Crowdfunding is an alternative finance model that involves raising money for a project or idea via a collective of individuals, promoted online or via local media. Put simply, people are invited to donate money towards the cause or idea - if the fundraising target is met by the crowd those donations are released to the project lead for implementing that project/idea.

Crowdfunding is growing in popularity as people seek more influence and transparency about where their money goes. Furthermore, crowdfunding is by nature social and community building as local and people can become involved and engaged in projects they support financially. Also, in the absence of available funding from government and other funding institutions, crowdfunding is presenting new opportunities to obtain finance.

The Council wishes to develop crowdfunding locally and in doing so use crowdfunding as a means of re-establishing a small grants process. The purpose of this report is to outline a proposal for partnering with Crowdfunder UK, a specialist provider of online crowdfunding platforms, and to agree a policy that enables the Council to match-fund projects which meet specified criteria and align with LBBD’s strategic objectives.

Recommendations:

The Cabinet is recommended to agree:

(i) To procure an online crowdfunding platform from Crowdfunder UK and work in partnership with them to deliver an initial 12-month pilot campaign with the intention to maintain the partnership for a second year to further build capacity and mainstream crowdfunding as an alternative finance model, as detailed in Appendix 1 to the report;

(ii) To introduce a small grants fund by establishing, using the Council’s financial reserves, a match-funding pot of £120,000 for awarding to local projects that meet
criteria set by the Council;

(iii) To agree, in principle, the draft Match-Funding Policy at Appendix 2 to the report;

(iv) To delegate authority to the Strategic Director of Finance and Investment to agree the final Match-Funding Policy in the light of any amendments that may be required during the development / implementation phase to take account of emerging issues; and

(v) The establishment and terms of reference of the Match-Funding Panel as set out in Appendix 3 to the report.

Reasons:

Agreeing these recommendations supports the Corporate Plan vision and objectives to ‘enable social responsibility’ and ‘encourage civic pride’ by empowering residents to take positive action to improve their community without being dependent on funding institutions to finance projects or ideas. The initiative also aligns with the approach being taken in implementing the findings of the Growth Commission and Ambition 2020. Areas of alignment include:

- civic engagement and ownership of local initiatives
- financial sustainability for VCS groups/organisations from accessing alternative finance from ‘the crowd’ of Barking and Dagenham and beyond
- potential to achieve non-financial benefits from leveraging in-kind support from ‘the crowd’ (e.g. volunteering)
- Attracting investment from Crowdfunder UK, from their online community and partnerships.

1. Introduction and Background

1.1. Crowdfunding is an emerging type of alternative finance whereby those seeking investment can bypass traditional funding institutions or investors and instead engage ‘the crowd’, a collective of individuals, to obtain the necessary financial pledges to finance a project or idea.

1.2. The appeal of crowdfunding lies in these characteristics and benefits:

- democratic – the crowd chooses which projects succeed, any project can succeed provided it can find that support;
- transparent – backers can see where their investment is spent;
- local – backers are typically local, and therefore motivated to see the project succeed;
- Simple to do – crowdfunding is almost exclusively done online through intuitive to use platforms;
- quick – funding can be secured within a matter of weeks;
- accesses a large community of potential small investors.

1.3. Research by NESTA shows that, in the UK alone, crowdfunding is now worth £3.2 billion 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 community and voluntary sector organisations are increasingly adopting crowdfunding as a viable fundraising tool.

1.4. Further evidence of the growth and success of crowdfunding can be taken from other local authorities who have developed crowdfunding mechanisms. Plymouth, Lewisham, Angus, and the GLA are examples of thriving crowdfunding models which have the provision to award match-funding. Proof of concept can also be found in the borough from recent successfully crowdfunded projects such as RAMFEL’s foodbank and Studio 3’s production of the Merchant of Venice.

1.5. With the right development and promotion crowdfunding has the potential to be a viable means of access to alternative finance for individuals/groups/organisations in Barking and Dagenham. In addition, it takes a first step towards creating a viable local giving model for Barking and Dagenham. Implementing these proposals aims to test whether crowdfunding could be scaled up and mainstreamed to achieve that goal.

2. Crowdfunding Proposal

2.1. Recommendation 1 of this report asks Cabinet to enter into partnership with Crowdfunder UK, a specialist provider of donation and reward-based crowdfunding platforms, to develop a personalised partner page on Crowdfunder’s platform and a campaign for hosting local crowdfunding projects.

