CHAPTER 15

Sustainable Investing in Community Sporting Facilities

Gordon Noble

1 Introduction

Sporting facilities are the backbone of community participation in sport. While most media and political attention focuses on professional sports, sporting facilities at the local level are heavily used on a day-to-day basis and are, in many cases, in need of renewal. Data on sporting facilities indicates that installations are, overall, of poor quality despite clear evidence of the universality of sport participation. Approximately 60% of European citizens participate in sporting activities on a regular basis within or outside some 700,000 clubs (European Commission, 2007). In Australia, 2.3 million people, or 14% of the population, volunteer for sporting and recreational associations (Australia Bureau of Statistics, 2013).

Despite the universality of interest in sport, the story of sporting facilities is a story of "haves and have nots", with Yankee Stadium, valued at USD 2.5 billion (Gayer, Drucker, & Gold, 2016, p. 12) comparing to the

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aging and often inadequate sporting facilities in many communities. The core premise of this chapter is that the integration of sustainability into sporting facilities requires new funding and finance models. Without these, the capacity of communities to find the capital to make investments that reduce energy consumption and improve the quality of services offered to promote community health and reduce inequalities is limited. This chapter examines the funding models that currently exist in Australia, Europe and the United States and identifies flaws that undermine the ability of communities to build the facilities that they desire and deserve. This discussion is followed by the description of Community Futures Investment Model, a new model based on the modern adaptation of debentures, a financing mechanism historically used to develop community assets. Australia is used as a case study to outline how community bonds can be structured to unlock institutional investment and deliver the sought after social and environmental benefits.

In Australia, sporting facilities are principally owned by local governments that are under financial pressure, which impacts their ability to make new capital investments. The lack of a local municipal bond market has meant that Australian local authorities have limited access to capital. Government grant funding is one source of funding; however, this is irregular and supports a variety of different policy goals, including national success at Olympic Games.

Though the ownership structure of sporting facilities varies throughout Europe, there is still a strong involvement of local authorities. In many European countries, funding of sport and sporting facilities is linked to taxation of national lotteries and betting. The emergence of online betting disrupting markets and changing betting behaviors raises the question as to whether this is a sustainable funding model.

The United States benefits from the deepest and most liquid municipal bond market in the world. Sporting facilities are a component of market issuances, but taxation incentives have also incited many local authorities to issue bonds to help develop new sporting stadiums. The economic benefits of sporting stadiums have been challenged and there are examples of projects that have not met their ambitious targets (McKenna, 2015; Povich, 2016). But perhaps the greatest impact of public financing of private stadiums is to crowd out investment in community-based sporting facilities.

The funding and financing models for sporting facilities are also influenced by competing national sporting priorities including the desire for Olympic success. National sporting organization, such as SportsEngland, are used to fund sports through national sporting associations. While this may result in success for elite athletes, it creates an environment, at a local level, where it is difficult for amateur sports to thrive or benefit from synergies between all levels of sporting activities.

To unlock new investment in community sporting facilities, it is argued that there is a need for a change in the way facilities are run. Addressing the latency of assets outside of sports use may open up new sources of funding. Focusing on developing shared facilities requires a new approach to the way assets are managed with increased utilization of professional managers that work with local volunteers. An example in Australia is Beaumaris Sports Club where three sports, cricket, football and tennis, have come together to develop a new sports facility which the three clubs will share with the local community. Capital markets offer a source of financing at a lower cost than unsecured bank loans. However, the small size of individual projects makes it difficult, if not impossible, to attract institutional capital. It is proposed that established financial service techniques, such as securitization and credit enhancement, can be adapted to provide a mechanism for sporting facilities to be financed through wholesale markets. Community bonds that securitize a group of projects with credit enhancement to support credit ratings represent a new kind of bond offering that focuses on delivering investment returns while at the same time delivering clear environmental, social and economic benefits.

The use of community bonds would integrate sustainability into community sporting facility projects including the potential to incorporate green building practices and renewable energy installations into their design. There are also strong links between sporting facilities and health outcomes. In particular, community bonds can support addressing obesity. To ensure that there is accountability around the environmental and social outcomes from community bonds, it is proposed that standards should be established based on the successful model of the Climate Bonds Initiative[1].

[1] https://www.climatebonds.net/.

