

2019 CIPFA WESSEX

**Carbon Reduction and the public sector –
an opportunity for financial innovation when identifying and rethinking investment?**

The Carbon Clock is Ticking



- World Bank urges spending on 'climate-friendly' infrastructure (Public Finance International 22/2/19)
- Greta Thunberg tells EU: your climate targets need doubling.
- Swede, 16, says EU cannot just 'wait for us to grow up and become the ones in charge'

Just how ethical is ethical investment?

Supposedly environmental stock market indices used to help investors allocate hundreds of billions of pounds in investments include some of the world's biggest contributors to fossil fuel pollution

House of Commons

MPs debate climate after school strike – but only a handful turn up

**Government benches mostly empty for debate inspired by
schoolchildren's climate strike**



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Climate protesters halt Gloucestershire County Council meeting

🕒 13 February 2019

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World Economic Forum – Top 10 Risks Global Risks Report

1. Extreme weather – floods & storms
2. Failure of Climate change, mitigation & adaptation
3. Major Natural disasters, tsunamis & earthquakes
4. Massive incident of data fraud / theft
5. Large scale cyber attacks
6. Man made environmental damage
7. Large scale involuntary migration
8. Major biodiversity loss and ecosystem collapse
9. Water crises
10. Asset bubble in major economy

Always Look on the bright side...

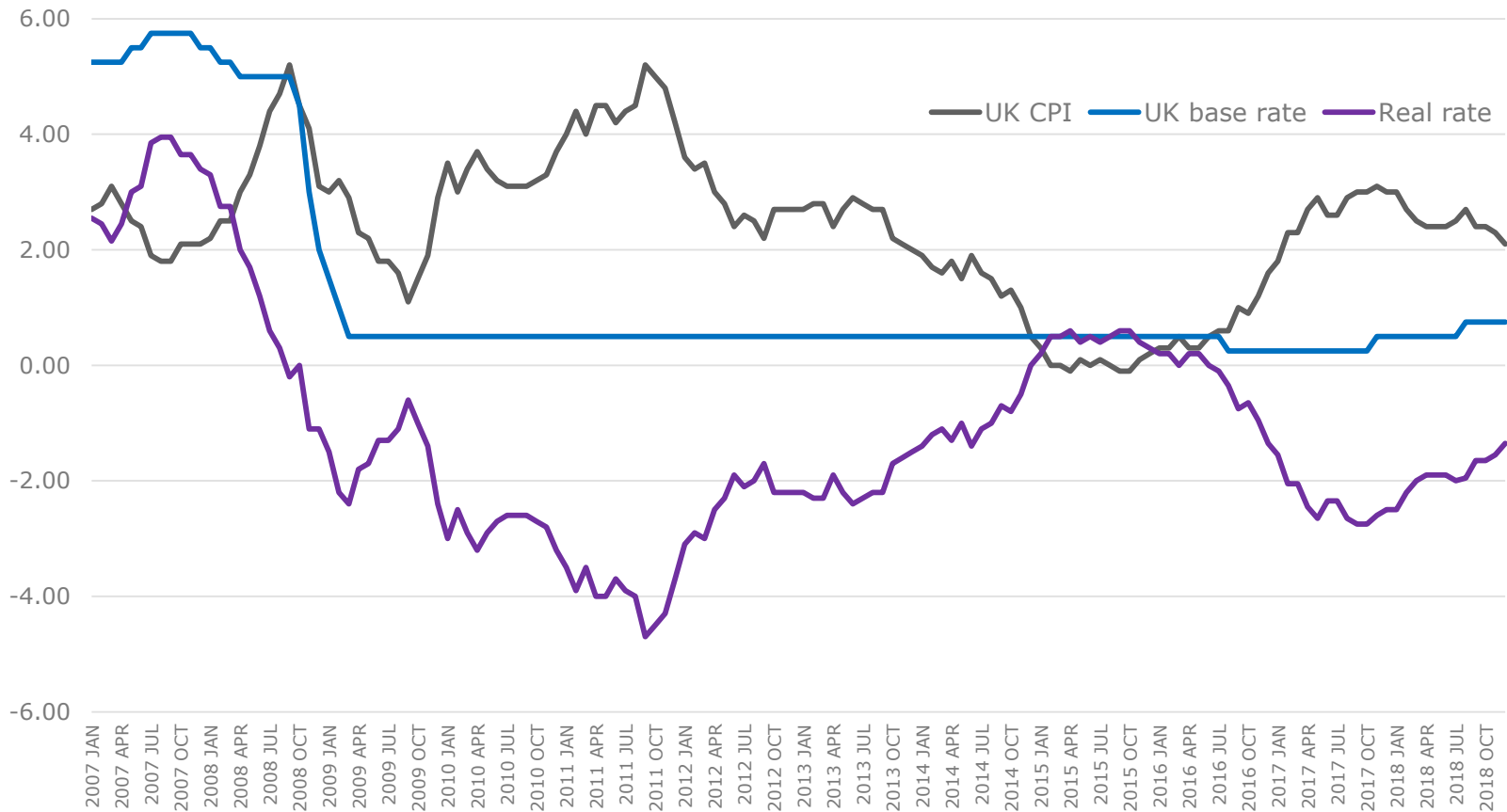
In the latest report from the Monetary Policy Committee, Mark Carney said “uncertainty had intensified” as we approach the 29th March deadline to leave the EU without yet having a deal. Highlighting that the global backdrop has also weakened, shaping the latest Bank of England forecasts...



