

# 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**



BBC

Your account



News

Sport

Weather

iPlayer

Sounds

More

Search



## NEWS

[Home](#)[UK](#)[World](#)[Business](#)[Politics](#)[Tech](#)[Science](#)[Health](#)[Family & Education](#)[Entertainment & Arts](#)[Stories](#)[More](#)[England](#)[Local News](#)[Regions](#)[Gloucestershire](#)

# Climate protesters halt Gloucestershire County Council meeting

🕒 13 February 2019



Share



# 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...

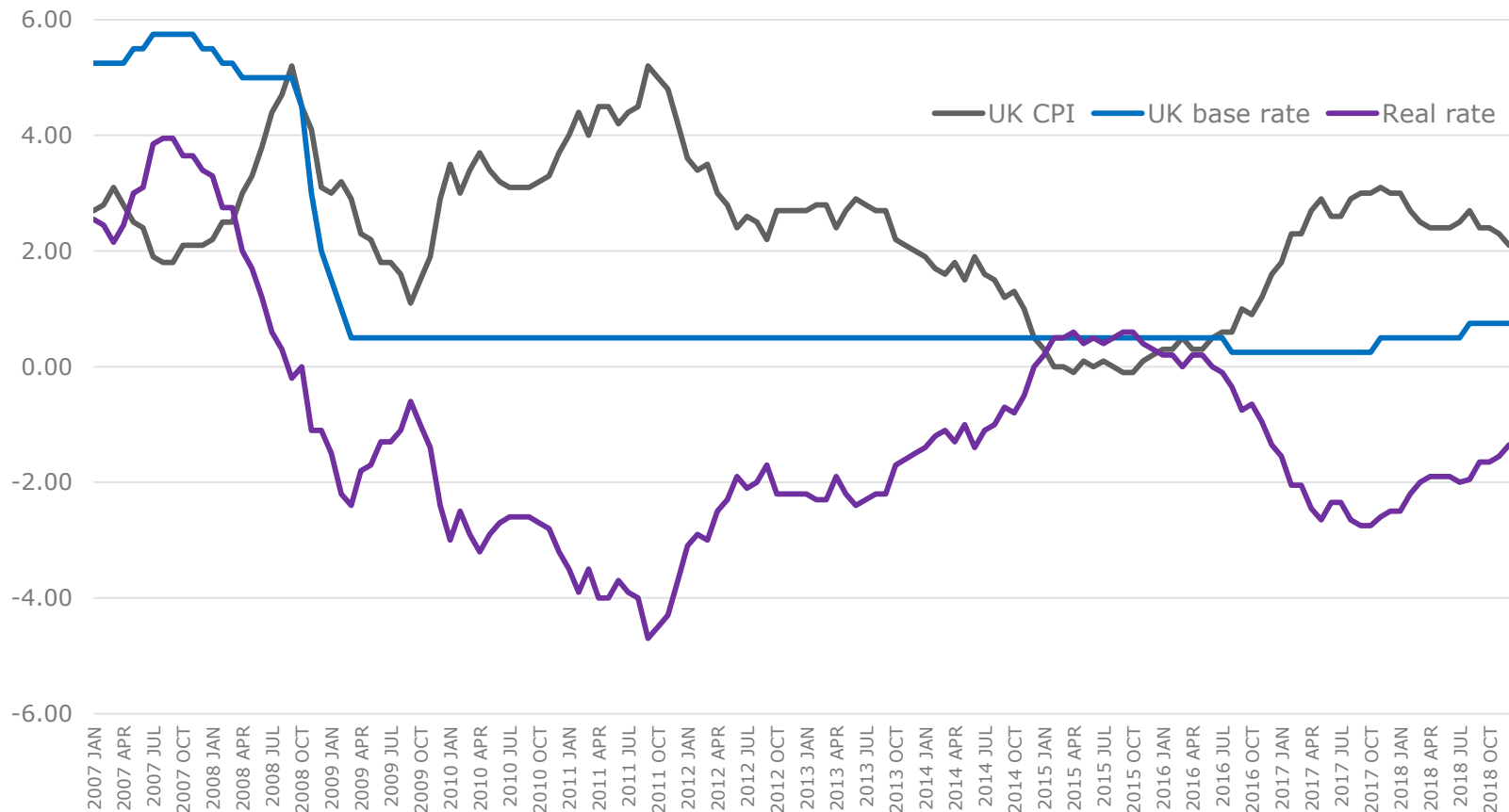
In the latest report from the Monetary Policy Committee, Mark Carney said “uncertainty had intensified” as we approach the 29<sup>th</sup> March deadline to leave the EU without yet having a deal. Highlighting that the global backdrop has also weakened, shaping the latest Bank of England forecasts...