2 Brief History of Sport

The history of sport dates back to ancient times where it may have played a role in military training, but it was the emergence of leisure time in the 1800s, as a result of the Industrial Revolution and the passage of labor laws that allowed sport to become an active communal pastime. The development and popularity of Australian Rules Football in 1859 in Melbourne, Australia, owed much to the success of trade union campaigns for shorter working hours in the 1850s which resulted in factory workers only working three and a half hours on Saturdays. With Saturday afternoons off, attending sporting events became popular and by the 1880s crowds of up to 15,000 would attend matches (Herriman, 2013). In the United Kingdom, Sheffield Football Club was established in 1857, codifying the original rules of football with a focus on social values of integrity, respect and community (Sheffield Football Club, 2017). Not long after the establishment of the rules of the game of Australian Rules Football and Football, followed the payment of players. In the United States, the first baseball game with paid admission was between New York City and Brooklyn which was held at Fashion Race Course on Long Island in July 1858 (Fried, Kindle Location 520, 2015), heralding in the era of enclosed stadiums and paid tickets.

As sports developed, the focus turned to establishing facilities to support games. The first task for outdoor sports was to establish a playing field which involved converting open space used for agriculture. As games attracted larger crowds, grandstands were built in order to support them. The first public grandstand was built in 1854 at the Melbourne Cricket Ground, the "G", which is now one the world's largest stadiums. Today, every community has a range of sporting facilities that relates to their unique interests. What is extraordinary about sport is that no single sport is dominant everywhere in the world. Sporting facilities reflect this variety of community interests.

The role of sport in supporting communities has been recognized globally, with the Sustainable Development Goals (SDGs) passed by resolution adopted by the United Nations General Assembly on 25 September 2015 (RES/70/1) specifically recognizing the importance of sport. The SDGs include a number of direct references to sport with the UN General Assembly stating "we recognize the growing contribution of sport to the realization of development and peace in its promotion of tolerance and respect and the contributions it makes to the empowerment of women and of young people, individuals and communities as well as to health, education and social inclusion objectives" (http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E).

Robert Putnam, the author of Bowling Alone, argued in his recent book that for children, involvement in extracurricular activities such as sport is strongly associated with a variety of positive outcomes, stating "these positive outcomes include higher grade-point averages, lower dropout rates, lower truancy, better work habits, higher educational aspirations, lower delinquency rates, greater self-esteem, more psychological resilience, less risky behavior, more civic engagement (like voting and volunteering), and higher future wages and occupational attainment" (Putnam, Kindle location 160–161, 2016).

2.1 Dominance of Professional Sport

Since the early days of crowds gathering to watch teams play in the late 1800s, sports has professionalized and the management of sporting teams has become a significant business in its own right. According to Forbes, the average net worth of the world's 50 most valuable sports teams is USD 1.75 billion (Badenhausen, 2015) while Deloitte estimates that the aggregate revenue of the top 20 football clubs was €7.4 billion in 2015–2016 (Deloitte, 2017).

The dominance of professional sport has resulted in an increased demand to build stadiums that can cater to large crowds. Though these stadiums can accommodate large numbers of spectators, their involvement in sport is predominantly passive while in community sporting facilities individuals play an active role, either through direct participation or through volunteering. Because of this fundamental distinction, community sporting facilities can play a greater role in social policy to encourage healthy lifestyles and reduce inequalities. According to the European Commission's White Paper "A Strategy for Europe on Nutrition, Overweight and Obesity", as a tool for health-enhancing physical activity, the sports movement has a greater influence than any other social movement (European Commission, 2007). McKinsey Global Institute estimates that more than 2.1 billion people, or nearly 30% of the global population, are overweight or obese with obesity responsible for around 5% of all deaths worldwide. The economic cost of obesity alone is estimated by McKinsey to be roughly USD 2.0 trillion, or 2.8% of global gross domestic product (GDP) (McKinsey Global Institute, 2014). This statistic alone warrants examination into how community sports facilities can contribute to addressing this global epidemic.

Research demonstrates that the provision of public sports facilities and fields/courts is associated with increased sport participation. In turn, participation in organized sport is associated with better physical and mental health. These benefits include outcomes such as lower prevalence of obesity, lower rate of Type 2 diabetes and improved social, emotional and psychosocial well-being for children, adolescents and adults (McKinsey Global Institute, 2014). When it comes to considering where valuable public subsidies are placed, the social benefits of sport participation needs to be recognized.

