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| Institution: The University of Leeds | | |
| Unit of Assessment: 21 Sociology | | |
| Title of case study: Creating a new model of finance for local authorities | | |
| Period when the underpinning research was undertaken: 2008–2020 (ongoing) | | |
| Details of staff conducting the underpinning research from the submitting unit: | | |
| Name(s): | Role(s) (e.g. job title): | Period(s) employed by submitting HEI: |
| Mark Davis | Associate Professor of Sociology | 2008– Present |
| Period when the claimed impact occurred: 2017–2020 | | |
| Is this case study continued from a case study submitted in 2014? No | | |
| 1. Summary of the impact | | |
| <p>Local authorities are on the frontline of grand challenges like decarbonisation but finding money for local schemes against a backdrop of austerity and the Covid-19 pandemic is difficult. Research led by Dr Mark Davis, in collaboration with industry stakeholders and government, provided a new public financing solution. Community Municipal Investments (CMIs) use investment-based crowdfunding to generate additional public funding to meet local needs. The research enabled local authorities to make better investment decisions. It improved investor protection in crowdfunding markets and generated new investments of direct benefit to local authorities, investors, and local communities.</p> | | |
| 2. Underpinning research | | |
| <p>The UK Government set a target to achieve net-zero carbon emissions by 2050 but achieving this also depends on local initiatives. Local Councils have declared climate emergencies and seek to invest in carbon reduction projects, but their funds are limited. The research examined the failure of existing models and explored the potential of the multi-billion pound ‘alternative finance’ sector to address such challenges. Specifically, Davis led research to assess the suitability of crowdfunding as a source of finance for local public sector projects, supported by six research grants totalling approximately GBP1,100,000.</p> <p>Davis researches in the field of economic sociology (where money comes from and how it organises social life) and, as a core member of the Bauman Institute, continues the sociology of consumerism developed by Zygmunt Bauman at Leeds. This research stemmed from an exploration of ‘shared social responsibilities’ and financial interdependency, conducted for the Council of Europe, and subsequently identified crowdfunding as a possible route to socially and environmentally beneficial outcomes from investor behaviours [1]. In parallel, other research examined the local social impacts of major infrastructure investments (notably, renewable energy infrastructure) [2]. The findings revealed that little was known about how crowdfunding could move money into socially responsible projects, how transferable this might be to local public sector investments, or who might be prepared to invest [3].</p> <p>In 2017, Davis led a team (Leeds, Cambridge) commissioned by the Financial Conduct Authority (FCA) to interview ‘sophisticated investors’ in six UK crowdfunding markets. Applying Zelizer’s sociology of money, the research showed how such investors often used crowdfunding platforms to invest funds they had earmarked as ‘gifts’ or ‘entitlements’ for more socially minded projects. To develop momentum in these emerging markets, Davis argued that investors required greater protection, and recommended amendments to FCA regulatory rules on UK ‘loan-based’ and ‘peer-to-peer’ (P2P) platforms [4].</p> <p>The research was expanded with a UK Government grant to assess the suitability of crowdfunding for the public sector. This combined sociological and business studies expertise (Davis and Cartwright) with partners from the finance industry (Abundance Investment) and the public sector. The study involved local authorities and NHS bodies as case studies to test investment-based crowdfunding against various project delivery scenarios. The findings showed that lack of knowledge and experience in this market was a barrier to uptake. The team worked with non-academic partners to produce an investment decision-tool and to</p> | | |

evaluate crowdfunding within local authority project procurement processes. They also co-designed a new financial investment product – the Community Municipal Investment (CMI) – which compared favourably against existing forms of local authority borrowing such as the Public Works Loan Board (PWLB) or Public Private Partnership/Private Finance Initiative (PPP/PFI) [5].

Davis worked with 61 UK local authorities to disseminate the decision-tool and to raise awareness of the CMI finance model. Insights were tested also at the European level through a Horizon2020 grant (FCiências.ID, Lisbon), in which **Davis** led workshops in eight countries to show that (even correcting for national regulatory frameworks) CMIs offered a viable model of alternative finance in the EU's green energy transition [6]. Further research awards were secured from Government and from the UK Energy Research Centre to evaluate wider applications of these concepts (such as funding domestic energy efficiency renovations for net zero neighbourhoods).