2.2. Once established anyone can upload their project to the platform to secure funding. The only barrier to entry is passing Crowdfunder’s verification process.

2.3. The platform will require light touch administration to accept projects onto the platform. When successfully uploaded, projects will have a set period in which to meet their fundraising target. This requires project leads to engage the local community and beyond to secure pledges. Crowdfunder UK uses its marketing and communications channels to help generate publicity for projects and target Crowdfunder users and partners who are likely to have an interest in that type of project and therefore make a pledge. Appendix 4 describes the typical crowdfunding process.

2.4. Donations from project backers are released electronically, through an e-wallet system, directly to the project lead quickly after the fundraising deadline. This enables project delivery to happen almost immediately.

2.5. If the project meets its crowdfunding target Crowdfunder will take a 6% commission of the total raised; this standard practice across the industry and competitive. If the project does not reach its crowdfunding target no commission is taken. It is commonplace for fundraisers to add 6% to their target to absorb this fee.

2.6. During and after delivery projects can draw on in-kind support from backers. A study by Nesta found that 27% of donation-based crowdfunding backers had also offered to volunteer with the projects they had supported and 7% also offering things such as hardware or the use of space.

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1 Of those who responded to NESTA’s survey
2.7. Appendix 1 describes what is being procured from Crowdfunder UK for the platform. Crowdfunder UK is the preferred provider because of its:

- comprehensive support package and resources
- large online community (approx. 450,000 users)
- industry leading project success rate (42%)
- personalised design for local authority partner pages
- ability to leverage additional funding from its corporate partners
- scope to accept projects of all types (whereas other major providers such as Spacehive focus only on public realm projects).

3. Match-Funding Proposal

3.1. In addition to establishing a personalised partner page on Crowdfunder’s platform, this reports seeks to use that platform as the means by which to establish and manage a small grants allocation scheme. The scheme would work by allowing the Council to award funding to projects that make applications to access a ring-fenced funding pot.

3.2. The key provisions of the policy that is being proposed are highlighted in the paragraphs below.

**Match-funding amounts**

3.3. The Match-funding Policy proposes that the Council will match-fund projects up to a maximum of 50% of the total project value but not exceeding £10,000. The project will need to raise the remaining percentage from the crowd. Match-funding, if awarded, will only be released if the project meets its fundraising target from the crowd.

**Eligibility**

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

**Criteria**

3.5. It is proposed that match-funding pledges from the Council are awarded on the basis that projects can demonstrate the three essential criteria, and at least one of the desirable criteria listed below. The desirable criteria have been selected to reflect priority issues for the Council.

**Essential criteria**

- The project must be local to the borough and benefit people who live or work in Barking and Dagenham.²
- The project must have regard to equalities and diversity. It must therefore be inclusive and accessible to everyone.

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² Applications should demonstrate that 90% of beneficiaries of the project are Barking and Dagenham residents.
The project must have strong local support, shown through a vibrant crowdfunding campaign.\(^3\)

**Desirable criteria**
- The project helps residents into employment, or closer to employment, or brings economic benefit to the borough.
- The project improves the health and wellbeing of residents.
- The project builds cohesion in the community or encourages civic pride.
- The project creates volunteering opportunities for local people.
- The project focuses on improving equality for a particular protected characteristic, as defined in the Equality Act 2010.

3.6. The criteria may flex and change to enable access to new funding streams and opportunities for funding amplification presented by Crowdfunder (see paragraphs 3.13 and 3.14). The Virgin VOOM and Santander Changemaker campaigns are relevant examples.

3.7. The Match-funding Panel will be responsible for reviewing and amending the criteria after the Match-funding Policy is agreed.

**Governance**

3.8. The Match-funding Policy will be underpinned by good governance. Having already passed Crowdfunder’s verification to be hosted on the platform, projects which then wish to receive match-funding must go through an application process. Further to this applying groups/organisations may need to provide supporting documents as part of due diligence checks.

3.9. Once these checks have been carried out applications will be judged by a Match-funding Panel, who will ensure the project has a viable delivery plan and that it meets the criteria described above. The Match-funding Panel will decide whether to award a pledge. Depending on this outcome the project will either need to raise all of the funds through the crowd, or whatever is remaining after the Council’s match-funding pledge is taken into account.

3.10. To ensure that public money is used appropriately, and for the purposes it was intended for, projects will be required to report back to the Match-funding Panel on outcomes and impacts that were delivered. Safeguards, including a contractual agreement, will be put in place to minimise the risk of public money being misappropriated.