In contrast to the potential positive social impacts of investing in community sporting facilities, there are significant environmental costs associated with the construction and operation of stadiums dedicated to professional sport. Stadiums and professional sporting events are energy and resource intensive. It is estimated that an average Super Bowl can generate approximately 70 tons of trash (Fried Kindle Locations 6667–6668, 2015). There has been a wide range of green-led innovations over the last decade including installation of solar panels, enhanced recycling practices and donation of surplus food to food charities being some examples. One example is MetLife Stadium, which houses the New York Jets and New York Giants. This stadium was designed to reduce annual water usage by 25%, energy usage by 35% and increase in-event recycling by 25%, saving the equivalent of 1.68 million metric tons of CO_2 annually (Fried, Kindle Locations 6787–6789, 2015). Unfortunately, the incorporation of sustainability into the design and operation of stadiums is not standard practice and the differing ownership models of stadiums means that there is less publicly available information on their operational performance than would be desirable. This lack of transparency with respect to energy, water consumption and waste generation prevents researchers from conducting meaningful comparisons between public and private sporting facilities based on these and other important environmental metrics.

3 Community Sporting Facility Funding and Financing Models

One of the major reasons why community sporting facilities, despite the high level of community participation, are not reaching their potential to deliver positive social and environmental outcomes relates to flaws in funding and financing models. Funding and financing models for community sporting facilities vary globally. The United States, for example, utilizes its municipal bond market as a major means to finance redevelopment of community sporting facilities while, among European Union countries, funding from lotteries is commonly used. The main features of these financing methods are briefly summarized later. The case of Australia is covered in greater detail in the following sections.

3.1 US Municipal Bond Market

The US municipal bond market is a major source of financing for sporting facilities. The market consists of over one million individual municipal bonds with USD 3.14 trillion traded in 2016 (Municipal Securities Rulemaking Board, Annual Fact Book, 2016). The US municipal bond market is dominated by retail investors, who make up 75% of the market and are able to access income tax concessions from investing in municipal bonds. The market is notable for the small average size of transaction. In 2016, the average size of a municipal securities transaction was USD 335,017, up 28% from a year earlier (Press Release, MSRB PUBLISHES ANNUAL FACT BOOK OF MUNICIPAL SECURITIES MARKET DATA, 6 March 2017 Municipal Securities Rulemaking Board, Annual Fact Book, 2016 http://www.msrb.org/News-and-Events/Press-Releases/2017/MSRB-Publishes-Annual-Fact-Book-of-Municipal-Securities-Market-Data.aspx).

The federal government effectively incentivizes investment in stadiums through rules which provide tax concessions for certain municipal bonds. The Tax Reform Act (TRA86) effectively requires that in order for a municipal authority to receive a federal subsidy, they must rely on tax revenue unrelated to the stadium for the financing, such as general sales taxes, property taxes, income taxes, lotteries or taxes on alcohol and cigarettes. The most popular taxes are tourism taxes, which are placed on hotel rooms and rental cars. According to the Brookings Institute, while in the first half of the twentieth century the majority of stadiums were financed by the private-sector, since 1953, the public has effectively subsidized their development and “absent the subsidies from all levels of government, there would be little incentive for the teams or private investors to finance so many new (and increasingly luxurious) stadiums” (Gayer et al., 2016, p. 8). This report argues that leagues and teams are able to exercise significant monopoly power and “therefore have a strategic incentive to expand the number of teams fast enough to deter the formation of rival leagues, yet slow enough to ensure that threats by existing franchises to relocate are taken seriously" (Gayer et al., 2016, p. 8).

While the US municipal bond market gives local authorities the ability to access cost-effective financing, TRA86 has the impact of incentivizing a flow of capital to the benefit of professional sports and not to community sporting facilities. More broadly the ability of a city to issue new municipal bonds to finance community infrastructure is dependent on the financial capacity of the city. As demonstrated through a series of downgrades, including the City of Ferguson, fiscal budget pressures can lead to higher borrowing costs and can dissuade cities from seeking to access markets for new projects (https://www.moodys.com/research/Moodys-downgrades-Ferguson-MOs-GO-rating-to-Ba1-from-Aa3-PR_334856). The limitation of the US municipal bond market is that it entrenches local government to rely principally on debt for projects. Because the ability to access debt is in itself reliant on a city's financial capacity, struggling cities that could benefit the most from the social outcomes generated by new investment are limited in their scope to initiate new community infrastructure.

3.2 European Lottery Funding

The major source of funding of sport and sporting facilities among European Union countries are taxes on national lotteries and betting. The following information on the funding of grassroots sports in Denmark, France, Germany and the United Kingdom is based on the comprehensive study published by Eurostrategies in 2011.

