The Financial Inclusion Centre

Promoting fair, inclusive financial services

Private Sector Housing: Home Improvement Finance

Guidance Note 4: Financing options

June 2024

This report has been produced with funding from the Local Government Association's Housing Advisers Programme.

The Housing Advisers Programme is designed to support councils seeking to innovate in meeting the housing needs of their communities. It aims to be simple, flexible and locally-led. In 2022/23, 21 successful projects received money from the programme to promote, facilitate and enhance their role and capacity to meet their local housing need.

The report has been produced by the Financial Inclusion Centre, an independent research and policy innovation think-tank dedicated to reducing financial and social exclusion.

It is based on work undertaken with a number of councils through the Housing Advisers Programme, including Derby City Council, Nottingham City Council, Stoke-on-Trent City Council and the London Borough of Barking and Dagenham, in relation to home improvement finance in the private housing sector.

It is one of four reports, as detailed below, designed to provide councils with a practical toolkit including relevant evidence, good practice and learning on the effective development and delivery of home improvement finance schemes targeted at non-decent homes, homes requiring adaptations and those with a low level of energy efficiency.

- Guidance Note 1: Research and Literature Review
- Guidance Note 2: Building the Business Case
- Guidance Note 3: Case Studies
- Guidance Note 4: Financing Options
- Guidance Note 5: Local Authority Survey Results

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Improving the quality of private rented housing will require a significant level of capital investment by homeowners and landlords, facilitated by access to suitable finance. It is also recognised that borrowing options will need to be attractive, particularly in terms of the interest rate offered and the amount repayable, to incentivise the completion of improvements at the scale required. A significant level of subsidy is therefore likely to be required to facilitate such borrowing, for example, using reduced, or zero-interest rates.

It is acknowledged however, that public sector funding alone will not be sufficient to meet this finance gap. Council budgets are under significant pressure and whilst grant funding for home improvements projects is available, this is also limited, often short-term and prioritised on specific areas. This section therefore summarises some of the external options that are available to councils to finance their home improvement ambitions. Whilst this information predominantly focuses on the financing of green related projects, it is also considered directly relevant to delivering a more holistic home improvement approach.

1.1. Financing Green Ambitions

Produced by the LGA and Local Partnerships, this green finance guide provides both practical guidance and examples of good practice to support councils in England to find the most appropriate and affordable ways to finance their green ambition.

The guide details the green finance options that are available to councils in relation to both equity and debt funding. It highlights that councils are well placed to access debt finance at extremely competitive rates, through various channels including conventional sources such as the Public Works Loan Board (PWLB) and emerging sources such as the UK Infrastructure Bank (UKIB) and 'investment-based' crowdfunding models.

It is noted that whilst Community Municipal Bonds (CMBs) provide the opportunity to connect local people to projects in their area, they are unlikely to raise all the funding necessary for larger projects. However, CMBs and council debt sourced from the likes of the PWLB and UKIB could be blended to support projects where both local connection and larger funding packages are required.

In conclusion, the guide recommends that councils looking to invest in green projects should consider the following points to inform their approach towards seeking external finance:

- Can the project demonstrate it primarily supports the function of the local authority?

- How will the project's sustainable benefits be measured and verified?

- Is there a source of grant funding available for the project? It should be noted that these change from time to time, so it is important to keep up to date.

- Recent grant funding for energy efficiency projects may be repeated in subsequent years. To access funds, it may be necessary to move quickly, so preparing schemes in advance is an advantage when looking to secure grants, if grants are not available this will also assist in seeking alternative means of funding. Councils should also consider using existing energy performance framework agreements to ensure speed of delivery, certainty of benefits and compliance with procurement law.

- Access to alternative routes for funding have an administrative burden (for example enhanced levels of project specific due diligence) which need to be considered as part of the funding decision.

- Councils have access to both grant funding and cheap finance, providing a competitive advantage over the private sector where there is competition for assets (such as in the purchase of renewable energy generation capacity).

- Where councils are offering finance into joint venture projects or to utilise their land assets to leverage projects the implications of state aid and more complex procurement need to be fully factored in alongside the potential benefits of new sources of capital and expertise.

Find out more: Financing Green Ambitions

1.2. The Public Works Loan Board

The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury. The facility provides loans to local authorities, and other specified bodies, from the National Loans Fund, operating within a policy framework set by HM Treasury. This borrowing is mainly for capital projects and specifically for the purposes of service delivery, housing regeneration or preventative action.