In summary, the research findings showed how:

- (a) Finance models that recognize the social and relational values attached to money in local contexts can help authorities make new kinds of investment decisions for public good.
- (b) In times of uncertainty, public and industry trust in crowdfunding as a new model of public finance would require enhanced investor protection in the rules governing this market.
- (c) To reduce the overall cost of capital for the public sector, local authorities should be enabled to raise crowdfunded capital for 'place-based' investments using the CMI product developed from the research collaboration.

3. References to the research

1. Davis, M. and Brauholtz-Speight, T. (2016) *Financial Innovation Today: Towards Economic Resilience*. Friends Provident Foundation (archive copy) <https://doi.org/10.5518/100/1>.
2. Davis M. and Wright K. (2017) *Building Democracy? Exploring Community Consultation in Nationally Significant (Energy) Infrastructure Projects*. (research project report) <https://doi.org/10.5518/100/2>.
3. Brown, D., Hall, S. and Davis, M. (2019) 'Prosumers in the post subsidy era: an exploration of new prosumer business models in the UK', *Energy Policy*, 135: <https://doi.org/10.1016/j.enpol.2019.110984>.
4. Davis, M., Brauholtz-Speight, T. and Wardrop, R. (2020) 'Crowdfunding as democratic finance? Understanding how and why UK investors trust these markets', *Revista Internacional De Sociología*, 78(4): e173. <https://doi.org/10.3989/ris.2020.78.4.m20.005>.
5. Davis, M. and Cartwright, L. (2019) *Financing for Society: Assessing the Suitability of Crowdfunding for the Public Sector*. (120-page research report, reviewed for publication by HM Treasury staff) <https://doi.org/10.5518/100/7>.
6. Brown, D., Hall, S. and Davis, M. (2020) 'What is prosumerism for? Exploring the normative dimensions of decentralised energy transitions', *Energy Research and Social Science*, 66, Article No 101475: <https://doi.org/10.1016/j.erss.2020.101475>.

Example grant awards associated with Davis:

- *Investment in fixed-term post-doctoral research fellow in community resilience*, Tidal Lagoon Power Ltd, 2012-2016, GBP202,000 (PI, 24 months)
- *Financial innovation today: towards economic resilience* ([FITTER](#)), Friends Provident Foundation, 2015, GBP60,700 (PI, 12 months)
- *Alternative finance opportunity*, Energy Systems Catapult Ltd, 2015, GBP5,300 (Co-I with Cambridge Centre for Alternative Finance, CCAF)
- *The effects of financialization on employment and wealth distribution in the UK and Spain*, Horizon 2020 / Marie Skłodowska-Curie Actions (Individual Fellowship), 2017, GBP98,000 (PI with Dr Matilde Masso, 12 months)
- *Financing for society: crowdfunding public infrastructure*, Department for Digital, Culture, Media, and Sport (DCMS), 2018, GBP375,000. (PI, 8 months)

- *Prosumers for the Energy Union: mainstreaming active participation of citizens in the energy transition* ([PROSEU](#)), Horizon 2020 / Research and Innovation Actions (Social Sciences and Humanities Support for the Energy Union), 2018, Value to Leeds: EUR350,000 (EUR3,100,000). (Co-I, with FCIências.ID et al.)

4. Details of the impact

The impact evidence shows how the research:

- influenced national and local policy direction on public sector financing models
- changed market regulation to give greater protection to new crowdfunding investors
- led to the launch of new 'Community Municipal Investments' (CMI) for the direct benefit of local public bodies and communities.

Establishing a new policy agenda on crowdfunding for the public sector

The creation of a new finance model, backed by a viable market product, stimulated public debate on the future of public financing. For example, the significance of the *Financing for Society* project in making local authorities the 'lead actors' in generating investment was highlighted in industry evidence to the Treasury Select Committee's 2019 Parliamentary inquiry on Decarbonising the Economy, and to the All Party Parliamentary Group on Sustainable Finance, facilitated by the UK100 network of local authority leaders [A].

After hearing about the concept via the APPG, the former leader of the Green Party described CMIs as a 'brilliant example' of how local authorities can deliver green and just transitions. The research team were invited also to contribute to Labour's policy thinking on sustainable housing, in which CMIs were identified as a means to finance deep-retrofit of local housing stock for energy efficiency savings. Subsequent market research indicated that '*A majority (73%) of UK investors are interested in the concept of Community Municipal Investments and would consider investing in the product*' (80% of ethical investors) [B].