Denmark has an estimated 14,000 sport clubs and the promotion of grassroots sport is a public policy priority with a focus on getting children enrolled in sport and supporting volunteers. The Danish Foundation for Culture and Sport Facilities supports the development and construction of sport facilities. Funding for sport comes from the taxation of lotteries and horse and dog racing. However, only 6.94% of funds are distributed to the Danish Foundation for Culture and Sport Facilities with the remaining 73% of funds being distributed to support Denmark's Olympic team and the Sport Confederation of Denmark, both devoted to elite athletes. (Eurostrategies, Amnyos, CDES, Deutsche Sporthochschule Köln, Study on the funding of grassroots sports in the EU, With a focus on the internal market aspects concerning legislative frameworks and systems of financing, Final report, Volume II—Country Reports, 27 June 2011, page 60).

In France, 168,045 sport associations and grassroot sport clubs are supported by household contributions with the public-sector contributing around 40% of total revenues. Local authorities are the main contributors to sport associations' revenues, especially for sport equipment and facilities (Eurostrategies, p. 89).

In Germany, approximately 90,000 sport clubs are supported principally by households who contribute around 75% of revenues. Taxation from lotteries and sport betting are estimated to contribute around € 450 million per annum. Contributions from Germany's central government account for less than 1% of the total with local authorities contributing 15.3% (Eurostrategies, p. 100).

In the United Kingdom, there are around 6.9 million members of 150,000 clubs (Eurostrategies, p. 251). Local authorities collectively invest around £1.5 billion a year in sport. Sport is one of many areas supported by the National Lottery established in 1994. Sport betting is liberalized in the UK and the various different private operators are not bound to contribute to supporting sport. Sport England receives on average £108 million from lottery funding (Eurostrategies, 2011). In England 326 local authorities are responsible for funding and delivering sporting facilities (Jaekel, 2017, p. 6).

4 Australia's Community Infrastructure

Approximately 6.5 million Australians participate in organized sport and 2.3 million people volunteer time for sport each year, representing the largest volunteer group in the country (Australian Government, 2015). Sport and recreation industries generated AUD 12.8 billion in income and employed around 134,000 Australians in 2011–2012 (Australian Bureau of Statistics, 2013). In Australia, community sporting facilities are generally owned by local governments and funding for clubs comes from a variety of sources including grants. These facilities are principally the responsibility of local governments and, in many cases, clubs operate out of local government owned land. Though various funding programs have been put in place by federal and state governments and grassroots clubs may be the beneficiaries of grants, grant funding has not been sufficient to meet the overall needs. This government ownership and funding structure has, in many forums, been deemed responsible for a growing deficit in investment in these community assets despite their recognized social and economic value.

According to the Australian Local Government Association, there is currently AUD 47 billion worth of community infrastructure that is in poor condition (Jeff Roorda and Associates, 2015). One example is the country's aquatic centers. According to a review by the Victorian Auditor General, there are 153 aquatic centers in Victoria that are over 26 years old, with 41 that are over 51 years of age. More than half of Victoria's aquatic centers are likely to be in need of repair or upgrading and responses to the Auditor General's survey indicate that over a quarter of councils will conduct significant upgrades at a cost of more than AUD 1 million over the next four years (Victorian Auditor-General's Office, 2016).

4.1 Ad hoc Funding Creates Inequitable Distribution

Funding of community sporting facilities in Australia is provided from a mix of local government funding and ad hoc state and federal government grants with national sporting bodies providing grants depending on identification of need. Sporting clubs are experiencing a surge in demand for team sports with a significant increase in participation by girls and women. Growth in demand for women's Australian Rules Football teams has been particularly significant, with growth of 162% in the last 6 years (VAFA Women's Football Club n.d.). Female participation in Australian football soared by 46% in 2016 alone and there were 163 new female football teams that began in 2015, with the number of women taking part in the Australian Football League (AFL) reaching 284,501 participants in 2016. In the state of Victoria, a further 250 new women's teams were established in 2017 (Women's game kicks off boom, 2017). Current facilities have mostly been designed without appropriate changing facilities for women and girls, potentially impacting on the future participation of women. The ad hoc grant model demand results in some communities being delivered with new facilities, while their neighbors miss out. The existing funding model is not well equipped to address current community infrastructure deficits, let alone respond to changing demand in the community and in fact has the potential to lead to inequity as some communities are able to attract funding and others do not.

4.2 Elite Athlete Focused Sports Policy

A further challenge for community sports clubs is the way in which sports policy is run at a national level, often focusing on delivering medals at Olympics games. Jaekel argues that public funding for sport often goes through sport governing bodies that distribute funds to regional and local sport clubs. However, sport governing bodies often keep a share of public funding for their own administrative purposes and face "multiple ambiguous, complex, and sometimes contradictory agency goals" (Jaekel, 2017, p. 4).