3.11. Appendix 2 outlines in full the proposed match-funding policy, and explains the governance mechanisms that will ensure the appropriate use of public money and a rigorous process.

3.12. Appendix 3 provides a proposed Terms of Reference for the Match-funding Panel.

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\(^3\) The trigger point for being considered for match-funding will be once a project reaches 25% of its fundraising target from the crowd.
Opportunities for additional match-funding

3.13. The primary reason for partnering with Crowdfunder is because of their unique selling point to leverage additional match-funding through its network of corporate partners. Crowdfunder has established relationships with large companies and markets crowdfunding projects to them which fit with their corporate social responsibility policies and objectives. This means that the pledges from the Council can be combined with pledges from Crowdfunder partners to reduce the fundraising target required from the crowd.

3.14. This is known as ‘funding amplification’ and it has two key benefits. Firstly, project success rates are improved because the crowd is required to meet a smaller portion of the overall fundraising target. Secondly, the Council’s match-funding pot can support a greater number of projects because projects are benefitting from amplification and more than one match-funding pledge.

4. Options Appraisal

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

<table>
<thead>
<tr>
<th>Option</th>
<th>Recommendation</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Do nothing</td>
<td>Not Recommended</td>
</tr>
<tr>
<td>B</td>
<td>Establish a traditional small grants programme: Not recommended</td>
<td>A traditional grants programme would result in a heavy administrative burden. This option does not deliver benefits and opportunities to mainstream crowdfunding locally.</td>
</tr>
<tr>
<td>C</td>
<td>Tender to the open market for a provider. Not recommended</td>
<td>Soft market research was undertaken about different providers of crowdfunding platforms. Crowdfunder UK is the preferred provider because it can leverage private investment and because it is catered for projects with a social or community dimension.</td>
</tr>
<tr>
<td>D</td>
<td>To partner with Crowdfunder UK to develop crowdfunding and use that platform to deliver a digitised small grants programme (using functionality within the platform to award match-funding). Recommended</td>
<td>Option D is preferred because it delivers the benefits highlighted in section 9.4.</td>
</tr>
</tbody>
</table>

4.2. Agreeing the recommendations of this report result in proceeding with Option D.
5. Implementation

5.1. Following agreement of the recommendations of this report the Council and Crowdfunder will work together to design the crowdfunding platform and implement the Match-funding Policy so that it can be managed through a simple to use online dashboard. Crowdfunder’s project verification process will be supplemented with additional due diligence checks that are required to enable match-funding awards.

5.2. It is expected that development of the personalised partner page will take between 8 to 10 weeks. It is intended that the platform will be launched in early 2017. The Strategy and Programmes Team will lead on implementation with input from relevant service blocks. Examples of the partner page that we will be developing with Crowdfunder can be found at these links:

- [Crowdfund Plymouth](http://www.crowdfunder.co.uk/campaign/crowdfund-plymouth)
- [Crowdfund Angus](http://www.crowdfunder.co.uk/angus)

6. Consultation

6.1. Intentions to develop a crowdfunding model for the borough have been discussed with the following stakeholders:

- relevant Cabinet Members
- relevant officers
- voluntary sector partners

6.2. Comments have been positive and supportive of experimenting with crowdfunding and re-establishing a small grants programme. We are aware that capacity building is required for voluntary and community sector organisations to engage with this model of fundraising.

6.3. 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 community and place.

6.4. In agreeing this report, Cabinet is delegating authority to the Strategic Director of Finance and Investment to finalise the arrangements and governance for match-funding, and to be the design authority for the Crowdfunder partner page.

7. Financial Implications

Implications completed by: Richard Tyler, Chief Accountant

7.1. Procurement of the crowdfunding platform and 12-month pilot campaign from Crowdfunder UK will cost £20,000. The Council will have the option to extend this contract for a further 12 months if it so chooses. Costs for the second year would be a minimum of £10,000 for maintaining the licence for the personalised partner page on Crowdfunder’s platform, plus any development of support services the Council wishes to purchase from Crowdfunder.
7.2. It is intended that the option to partner with Crowdfunder for a second year will be taken. Cabinet can therefore expect total contract costs over the two years to be £40,000; this includes licence fees and development/support packages for each year.

