points to encourage residents to switch to electric vehicles	160,000
Improved local recycling facilities to help residents increase recycling	100,000
LED lighting in public buildings to reduce carbon and cost of electricity	130,000
Solar Panels on public buildings to reduce carbon and cost of electricity	130,000
	1,000,000

4.16 The preferred timeline is set out below and the intention is to launch a CMI at the festival (18 to 29 October 2021) and before the UN Climate Change Conference COP26 (31 October to 12 November 2021). Both events are seen to be opportunities to promote a CMI at Islington and maximise both local and national interest. The Council will also commit to

joining a pledge coordinated by the Green Finance Institute to explore or launch a CMI within 18 months of COP26 further raising awareness of a CMI<sup>4</sup>. As part of wider Net Zero Carbon governance arrangements content has been circulated to the Steering Board on 20 August 2021, then the Executive members on 20 September 2021. Comments from officers and members respectively will help to develop the launch strategy and officers will continue to engage with stakeholders both before and after any launch.



## 5. Implications

### 5.1 Financial implications:

In February 2021 the Council approved the latest capital programme for 2021/22 to 2023/24 which includes a number of programmes that contribute to a net reduction in carbon emissions in the Borough. A fully subscribed CMI would replace existing approved funding including PWLB so there is no additional cost to funding the capital programme.

The cost to the Council is in relation to arrangement fees and ongoing management fees which are not disclosed in this report for commercial reasons however the combined fee over the life of the product is comfortably within the procurement rules for a single quote (£5,000 to £24,999) and the Medium Term Financial Strategy funds capital financing costs. These fees are incorporated into the cost of the loan so a CMI launched at 1.09% would incur 0.09% in fees making the total cost the same as the PWLB Certainty Rate (1.18%). Since this is not additional borrowing the capital financing costs are within the approved budget furthermore there are no differences in the cost of launching a bond or a loan.

As the Council is responsible for setting the rate for a CMI this could be agreed at a level which undercuts PWLB to reduce borrowing costs, but this will reduce the rate on a CMI. This may impact on interest from potential investors due to historically low interest rates and an Islington CMI will likely be launched at a lower rate than earlier CMIs (c. 1.20%).

---

<sup>4</sup> <https://www.greenfinanceinstitute.co.uk/local-climate-bonds-a-cost-effective-way-to-raise-billions-for-councils-green-plans-says-new-campaign/>

## 5.2 Legal Implications:

This Report seeks the following:

1. To agree the launch of a CMI with Abundance Investment.
2. To note timeline for Executive (14 October 2021) approval so that a CMI can be launched at the festival (18 to 29 October 2021) and before COP26 (31 October to 12 November 2021).
3. To launch an initial CMI for £1.0m and 5 year maturity with similar rate to PWLB.
4. To use proceeds to part-fund a number of programmes that contribute to a net reduction in carbon emissions in the Borough.

Community Municipal Investments must comply with the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Ministry of Housing Communities and Local Government's Guidance on Investment (MHCLG Guidance). Local authorities must demonstrate that the borrowing is affordable, sustainable and prudent.

Statutory guidance on Local Government Investments is issued under 15 (i) (a) of the Local Government Act 2003. Local authorities are required to "have regard" to "such guidance as the Secretary of State may issue". Where a local authority proposes to make a material change to its Strategy during the year a revised Strategy should be presented to full council or equivalent for approval before the change is implemented.

LBI Constitution Part 3 Responsibility for Functions, 4.1(j) states that the capital investment strategy and Treasury Policy statement is a matter reserved for Executive decision.

Part 3 (4.4) Finance and Property subject to the Council's financial regulations to take decisions on all matters relating to the Council's finances including 4.4 a(iv) the Council's borrowing and investment policy (for recommendation to Council).

Part 6 Financial Regulations 2.8 state that the Chief Finance Officer and section 151 Officer (Director of Finance and Property) is responsible for the proper administration of the Authority's financial affairs and treasury management.

Rule 6.1 (iv) states responsibility for the implementation and monitoring of its treasury management policies and practices is delegated to the Executive and the execution and administration of treasury management decisions to the Chief Finance Officer. That Director will act in accordance with the organisation's Treasury Management Policy Statements and Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

Rule 6.2 (i) requires that the Chief Finance Officer is to arrange the borrowing and investments of the Authority in such a manner as to comply with the CIPFA Code of Practice on Treasury Management in Public Services, the Authority's TMPS and the Annual Investment Strategy required under the Local Government Act 2003.

ii) To report on treasury management activities to the Executive and Council in compliance with the CIPFA Code and Guidance on Local Authority Investments issued by the Secretary of State.

Rule 6.3 the responsibilities of the Chief Finance Officer in relation to investments and borrowing will include: i) To ensure that all investments of money are made in the name of the Authority or in the name of nominees approved by the full Council.

A high level review of the contractual documents by Sharpe Pritchard make it clear that the FCA rules and the duties Abundance owes to Lenders take precedence. This is to be expected and does not give rise to any material concerns. The terms proposed, in the contractual documents with the changes suggested, represent a legal risk that is broadly 'on market' compared to similar peer to peer lending arrangements.

### **5.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:**

'Vision 2030: Creating a Net Zero Carbon Islington by 2030' includes a commitment to 'explore alternative funding opportunities such as community municipal bonds and crowdfunding.' The approved Net Zero Carbon Strategy also includes a commitment to 'investigate how we can employ innovative financial instruments such as community municipal bonds to fund onsite generation schemes.' A CMI itself has no direct environmental implications however it is a clear opportunity to engage with residents to support the net zero carbon strategy. Furthermore the funding will be invested in programmes that align with this strategy and contribute to a net reduction in carbon emissions in the Borough.

### **5.4 Resident Impact Assessment:**

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

A Resident Impact Assessment has not been completed because the Council is not seeking to provide a service to residents, and residents can decide whether or not to participate.

### **5.5 Conclusion and Reason for Recommendations**

An Islington CMI is an opportunity to engage with residents to support the net zero carbon strategy and part-fund the latest approved capital programme for 2021/22 to 2023/24. It is therefore recommended Executive agree the launch of a CMI with Abundance Investment so that a CMI can be launched at the festival before COP26.

**Appendices:** None

**Background papers:** None

Final report clearance:

**Signed by:**



Executive Member for Finance and Performance



4 October 2021

Executive Member for Environment and Transport

Report Author: Owen Darracott, Finance Manager  
Tel: 0207 527 2629  
Email: [owen.darracott@islington.gov.uk](mailto:owen.darracott@islington.gov.uk)

Financial Implications Author: Owen Darracott, Finance Manager  
Tel: 0207 527 2629  
Email: [owen.darracott@islington.gov.uk](mailto:owen.darracott@islington.gov.uk)

Legal Implications Author: Jabeen Story, Chief Contracts Lawyer, Law & Governance  
Tel: 0207 527 1850  
Email: [jabeen.story@islington.gov.uk](mailto:jabeen.story@islington.gov.uk)