

Green Finance Developments

Local Green Bonds - Natural successor to the
PWLB?

Green Investments - Convincing the decision
makers!

23rd January 2020

Green Bonds

Capital Finance to Reduce Carbon
Footprint

PWLB rate hike sends shockwaves through council finance sector.




PWLB borrowing rates to rise by a whole percentage point.
Whitehall today threw a hand grenade into local authority borrowing plans.

LGA responds to PWLB rate rise.

“This 1 per cent PWLB rate increase could cost councils an extra £70 million a year for borrowing to be undertaken in the next year.”

<https://www.dmo.gov.uk/media/16115/hmt-letter-9-october-2019.pdf>



HM Treasury

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London
SW1A 2HQ

Dear Chief Finance Officer,

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www.gov.uk/hm-treasury

9 October 2019

Public Works Loan Board (PWLB) interest rates

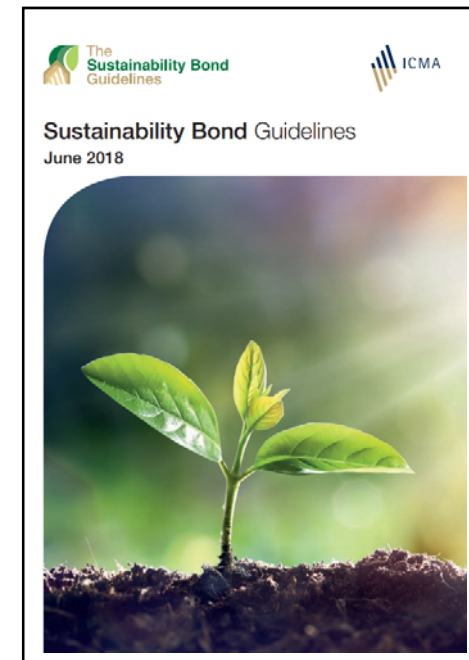
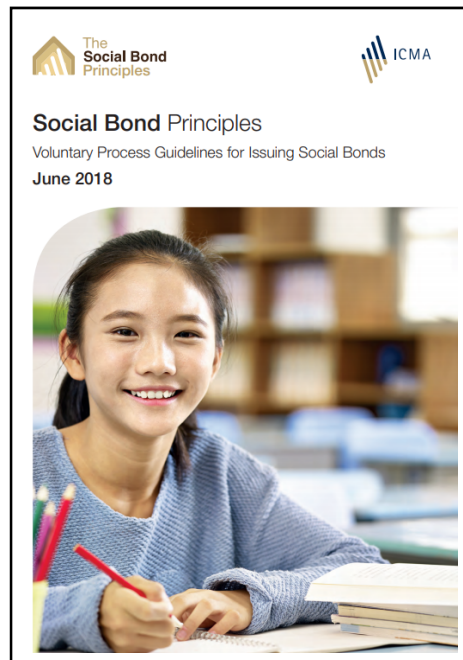
1. The Government recognises that the freedoms for local authorities to borrow under the Prudential Framework are fundamental to supporting local capital strategies and authorities' organisational objectives, including regeneration, supporting local growth and service delivery. The PWLB supports this activity by on-lending Government borrowing from the capital markets to local authorities to deliver capital investment.
2. The maximum net amount of PWLB loans that can be outstanding at any time is subject to a statutory limit. In order to ensure that lending continues to be available for local authorities that need it, the Government has legislated to increase the lending limit from £85bn to £95bn.
3. PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. The Treasury raised the margin over gilts to 100bps (one percentage point) in 2010, to better reflect the availability of capital finance, and lowered it to 80bps over gilts in 2013 for qualifying authorities.
4. Some local authorities have substantially increased their use of the PWLB in recent months, as the cost of borrowing has fallen to record lows. HM Treasury is therefore restoring interest rates to levels available in 2018, by increasing the margin that applies to new loans from the PWLB by 100bps (one percentage point) on top of usual lending terms.
5. This restoration of normal PWLB lending rates will apply to all new loans with immediate effect. The Government will monitor the impact of this change and keep rates policy under review.
6. As always, the Government will continue to work with individual authorities on a case-by-case basis if they have concerns over their financial position.

Signed,

Local Government & Reform Team, HM Treasury

International Capital Markets Association (ICMA) Green/Social/Sustainability bond principles and guidelines

The ICMA serves as Secretariat, assuming administrative duties, and providing guidance for the governance of the Principles.



SUSTAINABLE DEVELOPMENT GOALS



YOUR INTEREST
IS OUR BUSINESS

The ICMA 'Green Bond' eligibility criteria looks very familiar to UK Local government!