The proof of concept, that local authorities could use the CMI model to co-finance local public infrastructure through crowdfunding, prompted a change of approach in national government. In response to the initial research findings, the then Minister concluded that, '*crowdfunding does indeed have the potential to be a viable source of financing for socially beneficial public infrastructure projects*'. The research was cited in the Government's 2018 Civil Society Strategy as a pathfinder for 'new models of finance' and the responsible civil servant affirmed that the research '*contributed to this shift in government thinking*' [C].

Improving protection for investors in new crowdfunding markets

The Financial Conduct Authority (FCA), the UK's public regulator for financial services firms and markets, had identified new risks arising from the rapid emergence of peer-to-peer (P2P) crowdfunding platforms. The research they commissioned helped them to understand how the different features of these platforms influence investor expectations, enabling them to test and evaluate cost benefit assumptions about possible rule changes in this market.

Consequently, the FCA changed the regulatory environment for this sector. The research was used to inform their 2018 consultation paper on rule changes for loan-based firms, leading to establishment of new policy in 2019. These rule changes impact on the regulatory compliance of all platform providers across the UK's loan-based and investment-based crowdfunding sectors. For example, among the changes influenced by the research findings, the FCA placed new marketing restrictions to protect less-experienced investors on P2P platforms, while providing exemption for direct offers to the kind of 'sophisticated investors' targeted in the research [D].

These FCA rule changes were reflected, in turn, in agreement by the European Parliament to extend the scope of EU regulation in similar ways [E].

Putting the new model of public sector finance into practice

The research demonstrated to Councils that they could raise investment funds, using the CMI model, at rates comparable with the Public Works Loan Board, while also connecting with citizen investors in a new way. In 2019, a rise in PWLB borrowing rates incentivised local authorities to look for new financing options and the research provided solutions.

The decision-tool, piloted in the research, changed thinking and practice within local authorities. Public bodies used it to assess the feasibility of crowdfunded investments in, for example: a regeneration programme in the Isle of Wight; a primary-care health hub in Kingswinford; a dementia care village in Exeter; and reducing energy costs for community buildings in Bristol. The case study evaluations showed, for example, how the decision-making tool *'had a direct impact in moving professional colleagues' thinking forward*, and that *'The robust evidence basis on the suitability of public sector crowdfunding made it far easier to engage our Legal and Finance teams within the Council'*. It generated *'awareness across senior management of alternative sources of funds'* and provided *'a genuine opportunity for greater local participation'* [F].

The CMI investment structure, co-created in the research, enabled Council corporate bodies to issue bonds tied to a specific local infrastructure project, administered by a crowdfunding platform and available for purchase by local residents or other investors. For example:

- West Berkshire Council launched a CMI product to raise GBP1,000,000 towards rooftop solar electricity generation, with consequent savings and environmental benefits for local residents. The scheme attracted 640 investors, including 22% from local residents, each making an average investment of £3,500. Two rooftop solar projects were installed as a result. As the Council Leader put it: *'Not only is it saving the Council money, but it has allowed local people to get directly involved with our plans to reach net-zero in the next decade,'* while one of the beneficiaries added, *'This project is a wonderful example for our students and the community of thinking globally, acting locally. On top of that our energy costs are reduced, so positively helping the school budget.'* [G]
- Warrington Borough Council offered their CMI to residents to part-finance a new GBP10,000,000 solar park in Cirencester. This attracted 523 investors, making an average investment of GBP1,912 each. The electricity and revenues generated are being used to accelerate other green projects as part of Warrington's Green Energy Strategy, including measures to reduce fuel poverty. The Council Leader commented that: *'Reaching our £1m investment target is a fantastic achievement, particularly in such challenging times. ... It's so important that the public is engaged in our carbon neutral ambitions and this project is an important part of that work. Its success bodes really well for our green future.'* [H]

In both examples, and despite delays due to the Covid-19 crisis, fundraising targets were met ahead of plan. By the end of 2020, 54 UK Councils had used the decision tool in feasibility studies, 13 had progressed investment discussions with the finance industry partner (Abundance) and GBP2,000,000 was raised for investments of benefit to local communities and investors. In 2020, the Climate Change Committee report on *The Road to Net-Zero Finance* identified these new Community Municipal Investments as one of the *'breakthrough innovations'* needed to *'ensure that market innovation responds to the scale of the net-zero financing challenge'* [I].