Another issue identified by Jaekel, with respect to Sport England in particular but that exists elsewhere, is the level of collaboration between national and local sporting organizations. The problem with delivering sports funding through national sports bodies that focus on achieving elite sporting success is that the interests of communities and their clubs are not the number one priority. Public financial support for sport, whether it be subsidies to build stadiums in the United States, reliance on lottery and gaming revenues or the focus on funding sport governing bodies, has a tendency to support elite athletes, professional or Olympic. It is arguable that if the focus was placed principally on communities and their sporting facility needs that the facilities that would be delivered and the models of finance and funding utilized would be very different. The next section develops an alternative financing model for community sporting facilities using Australia as a case study.

5 Community Asset Financing Challenges

The first stage in developing a model for financing community sporting facilities is to understand the challenges faced by local sporting clubs. The reasons that community sporting clubs find it hard to finance the development of their own facilities were identified by the Australian Government's Productivity Commission which considered impediments to financing Australia's 600,000 not-for-profits. The Commission found that while the sector contributed around AUD 43 billion to the national economy, there were significant impediments to accessing capital including:

- the lack of collateral to guarantee loans
- the lack of a reliable revenue streams to service debt
- the large transaction costs relative to the amount of capital required
- the lack of experience in developing sustainable business plans
- the lack of a suitable organizational structure which would allow organizations to raise equity capital. (Kumic & Noble, 2017)

These impediments, which are likely to be common across other jurisdictions, are examined in further detail.

5.1 Lack of Collateral

In many environments, local sporting clubs do not own the land that they operate from. Depending on the jurisdiction, there are a range of agreements that exist between local authorities (which are often the landowners) and clubs. In the Australian context, it is common for sporting clubs to operate on the basis of peppercorn rents. In the case of older clubs, there may not be formal contractual agreements in place. The lack of ownership rights and uncertainty around leases means that sporting clubs may only be able to access financing on terms given to unsecured lenders. Finding a way to provide sporting clubs with access to long-term financing is important but the objective is not to overload clubs with debt but to empower sporting clubs to pursue their own interests, whatever they may be.

One option that could support sporting clubs to access more cost-effective longer-term financing is securitization. Securitization was born in 1970 with the establishment of the Government National Mortgage Association or "Ginnie Mae", which provided the ability to pool mortgage assets into Mortgage Backed Securities. The technique has been used to parcel up many different kinds of illiquid assets in order to make them investable. The recent appetite for Green and Climate Bonds is demonstrating the opportunity to issue bonds that deliver clear impacts. According to the Climate Bonds Initiative "Bonds & Climate Change: State of the Market 2016" report, it is estimated that there are currently USD 694 billion of climate-aligned bonds outstanding, an increase of USD 96 billion in 2015 (Climate Bonds Initiative, 2016).

5.2 Lack of Reliable Revenue

A key issue for not-for-profit community sporting clubs is the volatility of revenues. In their study on New Zealand grassroots community sporting clubs, Cordery and Baskerville argue that reliance on grant funding is detrimental to the long-term sustainability of clubs. They cite research on not-for-profit community sporting clubs that suggest that increasing the number of revenue sources has a positive effect on revenue stability and is important in addressing the growing costs of maintaining community assets. Not-for-profit organizations with few revenue sources have been demonstrated to be more financially vulnerable than those with many sources (Cordery & Baskerville, 2011). For long-term viability, generating sufficient funding from a diversity of revenue streams is a critical issue.

Community sporting facilities have often been built with a single focus, often with no changing facilities for women and girls, particularly where sports were originally seen as for males only. As social norms change, and women and girls increasingly seek to play new sports, there is a need to adapt the supporting infrastructure to tap into this new source of revenue. Sporting facilities are also often only heavily used at peak times such as weekends and may lie dormant during the week. As communities grow in population, there is a need to develop new models that can open up facilities to be used by communities seven days a week and year-round. Through shared use of facilities, it is possible to develop new revenue models which in turn support the development and renewal of facilities while providing greater access to quality facilities to more members of the community.

The model of single purpose community infrastructure, popularized in the 1950s when land was relatively plentiful particularly in developing outer suburbs, is now being replaced. In Australia, Hornsby Council located in the north of Greater Sydney region has, in its Community and Cultural Facilities Strategic Plan, identified the need to share facilities that are capable of responding and adapting to the changing needs and preferences of the community. Hornsby Council is focusing on developing community infrastructure assets that include movable furniture, changeable wall partitions and building designs with expansion in mind (Elton Consulting, 2015). Hornsby's intention is to design, build and fit out facilities that maximize flexibility of use and, when upgrading facilities, are capable of delivering a range of services, rather than designated single uses.