The eligible Green Project categories, listed in no specific order, include, but are not limited to:

- **renewable energy** (including production, transmission, appliances and products);
- **energy efficiency** (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);
- **pollution prevention and control** (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy);
- **environmentally sustainable management of living natural resources and land use** (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally-sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);
- **terrestrial and aquatic biodiversity conservation** (including the protection of coastal, marine and watershed environments);
- **clean transportation** (such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);
- **sustainable water and wastewater management** (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);
- **climate change adaptation** (including information support systems, such as climate observation and early warning systems);
- **eco-efficient and/or circular economy adapted products, production technologies and processes** (such as development and introduction of environmentally sustainable products, with an eco-label or environmental certification, resource-efficient packaging and distribution);
- **green buildings** which meet regional, national or internationally recognised standards or certifications.

Over \$60bn
issued in the
last quantified
quarter alone!

Key figures

- USD62.8bn of issuance* - up 87% year-on-year
- 625 deals* with 477 from the USA, 23 from Japan and 18 each from Sweden and China
- 139 issuers* from 32** countries
- Repeat deals from 3 of 12 sovereign issuers: Chile (GB debut in H1), France and Belgium
- 61 market entrants from 21** countries bring the total number of GB issuers to 816
- 57** GB markets reached: Panama is newest

Green Bonds in a Nutshell

Market Premium = Cheaper than PWLB and alternative market debt.

Simple structure = It is a loan (akin to PWLB maturity loans), non-rated and accredited with a second opinion provider's stamp of validity under the ICMA principles.

The second opinion provides verification of the project and their approval is confirmation of the bond's green credentials.

The tenor can range from 5 years (Social bonds) to 40 years (Green bonds), with the maturity matched to a specific project or sustainable strategy.

Funds are only to be used for the specific proposed projects, although the debt is unsecured.

The process should take approximately 6-8 weeks from the Authority committing to the deal to the funds being raised.

Green Investment Opportunities

Convincing the Decision Makers



274

Local Authorities have declared a
'climate emergency'

<https://www.climateemergency.uk/blog/list-of-councils/>

Convincing the Decision Makers

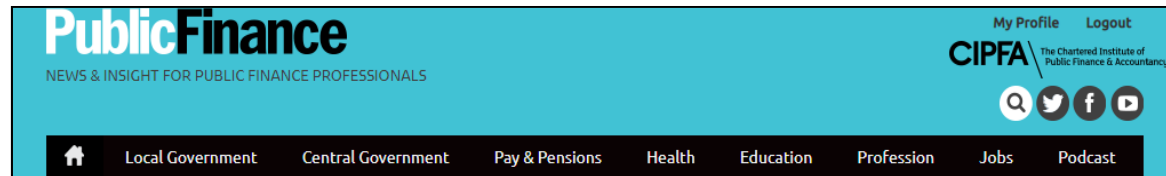
emergency [ih-mur-juhn-see]

noun

1.1.

a serious, unexpected, and often dangerous situation requiring immediate action.

...action is required!



The screenshot shows the top navigation bar of the Public Finance website. On the left, the logo 'Public Finance' is displayed in a large, bold, black font, with the tagline 'NEWS & INSIGHT FOR PUBLIC FINANCE PROFESSIONALS' underneath. On the right, there are links for 'My Profile' and 'Logout', followed by the CIPFA logo and the text 'The Chartered Institute of Public Finance & Accountancy'. Below these are social media icons for search, Twitter, Facebook, and YouTube. A dark blue navigation bar at the bottom contains a home icon and links for 'Local Government', 'Central Government', 'Pay & Pensions', 'Health', 'Education', 'Profession', 'Jobs', and 'Podcast'.

Authorities not including carbon targets in Local Plans risk legal action

By: [Dominic Brady](#) | 2 Sep 19

Lawyers from an environmental charity are writing to 100 councils in England to remind them of their legal obligations to include carbon reduction targets in their Local Plans.

Councils 'must invest to combat climate change'

By: [Dominic Brady](#) | 7 Nov 19

Panellists at CIPFA's treasury and capital management conference agreed councils declaring climate emergencies need to back up this sentiment through investment strategies.

Convincing the Decision Makers

“Mr XXX. After careful consideration of your invention, while it is a very interesting novelty, we have come to the conclusion it has no commercial possibilities...

...there is no future for an electrical toy”

Convincing the Decision Makers

- 4 years later 60,000 phones.
- 20 years later 6 million phones.
- AT&T the biggest corporation in America.
- The most valuable patent in history.

