Title of meeting:	Cabinet Member for Culture & City Development
Date of meeting:	4 October 2019
Subject:	Crowdfunding Platform for Portsmouth City
Report by:	Assistant Director for Planning and Economic Growth
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Purpose of report

1.1. An opportunity to consider the concept of an online crowdfunding platform, to review the various types of crowdfunding on the market and specifically to consider which are best suited to support the growth of local businesses in the City.

1.2. The paper also highlights the opportunity to procure an enhanced service from a single crowdfunding platform subject to the Cabinet Member agreeing that this service would support economic growth in the City and provide value for money.

1.3. The paper notes that match funding has been a successful way to promote projects and lists a variety of suitable match funding sources that could be allocated for local projects should they meet the grant criteria as set by each fund.

2. Recommendations:

The Cabinet Member for Culture and City Development notes:-

(i) That a number of crowdfunding platforms are already in existence and available to local businesses.

(ii) That match funding could be used to support successful projects on this new platform that is dedicated for Portsmouth.

The Cabinet Member for Culture and City Development approves:-

(iii) That the Council supports a 'best value for money' procurement process to provide the City with a bespoke and enhanced service from one of the existing crowdfunding platforms, at an estimated cost of £30,000 for three years, and that this will be funded from the portfolio reserve.

(iv) The creation of an earmarked reserve for a sum of £40,000 to provide match funding to support projects that deliver outcomes in support of the council's

economic growth & regeneration strategy and that this will be funded from the PRED portfolio reserve, with the allocation of funding to projects delegated to the Direction of Regeneration in consultation with the Portfolio Holder.

3.   Background

3.1   Crowdfunding platforms allows individuals / groups to upload project ideas onto an online platform which can attract funding from a wide range of individual, business and public body supporters, and if the fundraising target is met by the crowd those donations are released to the project lead for implementing that project/idea. The appeal of crowdfunding lies in these community based characteristics and benefits (details outlined in appendix 2).

3.2   The Council's presence on the proposed enhanced crowdfunding platform will give us wider reach to sections of the community who may never have thought of approaching the council for support previously. It also acts as a visible shop window for projects and activities – allowing everyone to see what people are trying to do in their local communities and to get involved. The highly visible success of projects on the platform from across the UK, not just in Portsmouth City, breeds enthusiasm and momentum for others to participate thus generating more bottom up ideas to improve experiences in communities.

3.3   Crowdfunding is growing in popularity as people seeking more influence and transparency about where their money goes. In the absence of available funding from government and other funding institutions, crowdfunding is presenting new opportunities to obtain finance. There are three main types of crowdfunding platforms:

3.3.1 Donations-based crowdfunding the public sector experience of crowdfunding has mainly been this type of funding, which involves people donating money towards a project, product or business. Research by NESTA[1] shows that, in the UK alone, crowdfunding is now worth £3.2billion annually. Donation-based crowdfunding was one of the fastest growing models, growing by 500% since 2014 to £12 million. The growth of the donation-based model suggests that groups and organisations are increasingly adopting crowdfunding as a viable fundraising tool. The key platforms are *Spacehive* and *Crowdfunder*. Crowdfunder UK provides a comprehensive support package and resources, large online community (approx. 450,000 users), industry leading project success rate (42%), and bespoke design for local platforms. Crowdfunder also accepts projects of all types whereas other major providers focus only on public realm projects. An example of one of the most successful platforms is Crowdfund Plymouth - which is a pioneering community infrastructure initiative that embraces crowdfunding technology it also has just taken the top prize at the RTPI's annual Awards for Planning Excellence".

3.3.2 Equity- based crowdfunding this type of funding involves share capital and is mainly used by young, high growth businesses looking for money from investors to grow. The key platforms are *Crowdcube, Seedrs* and *Syndicate Room*. Councils could invest into any local companies that have been listed on this platform, with

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[1] National Endowment for Science, Technology and the Arts is an innovation foundation based in the UK

the aim of supporting local economic growth, e.g. Lancashire County Council was one of the first to use this type of platform in August 2016.