Since the introduction of prudential borrowing, the PWLB has normally offered the lowest rate of interest available to councils and is provided on a more flexible basis than most private sector funding. Lending is structured around the statutory provision of the local authority as opposed to specific projects and PWLB borrowing is automatically secured on the revenues of the local authority rather than by reference to specific project revenues, assets or collateral. This enables lower interest rates and entails significantly less external due diligence on individual projects than other forms of borrowing.

Find out more: The Public Works Loan Board

1.3. The UK Infrastructure Bank (UKIB)

The UKIB is a new Government-owned policy bank, focused on increasing infrastructure investment across the UK. Its mission is to partner with the private sector and local government to finance investments that deliver the net zero agenda and drive local economic growth. The UKIB will finance strategic and high value projects (minimum loan size £5m) across the range of local authority bodies and will invest alongside the private sector, crowding-in private sector capital.

The UKIB is wholly owned and backed by HM Treasury, but operates independently and has two core objectives:

- Help tackle climate change, particularly meeting our net zero emissions target by 2050; and

- Support regional and local economic growth through better connectivity, opportunities for new jobs and higher levels of productivity.

Find out more: The UK Infrastructure Bank

1.4. Investment-based crowdfunding

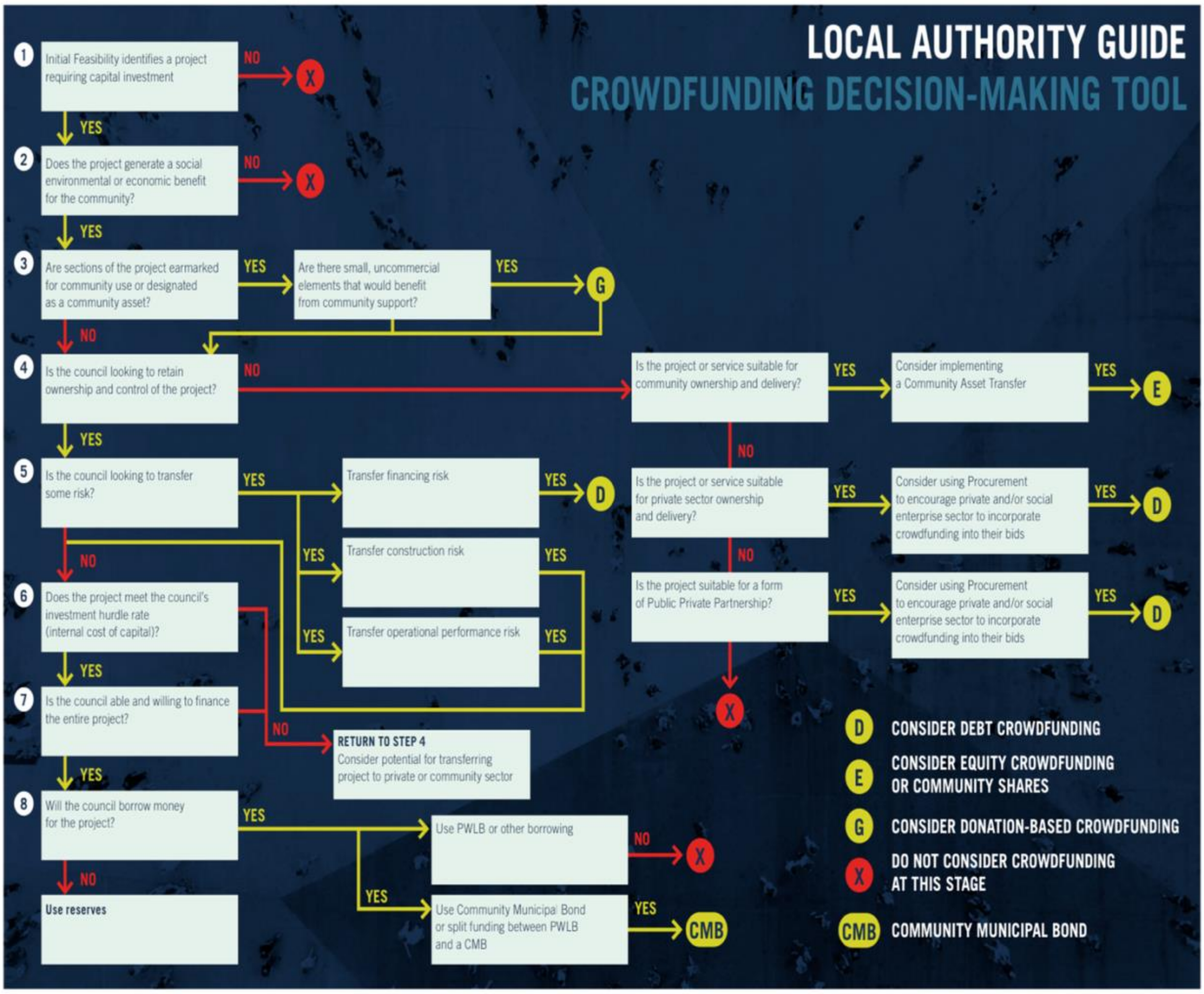
Recent research by Leeds University, in partnership with Local Partnerships and Abundance Investment, assessed the suitability of crowdfunding for socially and/or environmentally beneficial infrastructure projects. Evidence from this research indicates that investment-based crowdfunding does offer the potential to deliver a competitive new model of finance for the public sector, whilst also providing a new way to engage and communicate with residents in a way that builds new local networks of trust.