Through shared facilities, sporting clubs can build diversified revenues that are essential for long-term financial viability. Examples of additional revenue streams that can diversify sporting club revenues include bars, cafes, function centers providing large event and meeting spaces, co-working and innovation working spaces, gyms, child play centers and education programs.

5.3 Small Investments, Large Transaction Costs

A challenge for sporting clubs is that the distributed nature and small size of projects means that they have been unable to access larger pools of capital such as pension funds, who invest through capital markets. A challenge in developing products that are suitable for pension funds to invest in is the size of investment and associated transaction costs. In order to create the incentives for pension funds to invest in community sporting clubs, there is a need to offer investments that match their appetite in terms of size, liquidity, costs and returns.

Aggregating multiple projects can create larger, longer-term investments with a lower overall risk profile. This reduces the overall cost of the investments, by gaining access to preferential finance rates only available to large institutional investors. Low cost is an important element in delivering returns to superannuation and pension fund members.

5.4 Lack of Business Development Expertise

In the Australian context, one of the strengths of sporting clubs is the large number of volunteers. The reliance on volunteers however limits the ability of sporting clubs to build and implement sustainable business plans. For unpaid club executives that are responsible for all the logistics of getting a sporting team onto a field, there is little time or incentive to dedicate to long-term business planning. With sport becoming more sophisticated, with increased requirements even at junior levels to monitor and report conduct of players, ensure the safety and oversee drug-testing regimes, there is a need to support the professionalization of clubs at a community level. Professionalization would allow clubs to pay individuals to manage business activities including long-term facilities planning, as well as potentially outsourcing some functions such as food and beverage functions in order to deliver increased revenues to the club. Professionalization is not about reducing the importance of volunteers. It is about providing volunteers with the support to focus on what they love doing best—which is helping their teams prosper.

5.5 *Lack of Suitable Organizational Structure for Raising Capital*

Sporting clubs are generally incorporated bodies and have all the powers of businesses to contract with parties. The challenge that sporting clubs face is that they are owned by their members and are therefore not able to issue share equity. This deprives sporting clubs of one of the main avenues that corporations use to expand their activities. What this means is that the sources of funds that clubs can use to develop their assets are limited to grants and debt financing. Because sporting clubs have mainly accessed debt through costly unsecured bank financing, when developing and renewing facilities, grants have become the major source of funds.

In Australia, sources of grants have included federal, state and local governments, as well as sporting organizations themselves that have been able to use broadcast revenues from elite competitions to support local community sporting facilities.

Unfortunately, grant funding, whether state, federal or from sporting bodies, is proving to be insufficient in terms of delivering to communities what they need, when they need it. Grant funding is suited to an environment where change is incremental and predicable but is not able to respond flexibly to rapid societal changes. As an example, Cricket Australia recently conducted a nationwide audit of 5500 cricket facilities and 7100 ovals, finding that 80% are not female-friendly. Bringing facilities up to modern standards, which would support the increased female participation in cricket, would according to Cricket Australia cost AUD 10 billion (http://www.theaustralian.com.au/sport/cricket/grassroots-cricket-makes-its-pitch-amid-elite-pay-row/news-story/4ee0c05df04d9208efe9b757bfba8ed6).

6 Community Futures Investment Model

The Community Futures Investment Model has been developed by Gordon Noble and Dr. Ingo Kumic as a multi-stakeholder approach that aims to create an environment that enables institutional investors to invest in communities at scale through community bonds.

The Community Futures Investment Model aims to align the various objectives of local and national authorities, institutional investors and citizens in order to deliver environmental and social outcomes for communities. This approach, which allows institutional investors to invest in community assets, decreases the dependency on grants and high interest unsecured bank financing thus generating more social, environmental, economic and financial wealth in a way that distributes financial and political risk. Furthermore, this model allows for investments to be made across a broad range of communities, thereby reducing the impact of income and social inequity as factors that influence where investments may be made.

7 Community Bonds

A community bond is a modern equivalent of the debenture, which allowed not-for-profit sports organizations to raise debt from investors. By using established capital market techniques, such as securitization and credit enhancement, community bonds can be established that would be of sufficient size and liquidity and would deliver investment returns that would be attractive to institutional investors. Through securitization, community bonds could enable smaller shorter-term projects to be offered to the bond markets as part of an aggregated package with a better risk profile and longer borrowing period.

7.1 Debentures and the Funding of Community Assets

Debentures are unsecured loans that are backed by general credit rather than by specific assets. There are many examples of the use of debentures to finance community assets. Perhaps the best known debenture is the Wimbledon tennis tournament, which has used the vehicle to fund capital investment, with debenture holders entitled to seats at Centre Court over the period of the investment. Wimbledon Debentures are traded on the London Stock Exchange and hold definite value for those who have invested (White, 2016).