As the founder of the UK Crowdfunding Association confirmed, *'Dr Davis's research at the University of Leeds has demonstrably changed thinking and practice within the local authority context by assessing crowdfunding as a way of providing better access to finance for the public sector'* [J]. It achieved this by stimulating a new national policy agenda, informing better market regulation, and by innovating new financial products. Without the underpinning research neither the decision-making tool nor the Community Municipal Investment model would exist. The consequential impact is now benefitting local authorities, new investors in the market and local communities directly.

5. Sources to corroborate the impact

- A. Treasury Committee (video extract), 8 October 2019, witness evidence from Joint Managing Director of Abundance Investment
<https://parliamentlive.tv/event/index/2fc2c448-a2ea-4762-8827-9d025472d9b5?in=10:29:08&out=10:30:45>; letter from Walker Morris LLP's Government and Infrastructure team (17 July 2020), facilitating the All Party Parliamentary Group on sustainable finance.

- B.** Keynote address by former Green Party leader to the LSE event 'Financing place-based climate action', 18 September 2020 (video extract), <https://youtu.be/3fEqr32L3Z4?t=572>; Data from PCAN report, *How Community Municipal Investments can create a new sphere of civic engagement that will galvanise local action in the fight against the climate emergency*, (see, Executive Summary, p. 2) https://pcancities.org.uk/sites/default/files/2020_06_18_PCAN-CMI.pdf.
- C.** Letters from the Minister for Sport and Civil Society (4 July 2019) and Policy Adviser, Government Inclusive Economy Unit (8 February 2019); with UK Government's 2018 *Civil Society Strategy: building a future that works for everyone*, (the project features in the section on 'New models of finance' under Mission 5: Investment, p. 59) <https://www.gov.uk/government/publications/civil-society-strategy-building-a-future-that-works-for-everyone>.
- D.** Letters from the FCA corroborating use of the report to profile investors and test cost benefit assumptions (1 November 2017) and that the report influenced policy thinking and proposals in FCA Consultation Paper 18/20 (15 August 2018), with resulting FCA Policy Statement PS19/14, *Loan-based ('peer-to-peer') and investment-based crowdfunding platforms: Feedback to CP18/20 and final rules*, <https://www.fca.org.uk/publication/policy/ps19-14.pdf> (Summary sections 1.7–1.11, and sections 2.29 and 2.30 drew directly on evidence from Davis' submission. Summary section 1.14 introduces recommendations made in research report to the FCA regarding safeguarding investors).
- E.** European Parliament press release, 'New EU rules to boost crowdfunding platforms and protect investors' <https://www.europarl.europa.eu/news/en/press-room/20181105IPR18253/new-eu-rules-to-boost-crowdfunding-platforms-and-protect-investors> (the relevant changes mirrored the FCA changes above).
- F.** Example statements from case study authorities evidencing the impact of the decision-making tool and evidence base on improved organisational decision-making, both for against adoption of a CMI financing model (quotations from four different authorities).
- G.** Highlighted quotations from media coverage in *Newbury Today*, 'West Berkshire climate bond hits £1m target', <https://www.newburytoday.co.uk/news/news/32312/west-berkshire-climate-bond-hits-1m-target.html>; and *Business Green*, 'UK's first local government green bond raises £1m for West Berkshire District Council', <https://www.businessgreen.com/news/4021677/uk-local-government-green-bond-raises-gbp-west-berkshire-district-council>.
- H.** Highlighted quotation from the *Warrington Guardian*, '£1 million invested in council's Cirencester solar farm', <https://www.warringtonguardian.co.uk/news/18883725.1-million-invested-councils-cirencester-solar-farm/>; and *LocalGov*, 'Council raises £1m for solar panels through 'community investment'', <https://www.localgov.co.uk/Council-raises-1m-for-solar-panels-through-community-investment/51435>.
- I.** Advisory Group on Finance for the UK's Climate Change Committee (2020), *The road to Net-Zero Finance (Sixth Carbon Budget Advisory Group)*, <https://www.theccc.org.uk/publication/the-road-to-net-zero-finance-sixth-carbon-budget-advisory-group/> (p. 27, 6.2 b).
- J.** Letter from Abundance Investment (17 September 2019) corroborating the industry partner benefit and utilisation of the research collaboration.