- The BoE sees a sharp drop in business investment this year. Cutting their predictions to a 2.75%, having previously seen a 2% increase.
- 1.2% growth this year, down from 1.7% predicted three months ago.
- Just one more quarter-point hike would be needed in the next three years to return inflation to close to the 2% target, down from almost three hikes.
- Investors now see almost no chance of a quarter-point rate move by the end of the year.

Spending power erosion:

Base rate, CPI and real rates since Jan 2006

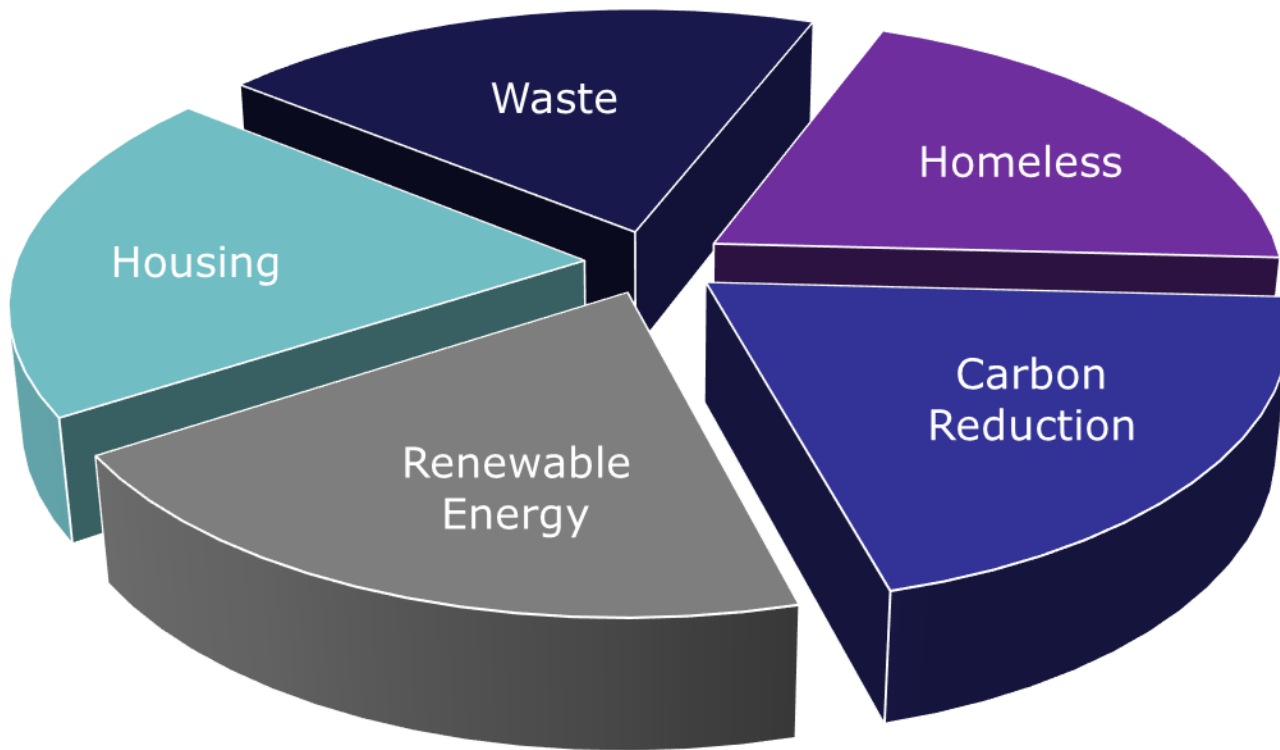


Carbon Reduction and the public sector

- An opportunity for financial innovation when **identifying** and **rethinking** investment?