As part of this research, a local authority guide to crowdfunding has been produced, which provides a range of practical guidance and examples of good practice across councils and the wider public sector. It identifies different models of crowdfunding, including Community Municipal Bonds (see section 1.4.1 below), and includes a decision tool summarising how these different models could be used for different project types.

What is crowdfunding?

Crowdfunding is a process by which people provide money to projects, companies, or organisations via a website (platform). Depending on the nature of the financial arrangement, people receive a return that is either financial (investment-based) or non-financial (donation-based).

Perceptions of crowdfunding amongst the public still reflect its roots in financing creative and social projects via donations. The UK, however, is a global leader and innovator in creating regulated investment-based crowdfunding that brings together individuals as investors and lenders with businesses and projects to meet a range of finance needs.



Find out more: Financing for Society: Assessing the suitability of crowdfunding for the public sector – Local Authority Guide

1.4.1. Community Municipal Bonds (CMB)

A key output of the Leeds University research was the development of a Community Municipal Bond (CMB) structure, specifically referenced in connection with delivery of energy efficiency and green-related projects. This is a new model of public sector crowdfunding, created by the research team working with the local authority case studies. Through this model, CMB's are issued by the council corporate body and administered by a crowdfunding platform, with resident and public investors purchasing the bonds – see case study below.

The research indicated that there was a multi-billion market of retail investment money that could be directed into local authority funding via the CMB approach. It also concluded that this type of investment-based crowdfunding model had the potential to provide capital on terms that were better than the main council borrowing channel (Public Works Loan Board) and through a process that emulates the ease of use of PWLB. Beyond the potential to reduce borrowing costs for councils, wider social benefits of CMBs were also identified, including:

- **Building engaged and active citizenship:** CMBs can be delivered with a minimum investment of £5 and are ISA* and pension eligible, which combined make them highly accessible for ordinary savers. They also create a new platform for engaging and communicating with local residents. Research indicates that higher levels of local government transparency and communication increase resident's support and trust;
- **Local finance for local investment:** By engaging citizens, Local Authorities would enable locally saved capital to be invested in local infrastructure – thus opening a virtuous circle of citizens enabling investment that both improves the local economy, environment and society whilst returning value to local people; and
- **Support for philanthropic donations:** CMBs, similar to charity bonds, can also be used to encourage new donation-based income streams for Local Authorities. For example, civic-minded resident investors would have the ability to donate part or all of their bond interest payments back to the Local Authorities for non-core services.

Case study: West Berkshire Council – Community Municipal Bond

West Berkshire Council has looked to tackle the climate emergency by securing investment through a Community Municipal Investment (CMIs), the UK's first local authority green bond. Having declared a climate emergency in July 2019 and approved an environment strategy to take action, the council offered residents and community groups an opportunity to invest directly with them to help build a greener future for the district. The council was seeking to raise £1 million to fund new rooftop solar power on council-owned buildings around West Berkshire and to help deliver its ambitious target of making the district carbon neutral by 2030.