3.3.3 <u>Peer-to-peer lending</u> this is a lending method that bypasses banks, like a bank loan by matching borrower directly with an individual or organisation with money to lend for more flexible and competitive interest rates. The key platforms are often used by businesses e.g. through *Funding Circle, Thincats* and *Zopa*. A few councils have used this platform as a facilitator rather than an investor, in supporting local businesses they have identified as needing finance, e.g. Camden and Lambeth.

3.4 With the right development and promotion crowdfunding has the potential to be a means of access to alternative finance for community groups and local businesses. The platform will also provide a real-time temperature check of issues that are most important to local communities, thus allowing PCC to target its resources more effectively.

3.5 Other funding schemes could also be included in this new online crowdfunding platform, which could help to further raise the profile of the grant scheme and to maximise its profile and accessibility. An example would be the Portsmouth Lottery, which was created in 2016 by Portsmouth City Council, is a means of raising small funds for local charities, voluntary organisations to support good causes in the city. The lottery panel are able to make awards up to £1,000 for community & voluntary organisations.

4   **Cost implications of running the platform**

4.1 The estimated costs of establishing and managing the new enhanced crowdfunding platform would be £30,000 for three years. This will pay for a crowdfunding provider to deliver a specialised support package including the following:

- Manage the digital funding campaign - communicating the high level aims and objectives of the campaign the funding and coaching opportunities available, detailing the fund criteria and linking through to an application form
- The Fund match platform - this is a digital platform providing the tools needed to make informed decisions on projects to support, ensure the validity of those projects, verification process, and securely transfer funds to those projects.
- Applications and Reports - simple online applications, completed as part of the process of creating a crowdfunding campaign will be used to gather eligibility information and enable the decision making process. Successful projects can be surveyed to provide greater detail on the social and economic impact delivered.
- Dashboard - a dashboard will be provided, enabling the commissioning team to make live pledges on projects they want to support.
- Fund Wallets - wallets enable funds to be deposited and live pledges to be made, which are distributed once the project has successfully hit their target, and relevant checks completed.
- Fund matching enabling - managing an automated system for when a relevant project registers with site, and fills in relevant information, it will be

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alerted to the funding available for them and signposted to these pages to fill in the simple application form.

- Market and coaching support - to maximise the opportunity for potential projects to be made aware of the funding and support opportunities to help them build skills and capacity so they can raise the funds they need.
- Accelerator program - deliver three accelerator programs in each year which ensures projects have access to peer support as well as guidance and support from the crowdfunding provider's own coaches.
- Evaluation process - to supply analytical and evaluation reports as part of measuring the effectiveness of the platform. This will give the Council an opportunity to measure and demonstrate the power of its leverage - the amount of additional money attracted to support projects from other sources. Fundamentally evidence suggests that this approach should enable the Council's money to go further and work harder to support community activities in the area for their social impact tool which will enable the capture of progress and outcomes and will help us to demonstrate the effectiveness of our funds.

4.2   There is a 5% charge of the total cost of the projects that the Council supports, and it is commonplace for fundraisers to add these charges to their target to absorb this fee. If the project does not reach its crowdfunding target no fee is taken.

5   Match funding

5.1   Match funding is supported by the platform and can come from a number of sources.

5.2   The Council is proposing to support start-ups and SME's in the city that meet the objectives of the Economic Growth and Regeneration Strategy. To this end initial match funding of £40,000 will be made available from the portfolio reserve, which can provide grants of up to 50% of the total project cost, up to a maximum of £5,000 per project. Grant applications will be managed by SME Development Officer, who will carry out an assessment on project proposals based on the prioritisation schedule attached in the Appendix 3, a summary of all bids including a recommendation for match funding will be submitted to the Director of Regeneration and the Cabinet Member for approval.

5.3   Community orientated projects could be eligible for match funding through the Councils Neighbourhood Community Infrastructure Levy (CIL) process following completion of its new revised procedures and processes which will need to be amended to accommodate any parallel match funding processes.. The grants for CIL will be specifically for community led projects and therefore need to follow separate procedures and recognise specific national regulations. It is possible that in addition to any opportunities for CIL, the Cabinet or another Council Directorate may wish to create an element of match-funding as a separate fund to the one currently being allocated

5.4   Match funding, if awarded, will only be released if the project meets its fundraising target from the crowd. The crowdfunding provider will manage and support fundraisers to do an effective fundraising campaign, as well as helping to navigate and identify other relevant funders to maximise their success rate.

