

Climate change and the pivotal role of finance.

12th March 2020

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Climate change... and the pivotal role of finance

Context
Barriers to Change
Managing Organisational Risk

280

Local Authorities have declared a
'climate emergency'

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

Nothing Stands Still in Public Finance

“the move towards a more sustainable public sector is going to require a fundamental shift in the sector’s priorities.....

Officers, councillors and local communities will need to view all activity in their area through the primary lens of the climate crisis”

Rob Whiteman, CIPFA CEO, Jan 2020

Role of the Finance Function

- Advising on corporate risks
 - Identify future risks and liabilities, likelihood and magnitude
 - Develop systematic risk management strategy and put in place appropriate risk management procedures
- Sound Financial Management to support corporate priorities
- Ensure there is an effective Internal Audit function
- Deliver an effective and Responsive Financial Service

***Cont...* Role of the Finance Function**

Contributing to cross-authority issues and to the development of the authority by:

- Assisting the authority to adopt a 'joined up' approach to service delivery within the authority and helping to identify how to realise those opportunities in a managed way;
- Advising on the authority's approach to procurement by evaluating the financial implications of options to 'make, buy or share' services;
- Adopting an integrated approach with partners to ensure the best use of public money and collaborative working.

Nothing Stands Still...

emergency [ih-mur-juhn-see]

noun

1.1.

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

Barriers to Change

- Culture & the Role of the Finance Function
- Funding / Resources / Priorities
- Operating Framework (CIPFA?)
- Role of Advisers (Backward Narrative?)



Climate Earth...

Tackling Organisational Risks

- Climate Emergency Declaration (CED)
- Audit Plan
- Medium Term Financial Strategy
- Capital Strategy / Green Bonds

Better Procurement

- Carbon reductions into contracts?
- Walmart project gigaton

Carbon Friendly Investment Strategy

- Carbon Reducing / Green investments

Better Business Cases?

The Primary Lens Capital Bid Pro forma

- £1m in solar = removes 470 tonnes of carbon
- Security and risk management
- Environmental benefits
- Other non financial benefits (Silent Evidence)
- Diversification benefits & yield.

Climate Emergency

Do Finance have a role to play?

- Lead the culture change *as per Rob's lens*
- Public/Member expectations
- Accountability and Transparency
- Reporting and Monitoring
- Embed carbon accounting across the Council

Climate Emergency

Do Finance have a role to play?