**Match-funding**

7.3. This report asks Cabinet to agree to establishing a match-funding pot. The value of this pot will be £120,000. Awards to individual projects from this pot will be capped at 50% of the overall project value or a maximum of £10,000.

7.4. The cost of funding this project for intended two years will be £280,000. Cabinet is being asked to agree to draw down from Council reserves to finance this proposal.

7.5. It is proposed that a Match-funding Panel is established to ensure appropriate use of public money. The Strategic Director of Finance and Investment will chair this Panel to provide financial scrutiny/accountability. It is important to emphasise that all agreed spend will be on functions which are within the Council’s fiduciary responsibility.

7.6. The Match-funding Policy requires that projects that receive match-funding must report on outcomes and impact to demonstrate that public money has been used for the purposes that were intended. Further to this, Finance recommends that in the final Match-funding Policy the Council reserves the rights to:

- request receipts and invoices relevant to project costs
- carry out spot-check audits of projects.

8. **Legal Implications**

Implications completed by: Assaf Chaudry Major Project Solicitor

8.1. This report is seeking approval to partner with Crowdfunder UK a specialist online crowdfunding platform, and secondly to agree a policy that enables the Council to match fund projects which meet criteria and align with the Council’s objectives.

8.2. The proposed activities do not fall within the core functions of the Council and therefore the Council could proceed with the activities under the ‘general power of competence’ as set out in Section 1 of the Localism Act 2011. This section gives the local authority the power ‘to do anything that individuals generally may do’, unless specifically prohibited by any previous legislation or any new legislation coming into effect after the Localism Act 2011. On the happening of such an event the Council will need to review the approach to the implementation of the activities referred to above so that we do not contravene the ‘general power of competence’.

8.3. The Council should procure the partner page and support package from Crowdfunder in accordance with the Council’s Contract rules. Indeed, in paragraph 9.2 above, it states that the Procurement Board has already approved a procurement strategy for the product.

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6 Year one: Crowdfunder costs = £20,000, matchfunding pot = £120,000
   Year two: Crowdfunder costs = £20,000, matchfunding pot = £120,000
   Total = £280,000
8.4. In exercising the ‘general power of competence’ to implement crowdfunding and match-funding (as described in this report), the Council should to be cognisant of its fiduciary duty and a duty to act reasonably including the following elements.

- **Governance**

  Match-funding entails awarding public money to local groups/organisations. It is therefore important that this money is awarded in a fair and transparent manner. A Match-funding Policy has been developed (see Appendix 2) which sets out the eligibility and criteria that will be used to award public money. This policy, combined with the Match-funding Panel Terms of Reference (see Appendix 3), explains the mechanisms that will be used to ensure the governance and due diligence for match-funding is proportionate and suitably robust.

  The key provisions of the Match-funding Policy and its proposed governance arrangements ensure that:

  - due diligence requirements do not put up barriers to applicants wishing to access match-funding.
  - the scheme is not onerous for the Council to administer.
  - strict criteria are used to make match-funding decisions.
  - checks and safeguards are in place to protect public money from being misappropriated.

  The policies and processes described in this report and its appendices are in a state of development. Cabinet is asked to give delegated authority to the Strategic Director of Finance and Investment to agree the Match-funding Policy and governance arrangements; in doing so, consultation with Legal Services is advised. This is to ensure that the policy and how it is applied is robust, lawful and protects the Council from risk and is done in accordance with ‘general power of competence.’

**9. Other Implications**

9.1. **Risk Management**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crowdfunding is not a preferred or popular means of fundraising locally.</td>
<td>The 12-month pilot campaign provides an opportunity to test the appetite for crowdfunding. There is no obligation to continue the partnership with Crowdfunder UK after 12 months if crowdfunding has not been a success. The package from Crowdfunder includes an end of pilot evaluation report to inform the decision of whether to continue.</td>
</tr>
<tr>
<td>Individuals, groups and organisations do not have skills to run crowdfunding projects.</td>
<td>Crowdfunder provides a support package to help build local capacity and capability.</td>
</tr>
<tr>
<td>Projects do not meet their crowdfunding targets.</td>
<td>The onus is on the project lead to engage the crowd and obtain pledges but all projects will benefit from Crowdfunder UK’s marketing resources and channels, plus further publicity and promotion from LBBD marketing and</td>
</tr>
<tr>
<td>Risk</td>
<td>Mitigation</td>
</tr>
<tr>
<td>--------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Match-funded projects are not delivered.</td>
<td>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. Project leads will sign an appropriate legal agreement confirming they will spend the match-funding for the purposes it was awarded.</td>
</tr>
</tbody>
</table>

### 9.2. Contractual Issues

**Procurement**

Procurement Board approved the procurement strategy for the contract award of the crowdfunding platform to Crowdfunder UK.