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5.5   As set out in Appendix 1, groups or organisations that are awarded match funding will enter into a contractual agreement with the Council that confirms the funding will only be used for the purposes set out in the application. No monies will be released from the Council until that agreement is signed.

6   Options Appraisal

6.1   The following options were considered in the development of this proposal:

Option		Recommendation	Reason
A	Do nothing	Not Recommended	No benefits are achieved.
B	Establish a traditional small grants programme:	Not recommended	The LEP runs grants programmes and is about to start one for independent retailers to therefore we would duplicate this. A traditional grants programme for e.g. projects would also result in a heavy administrative burden.
C	The Council establishes its own platform.	Not recommended	The Council does not have the expertise or the extensive resources that is required to develop and run a rapidly evolving crowdfunding platform to maximise the user experience. An external provider would also maintain the platform and to ensure that other funders (e.g. RBS/NatWest and Aviva) are also offered on the platform and therefore could back projects. Therefore this not be a cost effective and efficient option.
D	Tender to the open market for any crowd funding platform.	Not recommended	Soft market research was undertaken about donations-based crowdfunding platform, and the two major providers are Crowdfunder UK and Spacehive.
E	Tender to established donation based crowdfunding platforms only and use that platform to deliver a Portsmouth specific digitised programme.	**Recommended**	Option E is preferred because it can deliver a wider grants programme to support projects that support the regeneration of the City, with the use of CIL funding.

7 Implementation

7.1 Following approval of the recommendations of this report, it is proposed that the implementation plan is as follows:

- Work with procurement team to initiate tendering process
- Work with legal team to contract with the preferred provider
- Work in partnership with Shaping Portsmouth in selecting the crowdfunding provider; marketing and promotion of these funding opportunities to the wider business community; and assist in evaluation
- Work with IT team to enable the platform with the provider, and to ensure our corporate identity.
- Work with the Director of Regeneration to create a prioritisation matrix for economic growth projects that may be eligible for match funding
- Work with CIL team to formalise the new CIL procedure, process and support the Assistant Director of Planning and Economic Growth in decision making.
- Work with Communications team to prepare launch of the platform, and with external key partners including Shaping Portsmouth, the Hive.
- Launch and project "go live"

8 Consultation

8.1 There has been a certain amount of consultation with various business groups (Shaping Portsmouth and the Federation of Small Businesses) over the last nine months to work out if there is support for the development of a crowdfunding model for the City. Their aims have been primarily to support regeneration of the City.

8.2 During the product development phase further consultation will take place with stakeholders on the design of the platform to ensure it is easy to use, appealing to local users, and that the platform has a strong sense of business, community and place.

9 Risk Management

Risk	Mitigation
Crowdfunding is not a preferred or popular means of fundraising locally.	Many examples of successful ones across UK examined and learning taken on board so risk reduced.
Individuals, groups and organisations do not have skills to run crowdfunding projects.	The crowdfunding provider will provide a training support package and expertise to help build local capacity and capability.
Projects do not meet their crowdfunding targets.	The onus is on the project lead to engage the crowd and obtain pledges but all projects will benefit from the crowdfunding provider's marketing resources and channels, plus further publicity and promotion from marketing and communications.

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Risk	Mitigation
Match funded projects are not delivered.	A project plan including costs is submitted with all applications for match funding. Project leads are required to submit a project evaluation to demonstrate outcomes and impact.
CIL runs out or is not available due to development stalling or legislation	Could just run the crowdfunding platform without match funding or just run the business support element using other local funding sources.

10   Contractual Issues - procurement

10.1   As advised by the Council's procurement team, the Council can be supported by the procurement team to carry out a 'best value for money' procurement approach, with an estimated timescale of up to 3 months.

11   Staffing Issues

11.1   Developing crowdfunding has some implications for staff in Planning and Economic Growth, Finance, legal and procurement who will need to absorb the following work:

- Due diligence checks - Finance and procurement.
- Providing PR support to promote the platform (resourced by SME Development Officer and Comms team)
- Providing support to realise the decision making for the council's grant applications (resourced by SME Development Officer).
- Providing administrative support to process the new revised CIL process of Match funding Board Panel (resourced by existing CIL team)

12   Council Plan

12.1   This proposal aligns with several objectives within the Council's Plan which are set out in the table below. Crowdfunding also dovetails with other initiatives such as the Portsmouth Lottery.