- 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



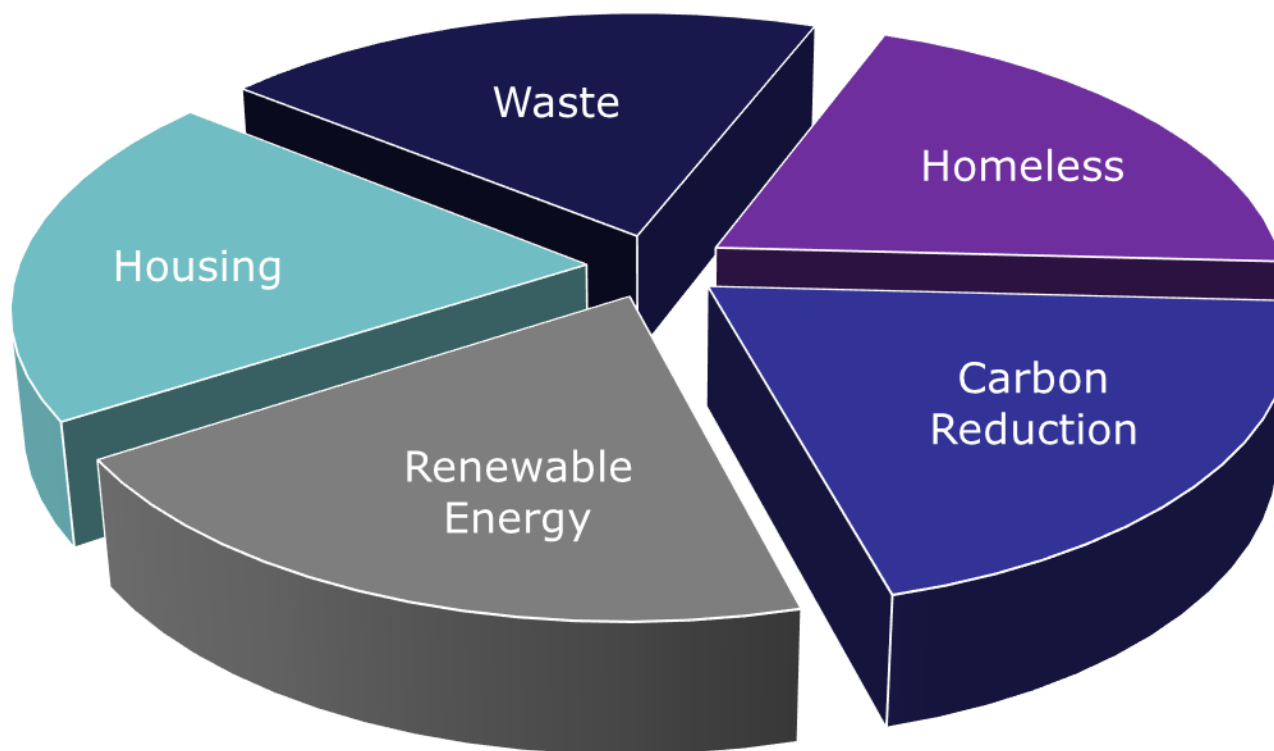
# Carbon Reduction and the public sector

- 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.