In Australia, many community assets have been built by communities pooling resources and issuing debentures. The reasons that communities came together depended on their individual interests and needs. The Mounties Club, which was originally established by a group of locals from the Mt Pritchard community in the 1920s, simply wanted to have a place to have a beer without having to travel to the nearest pubs in Cabramatta, on the outskirts of Sydney. Another example is the Mulgrave Country Club. In 1960, 18 people in the outskirts of Melbourne's growing suburbs got together and committed to a debenture to purchase 5 acres of land on which they progressively established installations for tennis, squash, golf, snooker, darts and cricket.

In an era before sophisticated financial services laws, it was a relatively simple thing for a club to issue debentures. There were no legal requirements on how debentures could be issued with early examples of debentures being little more than documenting who had provided funds in a log book. One of the challenges in developing a modern debenture is the introduction of financial services regulations which require sophisticated legal documents for capital raising. Another factor is the rising cost of land, which in the post-war era was plentiful and relatively cheap.

A modern example in Australia of a community driving the development of its own facilities through issuing a debenture to its members is Beaumaris Sport Club in Melbourne where three clubs—cricket, tennis and football—merged to form a single entity. Members of the club invested in a debenture with returns of 5% per annum with the objective that the funds would be repaid in ten years. While the approach by Beaumaris Sports Club of tapping club members to support the redevelopment of club facilities was successful, it is nevertheless difficult to roll out community debentures at scale. One of the challenges is that not all communities have the luxury of having disposable cash to invest directly.

7.2 How Would Community Bonds Work?

As a hypothetical example, a community bond would bring together 10–20 separate projects that would range from USD 5 to 20 million. A total bond of $100 million would be of sufficient size to attract institutional investors.

A community bond would need to be issued by a special purpose investment vehicle, called the Community Investment Funding Vehicle (CIFV). Specifically the features of a CIFV would include:

- Community Investment Program Trust would be established as the structure through which an aggregated portfolio of community loans was issued to institutional investors.
- Security for community bonds would consist of credit enhancement that could be provided by local authorities and other stakeholders. In the event that a community group defaulted on a bond, then credit enhancement would ensure that institutional investors did not bare first losses. This would support a higher credit rating for the bond.

- A governance board (known as the Community Investment Governance Board) would be established under the terms of the Community Investment Program Trust Deed. The governance board would be responsible for working with local community groups to develop enhanced accounting and governance practices.

Capital market innovations, such as credit enhancement, which have been used in the financial services industry to mitigate project risks and enable financing of a project, would be an important element of a community bond. In its simplest form, credit enhancement seeks to increase the credit rating/credit worthiness of the financeable aspects of an infrastructure project. The main objective of a credit-enhancement mechanism is to ameliorate the credit quality of infrastructure projects that have already achieved a certain minimum threshold, in order to attract more private financing for the project.

There is the potential for credit enhancement to come from stakeholders, including sports organizations and sporting leagues, which have deep balance sheets and income from television broadcast of elite sports but who are also incentivized to support the ongoing development of sports in the community.

7.3 Setting Standards

A securitized community bond would be offered to capital markets on commercial terms. In addition to the risk and return equation, community bonds would be attractive as impact investments since they would be able to demonstrate very clear social, environmental and economic benefits. In order to attract investors that have a focus on financial returns and social and environmental impacts, there is a need for a community bond to establish a clear set of standards which would enable investors to understand the impacts of the bond.

An example of the importance of standard setting in unlocking new investment is the Climate Bonds Initiative[2], which initially started as a project of the Network for Sustainable Financial Markets (NSFM)[3], an international network of finance sector professionals, academics and oth-

[2] https://www.climatebonds.net/.
[3] http://www.sustainablefinancialmarkets.net/.

ers dedicated to improving financial market integrity and efficiency. Climate Bonds aim to provide greater certainty for investors about the climate benefits of investments. The Climate Bonds Initiative certifies assets and projects that meet the requirements of the Climate Bond Standards. In order to receive the "Climate Bond Certified" stamp of approval, a prospective issuer of a Green or Climate Bond must appoint an approved third party verifier, who will provide a verification statement that the bond meets the Climate Bond Standard. The Climate Bond Standard allows Certification of a bond prior to its issuance, enabling the issuer to use the Climate Bond Certification Mark in marketing efforts and investor roadshows. The Climate Bonds Standards Board, comprised of members representing USD 34 trillion of assets under management, confirms Climate Bond Certification once the bond has been issued and the proceeds have been allocated to projects and assets.