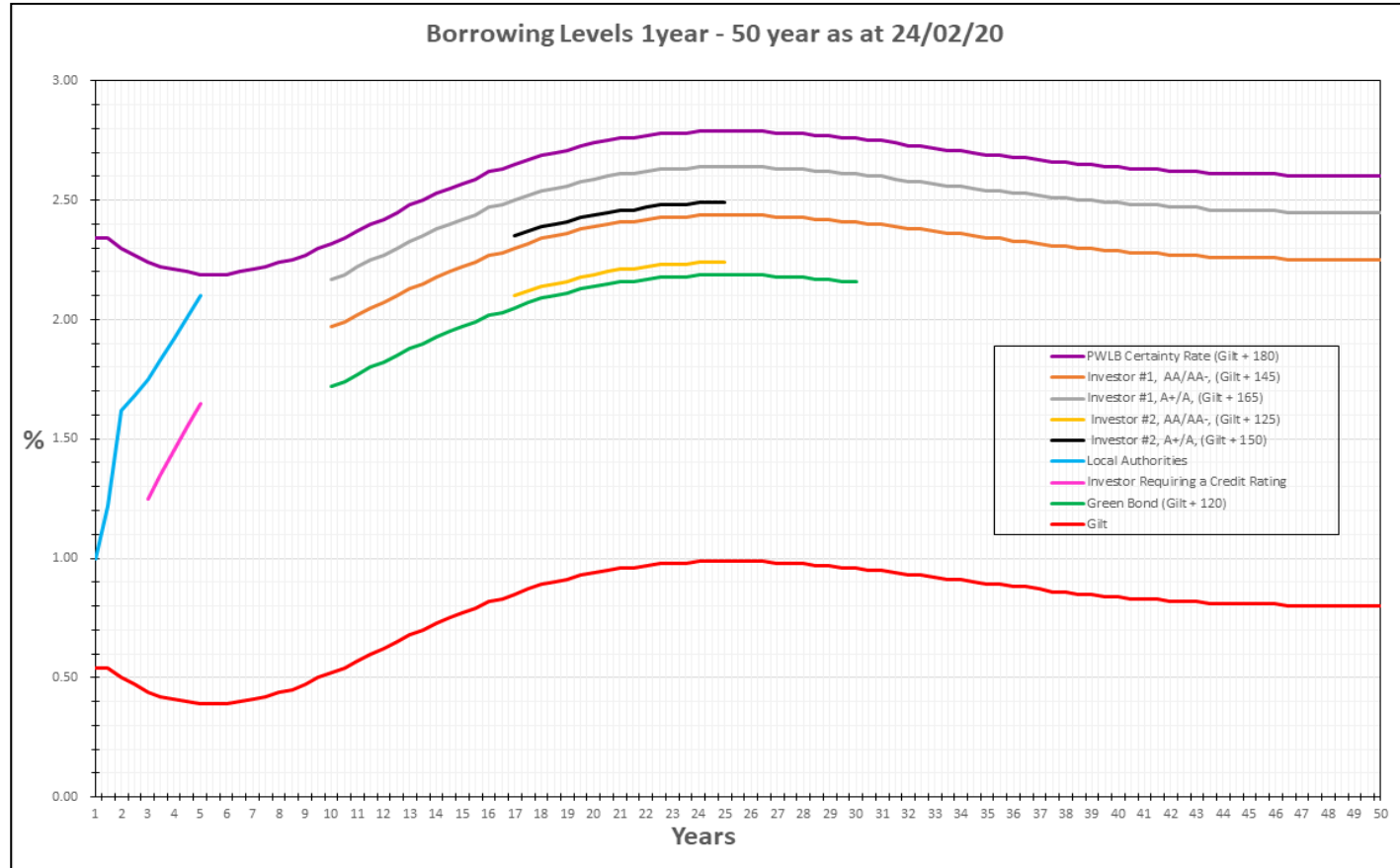
- Direct control opportunities
- Green Bonds
- Instant Impact Investments
- The Green Premium
- Local Authority pooling potential

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.

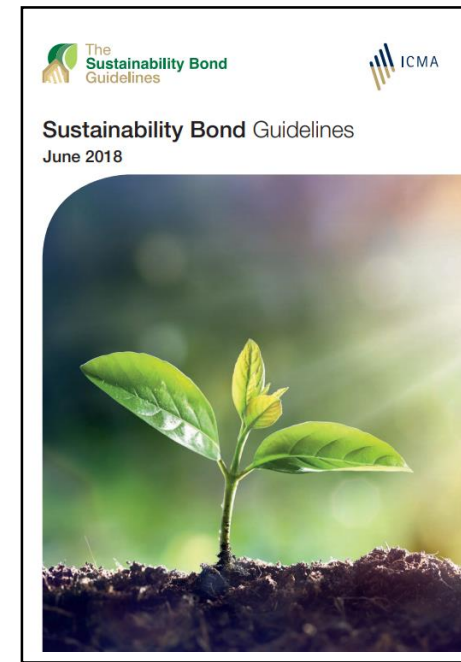
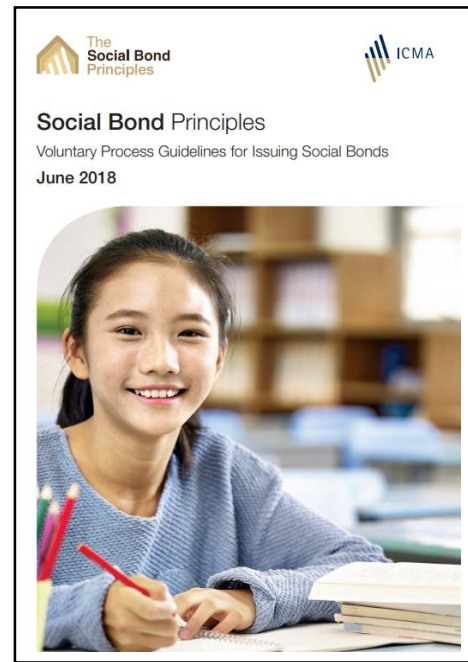
Why look at green Bonds?