Convincing the Decision Makers

Internal Challenges

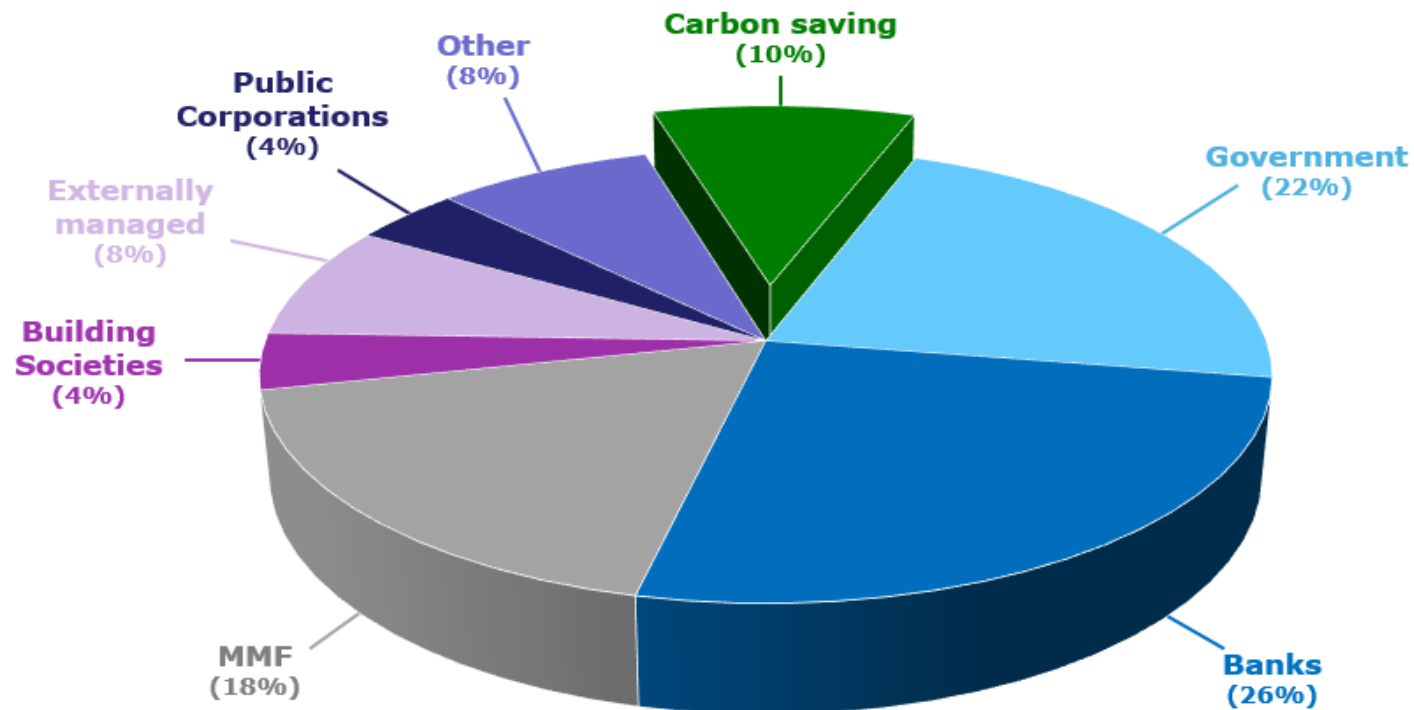
- Corporate policy v what we have always done.
 - Identify and manage the obstacles.
 - Does the Capital strategy mention your climate declaration?
- CED should be aligned with **All** policy documents & governance.
- Change the Culture.
 - embed in all decision making.
 - procurement/capital finance/revenue budgets.
 - transparency & accountability across the organisation.
- Climate friendly audit (organisational risk management).

Convincing the Decision Makers

Start Small with Better Business Cases

- Keep it simple - case for investment is CED.
 - £1m in solar = removes 470 tonnes of carbon
 - Security and risk management
 - Environmental benefits
 - Other non financial benefits
 - Diversification benefits & yield

Rebalance the Balances (circa. £40bn)