Corporate priorities	Impact of this proposal
1. Make Portsmouth a city that works together enabling communities to thrive and people to live healthy, safe and independent lives.	Crowdfunding is open to anyone wishing to fundraise. It will bring the city together and demonstrate how people are working together to enable communities to thrive. Crowdfunding is empowering because it is democratic and transparent. People can influence what happens in their community and take ownership of local initiatives.
2. Encouraging regeneration built around our city's	Crowdfunding matched with CIL will encourage more regeneration and bring more resources for such projects. It will give local people and organisations a route to show their support.

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Corporate priorities	Impact of this proposal
thriving culture, making Portsmouth a great place to live, work and visit.	
3. Make our city cleaner, safer and greener.	Many of the projects will cover these themes.
4. Make Portsmouth a great place to live, learn and play so our children and young people are safe, healthy and positive about their futures.	Local residents/groups/organisations will be able to upload projects through an online platform. So they can ensure that many projects will support children and young people.
5. Make sure our council is caring, competent and collaborative organisation that puts people at the heart of everything we do.	By setting up the platform it shows the Council cares. It shows we are competent as it will boost funding for projects the community cares about. It is a good example of collaboration and putting people at the heart of e.g. the CIL and business rates processes.

13   Equality impact assessment

13.1   A full preliminary Equality Impact Assessment (EIA) is not required as this will not have a negative impact on the community or any of the characteristic groups.

14   Legal implications

14.1   The Localism Act includes a `general power of competence'. This gives local authorities the legal capacity to award grants for projects of benefit to the local community. The giving of grants to community organisations is, however, a discretionary power which must be exercised reasonably.

14.2   Legal Services will need to review the proposed detailed terms and conditions for (1) the provision and operation of any commissioned crowdfunding platform and (2) the delivery of resulting crowdfunded projects with a view to ensuring that public funds within the Council's control will be appropriately managed and protected.

15 Head of Finance Comments

15.1   The report asks the Cabinet Member for Culture and City Development to approve expenditure of £70,000 from the former Planning, Regeneration and Economic Development (PRED) Portfolio reserve.

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15.2 Delegated responsibility is given to the portfolio holder to agree for the Portfolio reserve to be used in whatever manner he sees fit so a report is not necessary to approve this.

15.3 Portfolio Reserve cannot be used to fund ongoing expenditure. The report recommends that the Portfolio reserve funds the scheme for 3 years, at which time the Council will then need to assess whether it wishes to continue with the platform. If it does another source of funding, it will need to be identified. There are currently no known financial consequences of ending this agreement after three years. The cost to get the additional support is £10,000 per annum.

15.4 The report also requests that a specific reserve is established which will hold initially £40,000 to be used as match funding for projects that are funded through the Crowdfunding platform. Exact details of the governance have not yet been agreed (a draft proposal is in appendix 3) and these will need to be agreed prior to launching the match funding element.