The CMI, or bond was issued by the council in partnership with the online crowdfunding platform Abundance Investment (see below), which is regulated by the Financial Conduct Authority. Individuals both inside and outside of West Berkshire were able to invest from as little as £5 to support specific projects identified in the strategy. The investment offered returns of 1.2 per cent per year over a 5-year term, with capital returned in instalments across the investment term. Interest and capital repayments could be withdrawn or reinvested into new investments.

The CMI successfully closed reaching its £1m target five days ahead of the proposed deadline. In total, it attracted 640 investors, who each invested an average of around £1,500. Just over a fifth of investors were West Berkshire residents.

About Abundance Investment

Abundance Investment works with businesses, Government and financial services to facilitate investment in green and social infrastructure and connect private investors with innovative projects and companies. Abundance Investment is a founding member of the UK Crowdfunding Association and has pioneered the development of public sector investment crowdfunding within the UK.

Alongside West Berkshire, they have partnered with several other local authority partners to raise investment through crowdfunding to support green projects, including the London Boroughs of Camden and Islington and Warrington Borough Council. In addition, they currently have an open green investment for the London Borough of Hammersmith and Fulham, as detailed below.

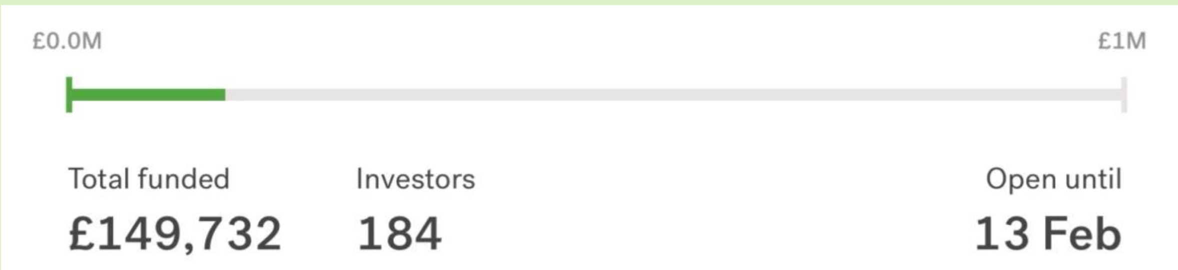
H&F Green Investment 2029

4.85% A YEAR • 5 YEARS

Hammersmith & Fulham Council want to create a thriving green future, with rich ecosystems that help support both people and nature. They have ambitious plans to become a carbon net zero borough by 2030. And now anyone can invest these exciting plans, as they are raising up to £5 million through a series of investment raises, which will help fund projects from their climate action programme.

This first raise — up to £1 million — will help the council fund measures to green parks and open spaces, improve, and expand their sustainable drainage networks, and support residents in making healthier travel choices by installing new bike hangars and mobility hubs.

To date, the investment has raised just under £150,000 from 184 investors:



Find out more: Abundance Investments

1.5. Retrofit credits

Another potential financing option, particularly related to energy efficiency / retrofit, is the use of carbon credits. 'Retrofit Credits', developed by HACT and PNZ Carbon, is an emerging carbon credits scheme aimed at unlocking additional funding into housing retrofit by verifying the emission reductions and social value of retrofit projects. Whilst it is currently being piloted in the social housing sector, it is anticipated that the concept will be extended to the wider residential sector, which would open its potential to support improvements across owner-occupied and private rented stock. Further operational details for the Retrofit Credits scheme are highlighted below.

1. Decarbonisation	2. Calculating reductions & social value	3. Credits and sale
The housing provider enrols housing stock where retrofit works could improve the thermal efficiency of the home and/or reduce the carbon intensity of the heating source.	PNZ Carbon calculates the potential emission reductions using the Verified Carbon Standard and projected funding available from RETROFIT CREDITS. HACT calculates the social value generated by retrofit works using the UK Social Value Bank. The housing provider uses the projected funding to inform their investment case for retrofit activities.	Once retrofit works are complete, PNZ Carbon originates Verified Carbon Units (RETROFIT CREDITS) with Verra Registry backed by the certified emission reductions. This ensures the uniqueness and integrity of the credits issued. HACT and PNZ Carbon manage the sale of the RETROFIT CREDITS. The social housing provider receives payment for the emission reductions and social value created or use the RETROFIT CREDITS to compensate their unabated emissions.

Find out more: Retrofit Credits