Policy Driven Investment



Bond [definition]

- *'A bond is a fixed income instrument that represents a loan made by an investor to a borrower. A bond could be thought of as an I.O.U. between the lender and borrower that includes the details of the loan and its payments'*

...it's a loan.

Paradox [definition]

[par-uh-doks]

- *A seemingly absurd or contradictory statement or proposition which when investigated may prove to be well founded or true.*

"...it's too good to be true"

In the course of showing asset backed bonds to our customers, we have continually encountered the phrase, "*It's too good to be true*"! - Surely this is an absurd statement that will need investigating.

As our role is not to give advice, but merely present opportunity to investors (as clearly defined by the FCA), we point you to the CIPFA Code of Practice guidance notes. They recommend a Local Authority seek "expert advice" before investing in any such instrument.

For unrated asset backed bonds, expert advice = due diligence

The independent due diligence process will include an investigation into how the business makes money, examine what could possibly go wrong, check the business can afford the dividends, verify the asset backing adequately covers the investment in the event of default and confirm the validity of the security trustee acting on behalf of the bondholders as the entity holding the various security interests.

Carbon Reduction

Local Authorities play key role in providing clean energy for all.

"Moving to a productive low carbon economy cannot be achieved by central government alone; it is a shared responsibility across the country. Local areas are best placed to drive emission reductions through their unique position of managing policy on land, buildings, water, waste and transport. They can embed low carbon measures in strategic plans across areas such as health and social care, transport, and housing."

[Source: UK Energy Research Centre (UKERC)]

"Greater Manchester to achieve 'carbon neutral' status by 2040 at the latest"

- The city will also commit to a 13 per cent year-on-year reduction in emissions from 2018 onwards - becoming zero carbon by 2038, well in advance of the previous commitment to achieve this goal by 2050.

[Source: Andy Burnham – Mayor of Greater Manchester]

"Leeds aims for zero carbon energy economy."

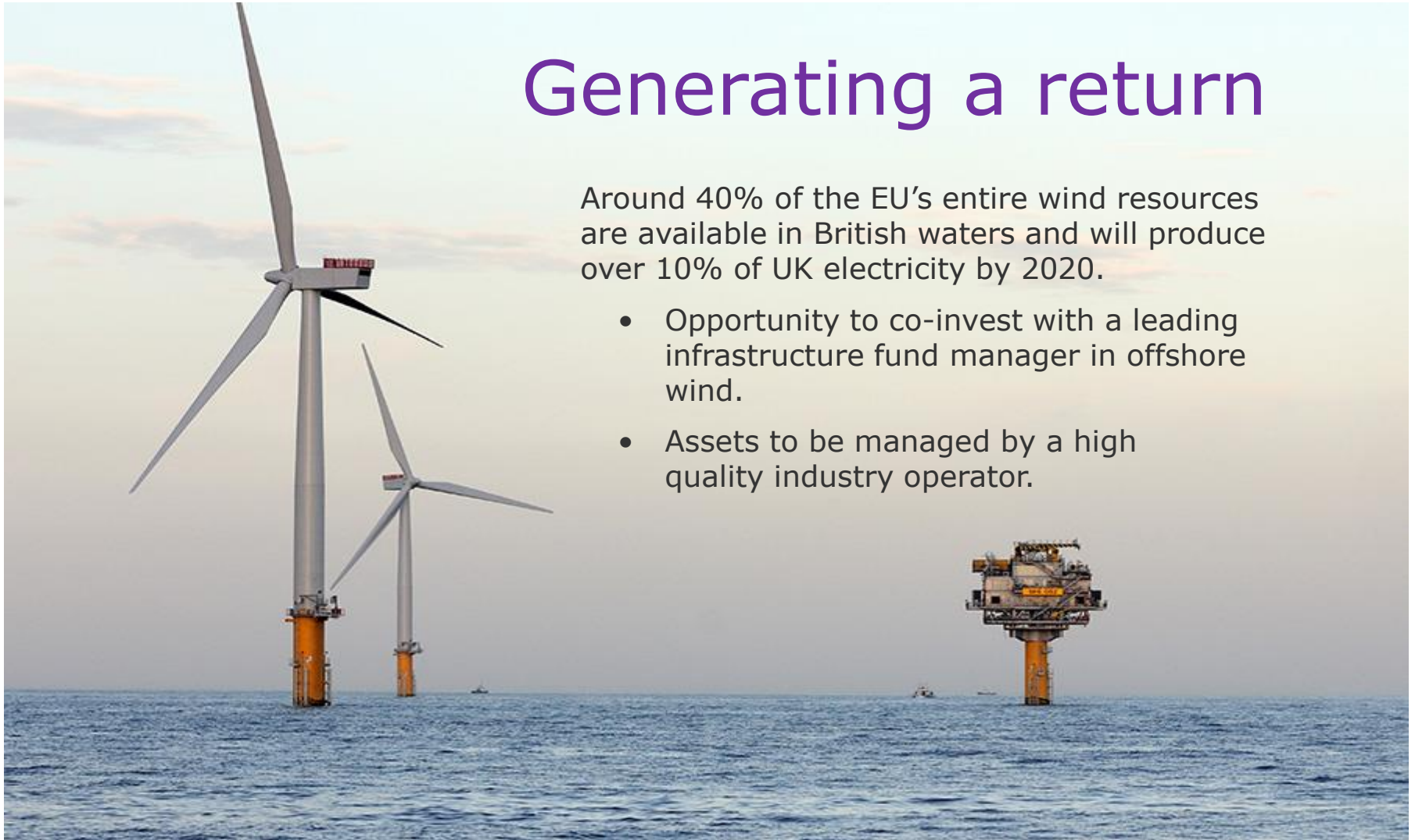
- West Yorkshire Combined Authority and Leeds City Region Enterprise Partnership (LEP) have agreed an 'ambitious' energy strategy which aims to reduce the region's carbon emissions.