YOUR INTEREST
IS OUR BUSINESS

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



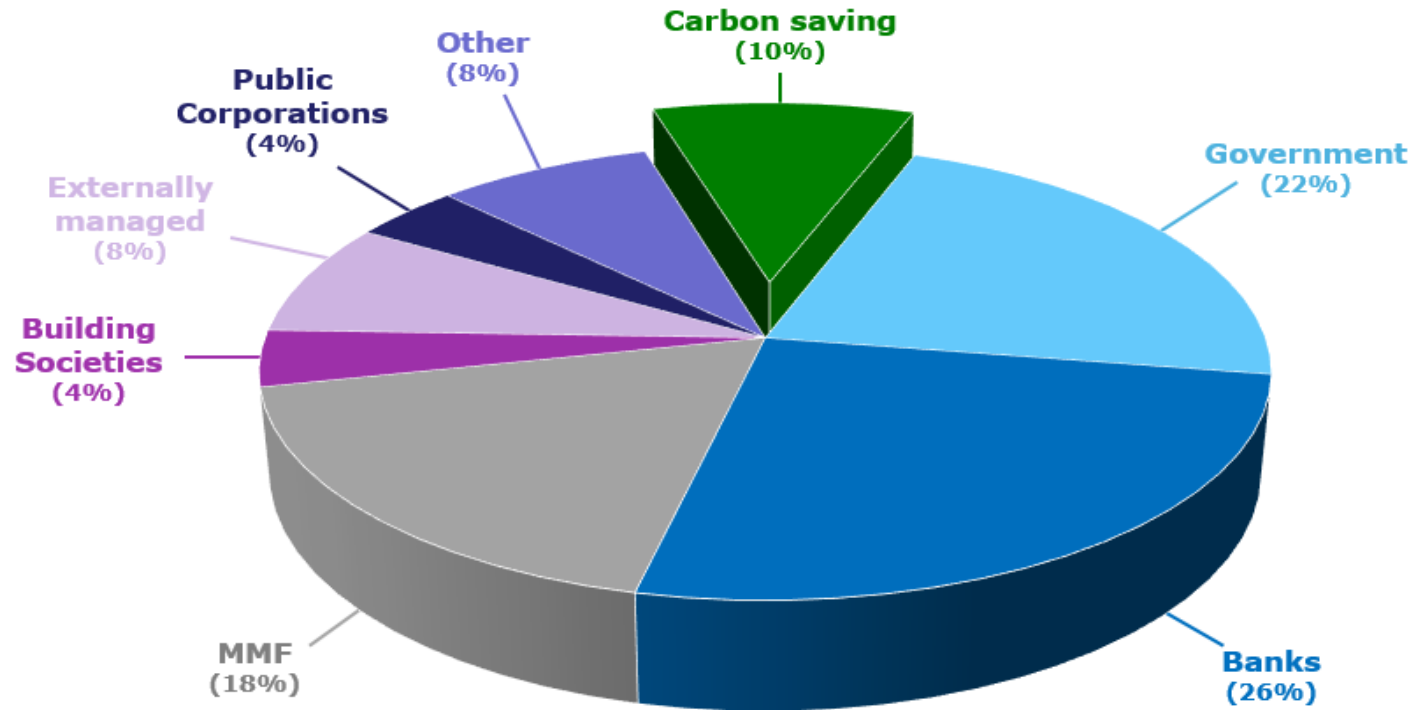
YOUR INTEREST
IS OUR BUSINESS

Green Investment Opportunities

Taking The First Steps



Local Authority Treasury Funds (circa. £40bn)