Community Bonds would require a similar framework that would ensure that the interests of communities are aligned with those of investors. In particular, community bonds would need to ensure that the community is integral to decisions the decision-making process. A culture of patronage and responsibility must be ensured and representation is at the heart of the co-creation process with the community.

There is the capacity for Community Bonds to deliver significant social and environmental impacts. As impacts will vary by project, there exists a need to establish standardized reporting at an individual project level, in order to enable aggregation at the bond level. There are a number of areas where social impacts can be delivered, including through the benefits of participation in sports as a mechanism to address obesity. The environmental standards of a community bonds could include linking to established green building ratings, which would provide information on design features including energy efficiency. There is also the opportunity for projects to work with partners to either directly install renewable energy or to buy from established renewable energy providers. Community Bonds therefore have the opportunity to directly contribute to lowering the emissions of a community and the measurement of this contribution will be of growing importance going forward.

Social and environmental impacts from community bonds would be captured and reported as part of a Community Partnership Agreement that would form a foundation for managing community investments.

8 Community Partnership Agreements

A critical component of the Community Futures Investment Model is the establishment of Community Partnership Agreements (CPAs) between clubs, local government and stakeholders. They are the means by which differing interests are managed. CPAs are necessary in order to clearly define the responsibilities of all the parties that must come together to unlock investment and ensure debt repayment under any number of defined scenarios.

A CPA would set out the terms by which community clubs are able to access debt and outline the mechanism by which stakeholders will support community bond repayment through interest payments or involvement in club revenue generating activities.

CPAs would set out:

- length and terms of lease
- insurance obligations of clubs
- allocation of responsibilities for use of facility
- allocation of responsibilities for repairs, maintenance of facilities and grounds
- strategic long-term development plans of the facility
- details of grants and financial commitments made by local council and stakeholders to support the development of facilities
- mechanisms by which the impact of environmental, social and economic benefits from investment will be measured and reported
- terms by which Clubs can reduce their annual interest obligations by making principal reductions to local government
- governance and dispute resolution processes (Kumic & Noble, 2017).

9 Conclusion

With hundreds of thousands of community sporting clubs operating around the world, the carbon footprint and social impact from local sports are significant. Sport is funded in many different ways which has an impact on the ability for communities to make the capital investments that are necessary to reduce the energy intensity of facilities and make available the high-quality facilities to the greatest number of community members. The key to reducing the energy intensity of sporting facilities and maximizing their social impact lies in the development of new funding and financing models. One of the challenges that community sporting clubs face is that their size, variable revenues and lack of ownership of the land on which they operate, means that they have been, in many cases, unable to finance the renewal of their sporting facilities. An approach that combines revenue diversification and a new model of investment—the Community Futures Investment Model—would provide community sporting clubs with the opportunity to build the facilities that they need and deserve.

The key elements of the Community Futures Investment Model are:

1. Long-term investment: Community bonds are structured to enable institutional investors to invest in community projects by aggregating projects to create investments that meet the needs of institutional investors in terms of size, liquidity and cost. Communities are able to access finance at rates normally only available to governments, delivering long-term savings and opening up opportunities for capital investments to renew and develop community assets.

2. Sharing the load: Reflecting that sporting codes and governments benefit in different ways from community facilities, it is fair that the costs renewing and developing community assets are shared by transitioning from ad hoc capital grants to supporting a portion of interest payments on community bonds.

3. Connecting communities: Community facilities play a major role in connecting communities which can be enhanced by addressing the latency of community facilities at certain times of the week and using community assets more intensively. New activities can provide additional revenues that support the capital costs for renewal and development of community assets.

A critical component of the Community Futures Investment Model is the establishment of CPAs between clubs, local government and stakeholders. CPAs are necessary in order to define the responsibilities of all the parties that must come together to unlock investment. Under the proposed model, a CPA can be used to enshrine many different partnerships and therefore “debt repayment” scenarios.

The aim in the long term is for the Community Futures Investment Model to innovate local government’s pathway dependencies on grants and the rate-base. In so doing, local government can simultaneously generate more social, environmental, economic and financial wealth in a way that distributes financial and political risk.

The Community Futures Investment Model represents a multi-stakeholder approach that seeks to address not only the need for investment in facilities so as to optimize their utility but also the importance of these types of facilities in connecting communities.

By changing the way that club facilities are managed, and bringing in new activities such as co-working/innovation hubs, community gyms, learning and child activities at times when assets were previously latent, there is the potential for sporting facilities to serve a larger role in their community. Community bonds can support economic development, job creation and play a role in supporting a range of social issues.

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