YOUR INTEREST
IS OUR BUSINESS

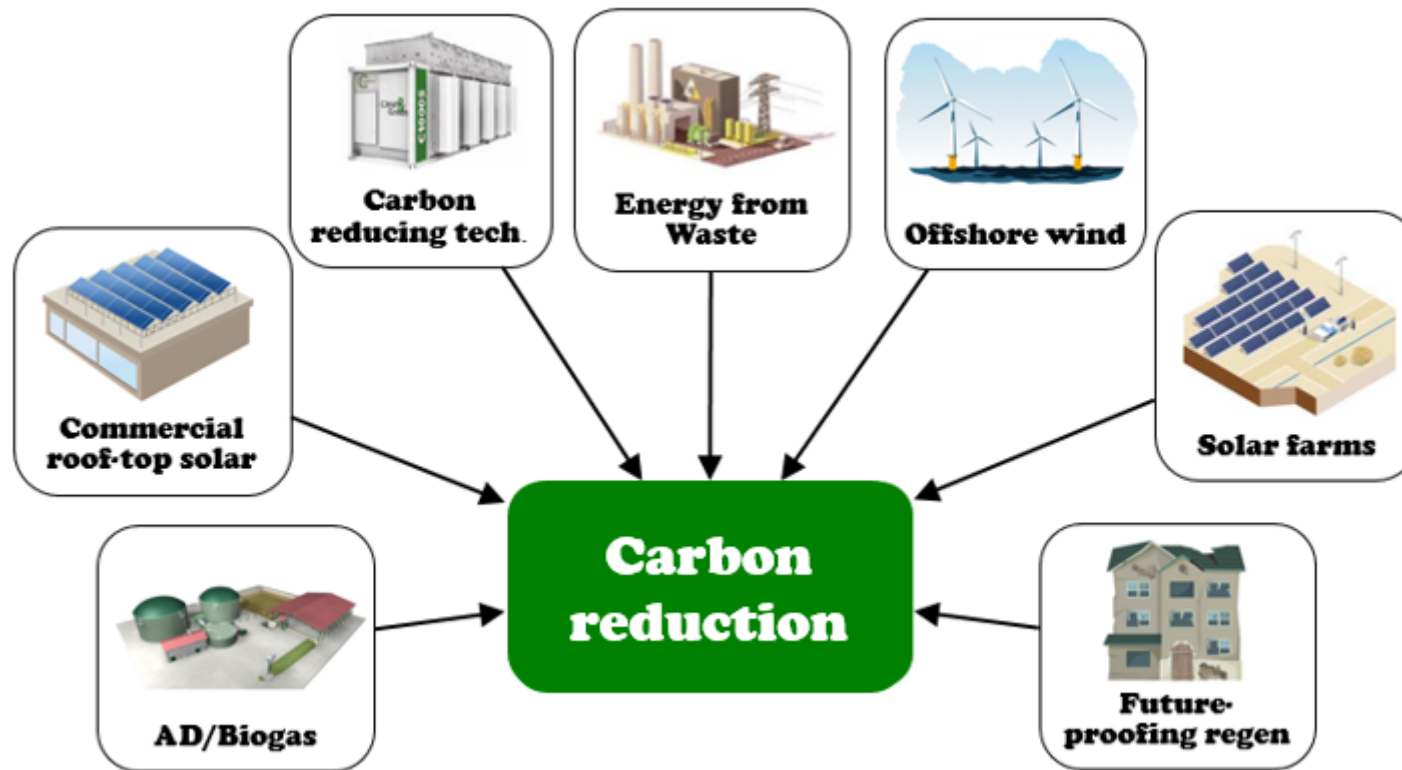
Security and Risk Management

Structures to suit your risk appetite

- Fixed income bonds. Asset backed. Exchange listed.
- Direct ownership of green assets.
- Local Authority co-ownership in green infrastructure.
- Pooled funds.
- Understand and explain the risks.

Convincing the Decision Makers

UK Local Authority investments



YOUR INTEREST
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Environmental Benefits

AD/Biogas: Energy production is 3x more efficient than burning coal. Reduces carbon emissions from landfill.

Solar Farms: Replaces fossil fuel energy production.

Roof Top Solar: Direct feed clean energy.

Carbon Tech: Integrated fuel reducing technology, providing financial and environmental savings.

Energy from

Waste: Fossil fuel and landfill replacement.

Offshore Wind: Major green energy generator.

Regeneration: Improving the energy efficiency of homes and future proofing for energy saving.

Non -Financial Benefits

“Joining the Dots” on Policy Priorities

Reducing type 2 diabetes to pre-1960 levels

Reducing mortality and morbidity due to respiratory illnesses

Reducing winter time hospital admissions of the vulnerable in society



Source: CFO Stockport - Dec 2019

Convincing the Decision Makers

Internal Changes Required to Policy Doc's

- Refreshing the 20/21 capital strategy, investment criteria and Treasury management strategy to allow access to green investments.
- Expert investment & technical advice.
- Corporate culture education and training.
- Better Business Cases that join the dots and deliver Climate Targets.

Technical Appendix

For solar power...

- £1m will buy 1MW of capacity (with costs continually reducing).
- 1MW of capacity will provide an output of 1.2m KWh per annum.

The National Grid's most efficient fossil fuel Combined Cycle Gas Turbines (CCGT) emit 392g CO₂/KWh.

- Using the 1.2m KWh of solar power to replace the CCGT output saves 1.2m x 392g = 470.4 tonnes of CO₂ per annum.

Therefore £1m invested can save approx. 470 tonnes of CO₂ p.a.

Apply this saving to 10% of LA investments (circa. £4bn) and there is a potential saving of 1.88 million tonnes of CO₂. As an average car emits 2.6 tonnes of CO₂ p.a., 10% of LA cash invested in solar is...

...the equivalent of taking nearly ¾ million cars off the road!

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