15.5 The Crowdfunding Platform is not dependent on there being match funding available so once the £40,000 has been used the platform can still continue. If the Council wishes to continue with the match funding it will need to identify an alternative source of funding for this.
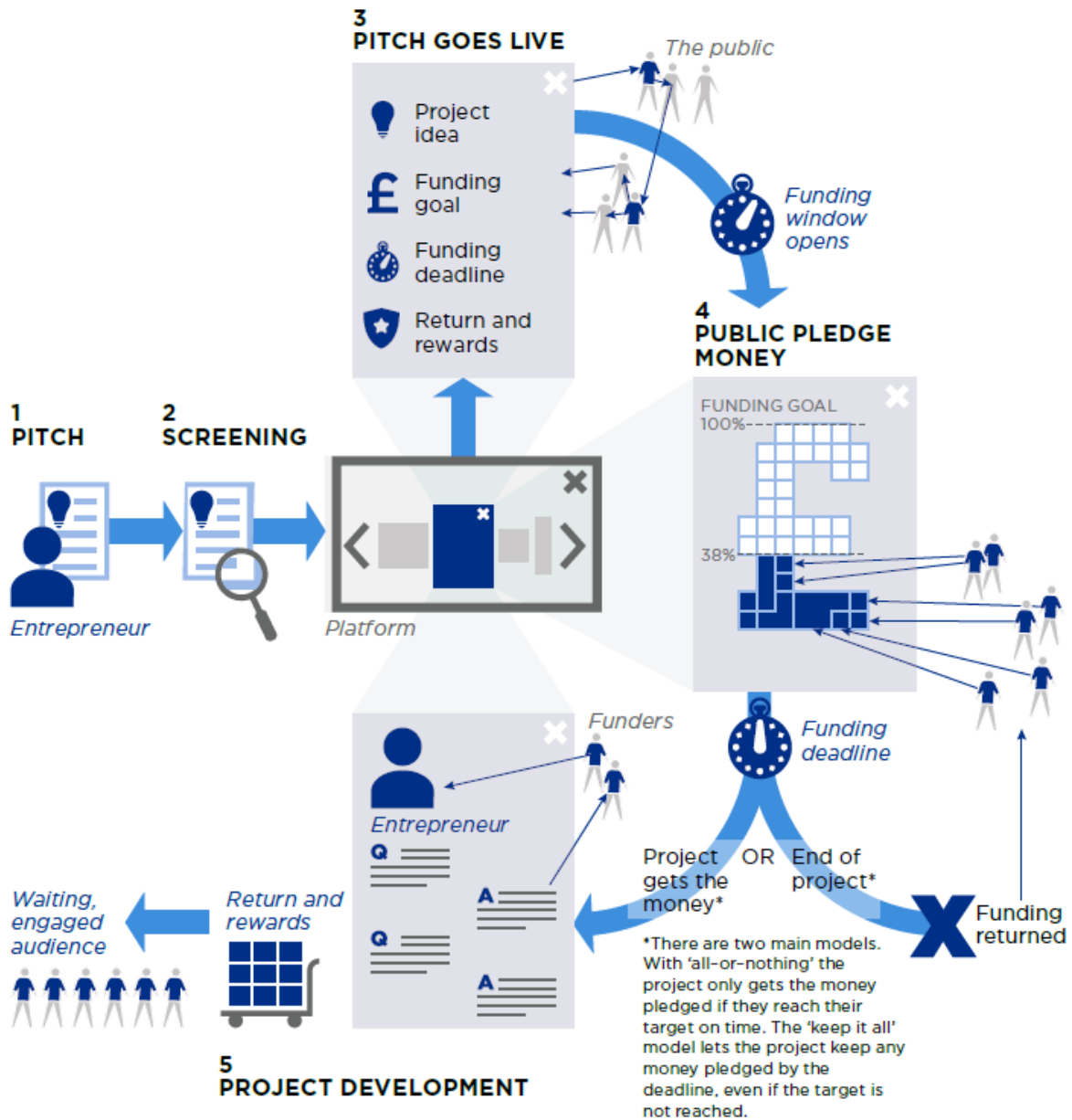
16   Appendices:

Appendix 1: A typical crowdfunding process and Proposed Crowdfund Portsmouth

Appendix 2: The benefits of using a crowdfunding model

Appendix 3: Prioritisation to enable Match funding support for Economic Growth Projects

Appendix 4: Draft Prioritisation Application Form

Appendix 1: A typical crowdfunding process

3 PITCH GOES LIVE
- Project idea
- Funding goal
- Funding deadline
- Return and rewards

The public

Funding window opens

1 PITCH

Entrepreneur

2 SCREENING

Platform

4 PUBLIC PLEDGE MONEY

FUNDING GOAL
100%
38%

Funding deadline

Funders

Entrepreneur

Q   A
Q   A

Waiting, engaged audience

Return and rewards

5 PROJECT DEVELOPMENT

Project gets the money*   OR   End of project*

*Funding returned

*There are two main models. With 'all-or-nothing' the project only gets the money pledged if they reach their target on time. The 'keep it all' model lets the project keep any money pledged by the deadline, even if the target is not reached.

(Source: Crowdfunding Good Causes, NESTA, June 2016)

Proposed Crowdfund Portsmouth

Eligibility

The Council is only able to match fund projects that are being delivered by constituted organisations. This includes businesses, community groups, social enterprises, residents or traders associations, local charities, schools, and neighbourhood forums. This is because individuals are not able to be recipients of public money.