[Source: LocalGov.co.uk]

Generating a return

Around 40% of the EU's entire wind resources are available in British waters and will produce over 10% of UK electricity by 2020.

- Opportunity to co-invest with a leading infrastructure fund manager in offshore wind.
- Assets to be managed by a high quality industry operator.



One man's waste...

An operating renewable energy Anaerobic Digestion (AD) plant producing biogas (harnessed by two CHP engines) to supply electricity to over 2,500 homes.

- Guaranteed income streams to 2033 from Government incentives (FIT/RHI).
- Highly efficient Bio-digesters operating 24 hours, 7 days a week.
- PAS110 accreditation for digestate fertiliser, promoted as a stand alone product.
- Innovative and award winning business with flexible feedstock procurement and excellent industry contacts.



Carbon and housing... the argument for a focus on regeneration from a carbon footprint perspective alone is very strong.

- The cost of Carbon Impact in the UK is expected to double by 2021 and quadruple by 2030.
- A solution to reduce Carbon Impact exists. In England alone there are enough identified suitable brownfield sites (17,656) for at least 1.7m homes of which 67% can be delivered in the next 5 years. This represents 43% of housing needs.
- An average distressed home produces approximately 9.4 tonnes of CO2 every year. The aim is to reduce single home emissions by 5+ tonnes per year.
- The UK Government has an annual target of 300,000 new homes to keep pace with rising demand. Potentially an additional CO2 injection of 24,000,000 tonnes.
- Regeneration of 200,000 distressed properties alone would result in a minimum saving of 1,000,000 tonnes of CO2 versus an increase of 16,000,000 tonnes of new build CO2.
- Regeneration avoids new infrastructure and increases likelihood of properties being where they are needed most. Less travel costs reduces pollution and the carbon footprint.

Would your Council Benefit from :

- Localised regeneration of distressed housing stock public and private ?
- Environmentally sound housing supply – Including additional units for temporary housing and the under 35's?
- New homes close to jobs and existing physical and social infrastructure?
- More care homes assisted/living spaces to cope with demographic demand?
- Usable capital receipt?
- Asset backed investment yielding 8% (3-5ys)?
- Carbon reduction impact - additional walking and cycling (improved health and well-being) and encourage the use of public transport (less traffic)?
- Potential capital savings through connecting to existing roads and utilities?
- Enhancing the overall quality of the built environment – with the impact of reducing crime through more active frontages and passive surveillance?
- Conserve rural and agricultural land and the consequential environmental, ecological and economic benefits for future generations?



...or you could invest in a golf course!



In summary

- **Bond Paradox: Asset Backed Structured Loans**
 - A seemingly absurd or contradictory statement or proposition which when investigated may prove to be well founded or true.
- **2019/20 Capital Strategy and Treasury Management Investment Strategy**
 - Revise permissions to allow investigation/investment into policy driven initiatives
- **2019 CIPFA's Resource Funding Model**
 - Scenario testing for investment options

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