The contract will be awarded using delegated officer authority, and permission has been granted to waive the requirement to obtain at least three competitive quotes from at least three contractors without the need to advertise the contract or follow a competitive tendering exercise. This waiver was granted because Crowdfunder UK is the only provider of online crowdfunding platforms that can leverage additional match-funding through corporate sponsorship from Crowdfunder’s partnerships.

The contract with Crowdfunder is initially for a period of 12 months; the value of the contract for this period is £20,000. Following the 12-month pilot campaign the Council will have the option to continue its partnership with Crowdfunder paying a licence fee to do so. As set out in the financial implications in paragraph 7.2, the intention is to partner with Crowdfunder for two years taking the total contract value to £40,000.

Throughout the contract/partnership additional support and services can be purchased from Crowdfunder depending on our development needs and capability of local project leads.

**Match-funding**

As set out in the Match-funding Policy at 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 such an agreement is signed.

### 9.3. Staffing Issues - Developing crowdfunding in Barking and Dagenham has minor implications for staff in the Strategy and Programmes service block who will need to absorb the following responsibilities:

- management of the platform and online dashboard for awarding match-funding pledges
- due diligence checks
- administrative support to the Match-funding Panel
- marketing and communications activities.
9.4. **Corporate Policy and Customer Impact** - This proposal aligns with several objectives within the Council's Corporate Plan which are set out in the table below. Crowdfunding also dovetails with other initiatives such as Everyone Everyday and the B&D lottery, which together could comprise the architecture for a local giving model.

<table>
<thead>
<tr>
<th>LBBD Strategic objective</th>
<th>Impact of this proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build civic responsibility and help residents shape their quality of life</td>
<td>Crowdfunding is open to anyone wishing to fundraise. This provides opportunity for creativity and innovation as it might appeal to those who might previously have been discouraged by traditional grant processes. To be successful projects must have buy-in from the community. Crowdfunding is empowering because it is democratic and transparent. People can influence what happens in their community and take ownership of local initiatives.</td>
</tr>
<tr>
<td>A commercial and entrepreneurial organisation</td>
<td>Crowdfunding encourages projects to be more entrepreneurial and enables organisations to understand and move towards more sustainable approaches to project funding in the absence of funding from institutions. Crowdfunder’s unique ability to leverage additional match-funding from its private sector partners will mean that funds raised by the crowd, and any pledges from the Council, can be amplified. The Council will therefore be able to make its money go further and ultimately support more projects.</td>
</tr>
<tr>
<td>A more enabling council</td>
<td>By giving the community direct access to alternative finance.</td>
</tr>
<tr>
<td>Digital-by-design</td>
<td>Residents/groups/organisations will be able to upload projects through an online platform. The platform is self-serve so projects will be managed and marketed online by the project lead. Crowdfunder will provide coaching and manage the majority of interaction. LBBD officers will be able to manage the match-funding process through the platform reducing the administrative burden of grant applications.</td>
</tr>
<tr>
<td>Equalities and diversity</td>
<td>The Crowdfunding platform and match-funding will not have any negative impacts for any of the protected groups. The essential criteria for match-funding requires that projects must have regard to equalities and diversity and be open and inclusive for all. Some further desirable criteria will favour projects that demonstrate they will lead to improvements in equality.</td>
</tr>
</tbody>
</table>
9.5. **Safeguarding** - Any group or organisation seeking match-funding from the Council will be required to complete a rigorous application and due diligence process. Where any project works with vulnerable people and/or children the group or organisation will need to demonstrate that it has robust safeguarding policies otherwise it will not be eligible to be awarded public money from the Council.

9.6. **Health Issues** - The match-funding policy criteria has been developed to encourage and support projects/ideas that improve the health and wellbeing of residents.

Public Background Papers Used in the Preparation of the Report:
- [Crowdfunding Good Causes](https://example.com) (NESTA, June 2016)

List of appendices:
- Appendix 1: Crowdfunder proposal and product information
- Appendix 2: Match-funding Policy
- Appendix 3: Match-funding Panel Terms of Reference
- Appendix 4: Typical crowdfunding process