Criteria

It is proposed that match funding pledges from the Council are awarded on the basis that projects can demonstrate that they are in line with CIL criteria

Further Essential criteria

- The project must be local to the city and benefit local businesses, people who live or work in it
- The project must have regard to equalities and diversity. It must therefore be inclusive and accessible to everyone.
- The project must have strong local support, shown through a vibrant crowdfunding campaign.

Key process (to be delivered by the crowdfunding provider)

1. The crowdfunding provider will carry out a verification process which takes place before a project is given the green light to post onto the platform, should ensure that proscribed organisations do not have the opportunity to go live with their fundraising. In addition the Council will be alerted to projects before they go live so will be able to raise an alarm on anything suspicious at a very early stage and the much higher visibility on the website once a project does go live means that the "eyes of the crowd" offer an additional level of scrutiny for suspicious groups/activities.
Verification is all about finding and rectifying weaknesses and problems before any fundraising is done, and finding the points of failure before a project starts rather than afterwards which reduces risk for investors and significantly improves project deliverability.
2. Fundraising process commences and a project delivery contract is agreed and when their funding target is reached. Council officers will assess suitable funding bids against the CIL criteria and process, and send on to Cabinet Member for decision making.
3. Project delivery commences and payment is transferred to applicant. The project delivery contract is legally bound to ensure the funds raised are spent delivering the project as set out on the platform, and if not due to negligence or fraud, or if the delivered project is 'substantially different' from that originally promoted to the funders, the applicant would be liable and could be taken to court by either crowdfunding provider or any of the project funders.
4. Evaluation process carried out by the crowdfunding provider.

Appendix 2: The benefits of Crowdfunding model include:

- Go further as the council would not be the only contributors
- Greater visibility for groups on the platform increasing opportunities to secure funds from a range of sources
- An opportunity to attract other partners for joint funding, eg. LEP, banks. Councils may want to use Community Infrastructure Levy or other funding to encourage activity (e.g. local regeneration, parks, sports and leisure). Local businesses may put funds on the platform as a way to fulfil their corporate social responsibility aspirations
- In terms of value for money – crowdfunding is almost exclusively done online through intuitive to use platforms, and savings will be the reduced costs of a digital rather than a paper based system
- Ease of tracking and monitoring the available requests and the contributions being offered
- Improving awareness of issues that are important to local communities and increased levels of civic engagement, therefore increasing opportunities to build local networks of trust
- A collaborative approach to problem solving alongside residents, partners agencies and businesses
- democratic – the crowd chooses which projects succeed, any project can succeed provided it can find that support
- local – backers are typically local, and therefore motivated to see the project succeed, and the process is transparent – backers can see where their investment is spent
- quick – funding can be secured within a matter of weeks
- accesses a large community of potential small investors
- Public authorities using a crowdfunding approach experience, on average, 3.5 times leverage on grants they deploy.

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Appendix 3: Project Prioritisation to enable match funding (DRAFT Proposal)

As crowdfunding applications are submitted on the platform, the verification process will be carried out by the crowdfunding provider (TBC), who will assist with identifying the appropriate match funding sources.

The council will receive assessed bids that supported by the prioritisation schedule (see appendix 4) which has an emphasis to support new businesses (start-ups) and existing Portsmouth SMEs on projects that would create new jobs and/or protect existing jobs and that will result in economic growth in the City.

The Council is proposing to support bids that meet the Councils five Corporate objectives and will deliver against the targets set in the Economic Growth and Regeneration Strategy.

To this end the Council will:-
- Provide initial match funding of £40,000, to be made available from the portfolio reserve,
- Provide grants of up to 50% of the total project cost, up to a maximum of £5,000 per project.

Grant applications will be populated by the crowdfunding provider and supported by the SME Development Officer, who will carry out an assessment on project proposals based on the prioritisation schedule attached in the Appendix 4.

A summary of all bids including a recommendation for match funding will be submitted to the Director of Regeneration and the Cabinet Member for approval, quarterly.

There will be an annual review of performance of the crowdfunding platform with reports will be taken to the Director of Regeneration, the Portfolio holder and the Business and Enterprise Group of Shaping Portsmouth. A major review of the success of this trial will be assessed by the Portfolio holder in 2022, the final year of enhanced services operation.

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