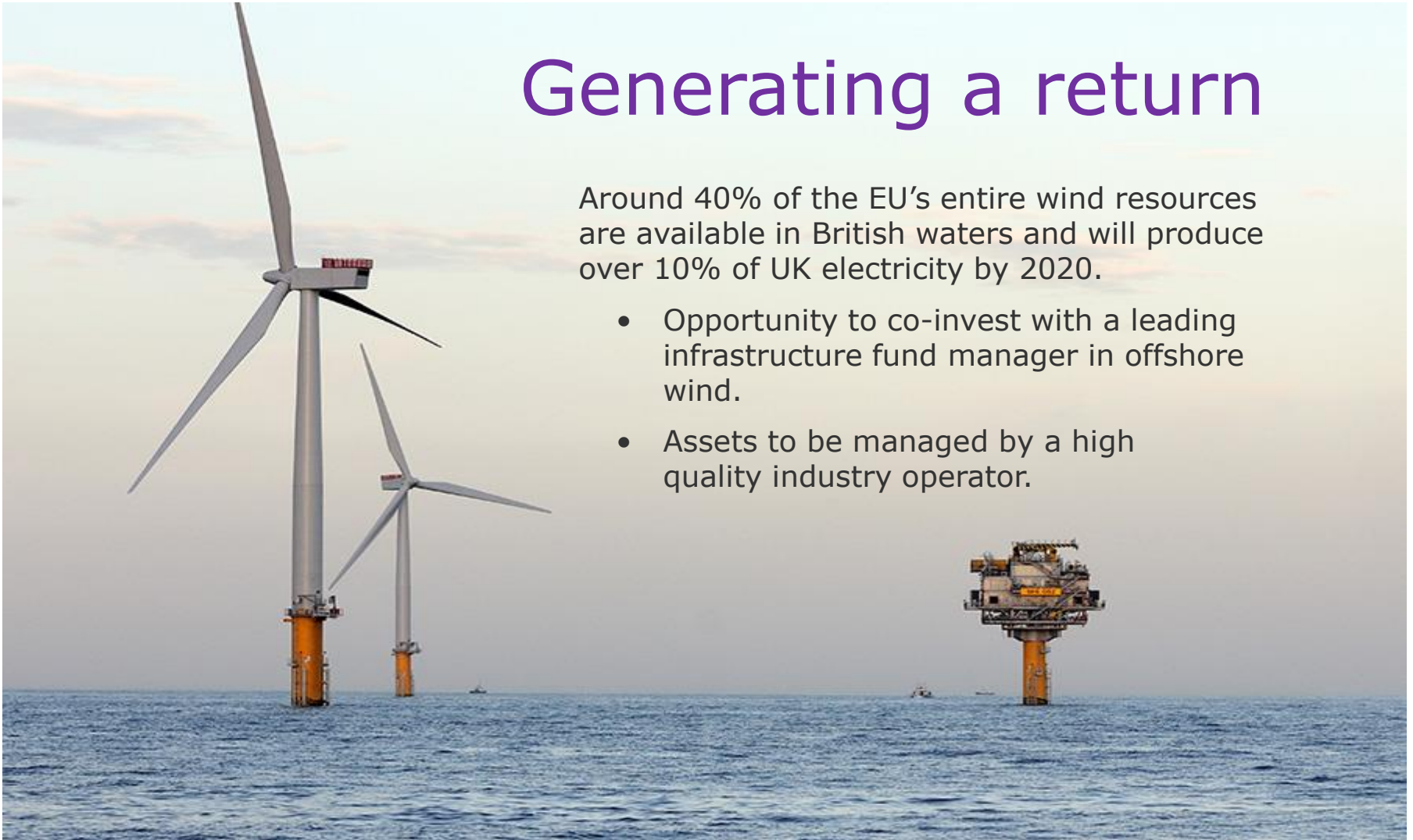
[Source: LocalGov.co.uk]



# 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

### Disclaimer

This presentation including the information contained herein (Publication) is being issued by RP Martin as a division of BGC Brokers LP and affiliates, which is authorised and regulated by the Financial Conduct Authority (FCA). This Publication is issued on a strictly confidential basis and for information purposes only to a limited number of intended recipients and should not be construed as legal, tax or financial advice. It should not be distributed, published or reproduced in whole or in part, nor should its contents be disclosed by intended recipients to any other person nor should it be relied upon by such persons as the basis for investment in any of the product described herein. RP Martin and / or affiliates will not be responsible to recipients for providing protections afforded to their underlying clients nor for advising them. Any valuations contained herein are indicative only and such valuations may be subject to change without notice. Past performance is not necessarily indicative of future results and the intended recipients of this Publication should not rely on the information contained herein as it is not a guarantee or promise of future results and, where applicable, recipients should seek their own independent financial advice. Certain information contained herein is based on third party sources. RP Martin and/ or affiliates do not make any representations as to the accuracy or completeness of any valuations nor third party sources contained herein. RP Martin and/or connected persons do not accept any liability whatsoever for any direct, indirect or consequential loss arising from any actions undertaken in reliance on or from any use of this Publication. This Publication is provided on the basis that the recipients have such knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of any investment business and that they will undertake appropriate, independent investigation, assessment or analysis regarding any investment. Neither the information nor any opinion herein constitutes, or is to be considered as, an offer to buy or sell investments. This Publication is not intended for private investors within the rules of the FCA and therefore should not be distributed to such investors. RP Martin does not provide investment advice. This Publication is subject to the copyright of RP Martin.



**Roy Nolan**  
FCPFA ba (hons)

RP Martin  
Level 3  
1 Snowden Street  
London  
EC2A 2DQ

Email: [Roy.Nolan@Martin-Brokers.com](mailto:Roy.Nolan@Martin-Brokers.com)  
Desk: 0207 894 8698

Martin Brokers is a division of BGC Brokers LP



**Andrew Hinds**

RP Martin  
Level 3  
1 Snowden Street  
London  
EC2A 2DQ

Email: [Beansy@Martin-Brokers.com](mailto:Beansy@Martin-Brokers.com)  
Desk: 0207 894 8698

Martin Brokers is a division of BGC Brokers LP