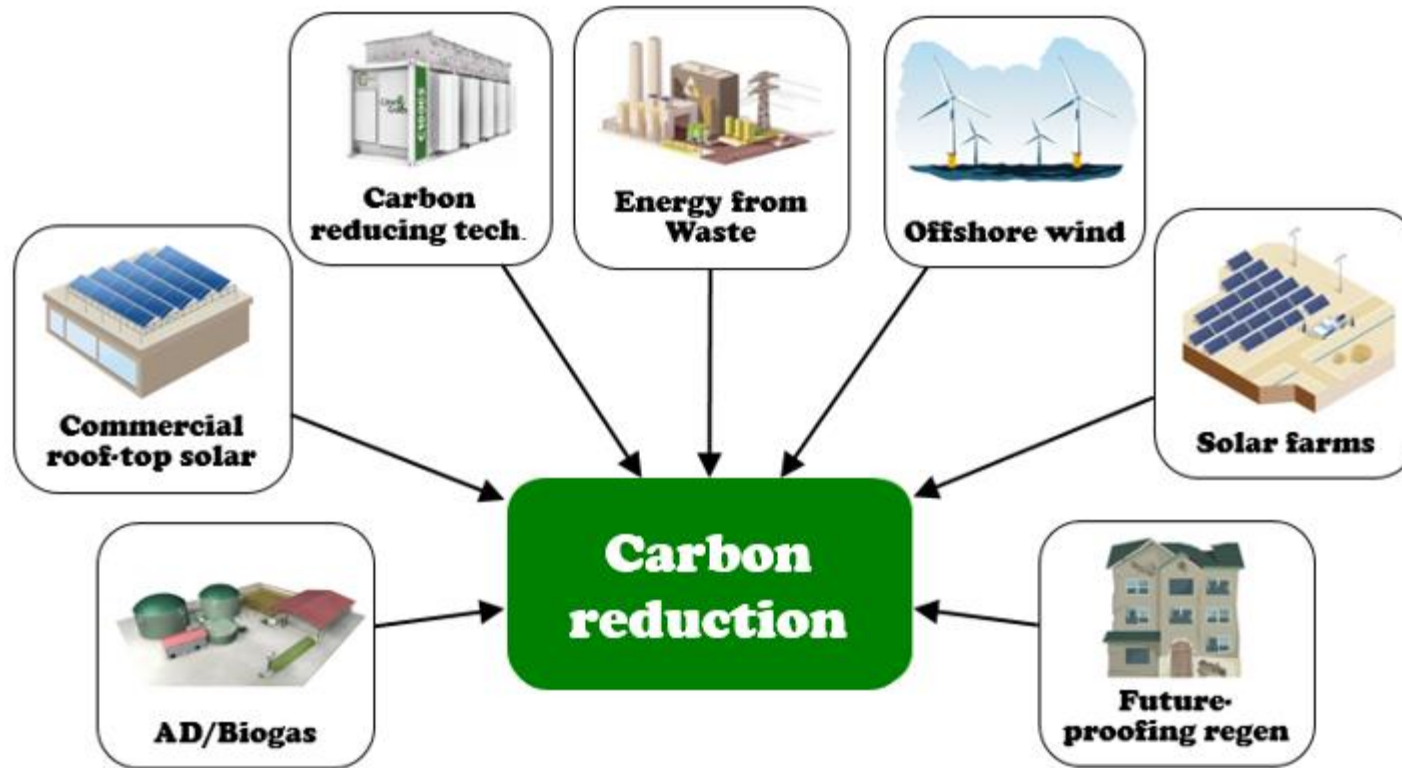


What is Available NOW?

- Fixed income bonds. Asset backed. Exchange listed. 6% - 8%
- Direct ownership of green assets. 10% - 13%
- Local Authority/Institutional co-ownership in green infrastructure. 6% - 7.5%
- Pooled Investments. 3% - 5%
- ***Funds. 3% - 4% ...be very clear what you want!

Understand the risks and fees.

UK Local Authority investments



Measurable Carbon Reduction

AD/Biogas – 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 reducing 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.

What impact can your money have on Carbon reduction?

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 $\frac{3}{4}$ million cars off the road!

The Green Premium - Non-Financial Benefits

Silent Evidence

“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 MBC - Dec 2019

An easy step into solar... (via Engenera)

- If you have some land (min 3 acres), the company (Engenera Renewables) will build a solar installation at no cost to the council.
- You would invest in an Engenera Green Bond (the proceeds fund the build).
- This is a 5 year secured investment generating a 7% return
- You secure the carbon credits. A saving of c.470 tonnes p.a. per £1m invested, counting against your climate emergency targets.
- You have first call on the electricity generated (cheaper than market price).
- After 5 years the bond matures and you get the investment back, having generated significant interest. A £5m investment generates £1.75m over the life of the bond.
- You retain ownership of the land.
- The company manage the installation at no cost to the council.
- The PPA will be for c.25 years, after which the solar panels and power created are handed over to the council. (The installation is expected to last another 15 years, having been fully maintained by an O&M contract operated by local firms for Engenera.)
- There are no rental payments as the council benefits from the cheaper electricity, the interest on the bond and the back end benefit of the power generation.

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