

Climate Emergency

Investment and Capital Financing Solutions

15th October 2020

CIPFA Context

"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

2020

- Covid – Social & Economic Impact
- PWLB Consultation
- PAC Report on Commercial Investments
- CIPFA – Review of the Prudential Code
- 21/22 Budget
- Brexit ?
- Impact on Climate Targets

Climate Emergency

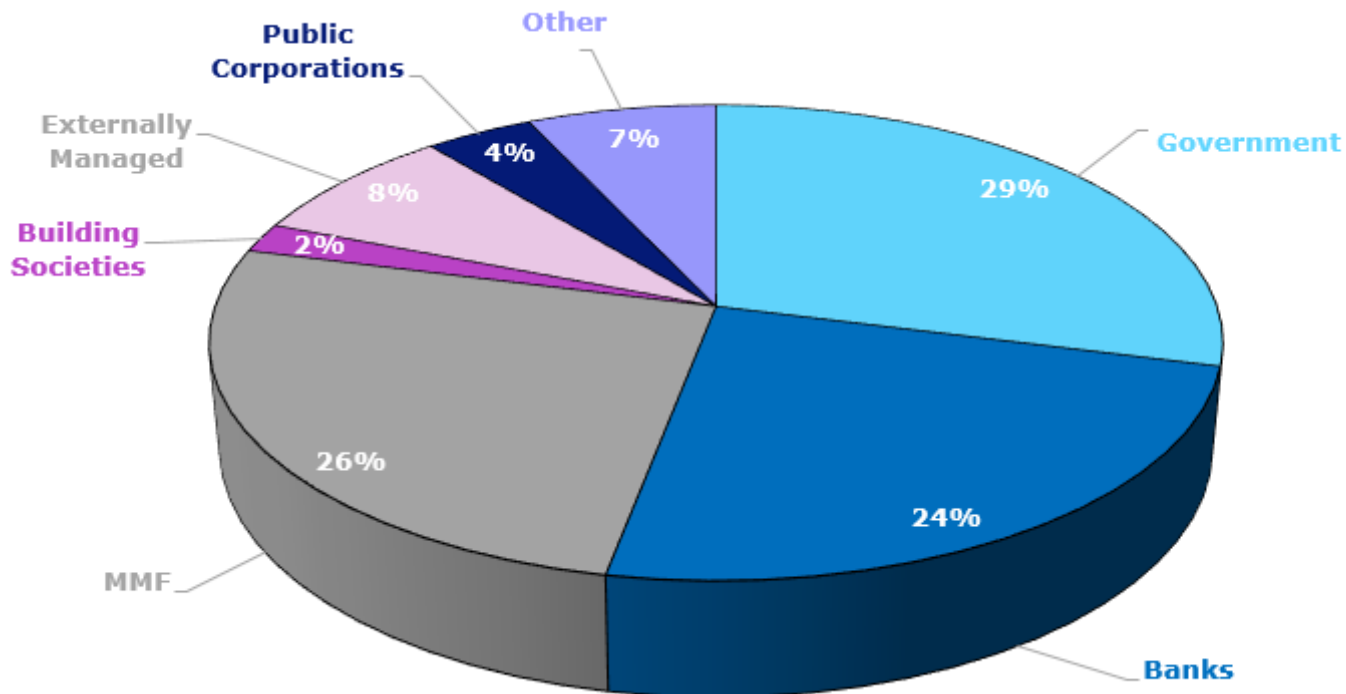
Investment Solutions

Andrew Hinds

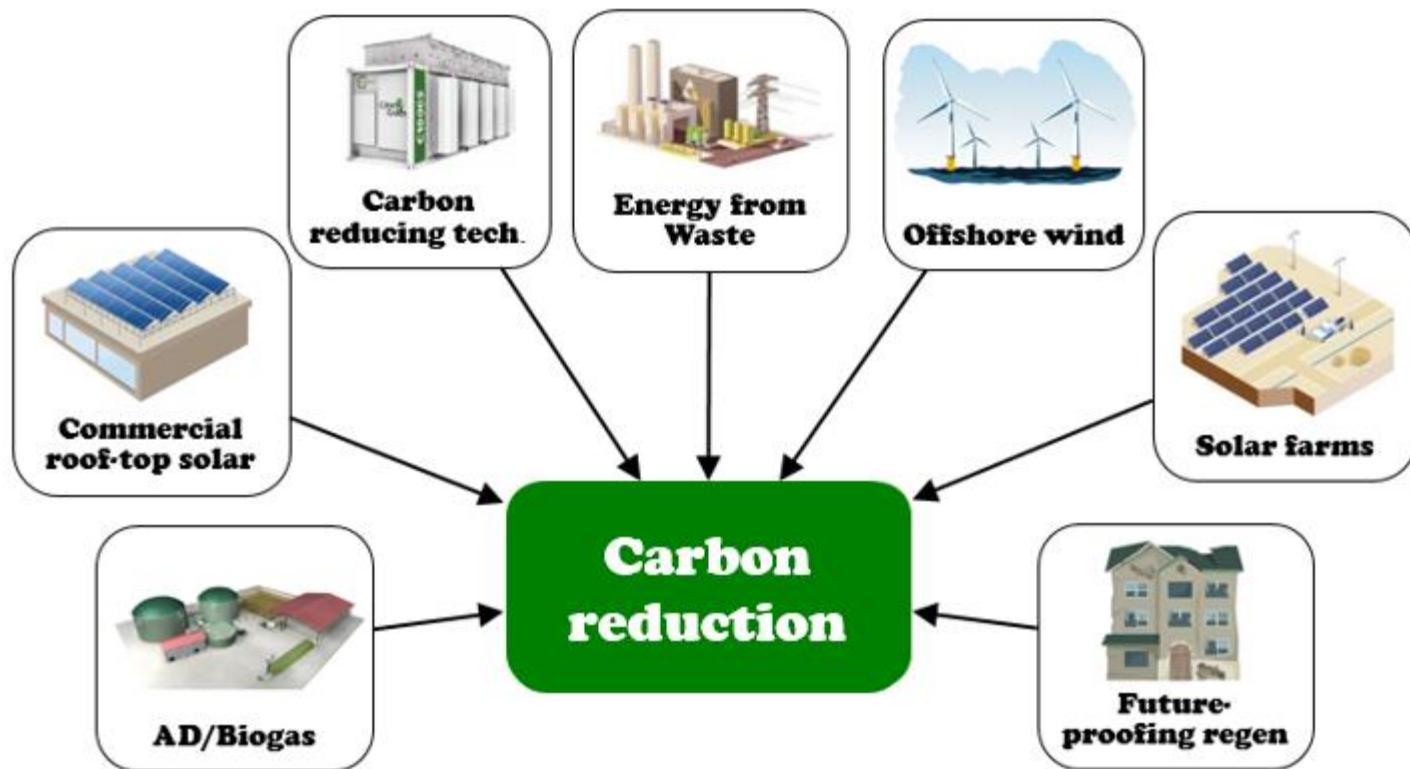
Why does Mr Whiteman urge “...a fundamental shift in the sectors priorities” and to “...view all activity through the primary lens of the climate crisis”?

- S.114's / Reserve Depletion.
- Bank Rate Forecast.
- Gilts.
- Inflation.
- Traditional Investment Return Forecast.
- ~~Commercial Property.~~
- Is your TMS fit for purpose? Has the impact of 2020 been reflected on investment income budgets?
- PAC Report on Commercial Investments – All is not well.
- Circa. 300 'climate emergencies' declared.

Local Authority Treasury Funds (circa. £50bn)



UK Local Authority Investments



YOUR INTEREST
IS OUR BUSINESS

Different Lens – Different Products

- Fixed income bonds - Asset backed - Exchange listed (4.00% - 7.00%)
- Direct ownership of green assets (7.00% - 11.00%)
- Local Authority co-ownership in green infrastructure (4.50% - 7.00%)
- Green* Pooled Investments (2.00% - 4.00%)
**check they are green!*

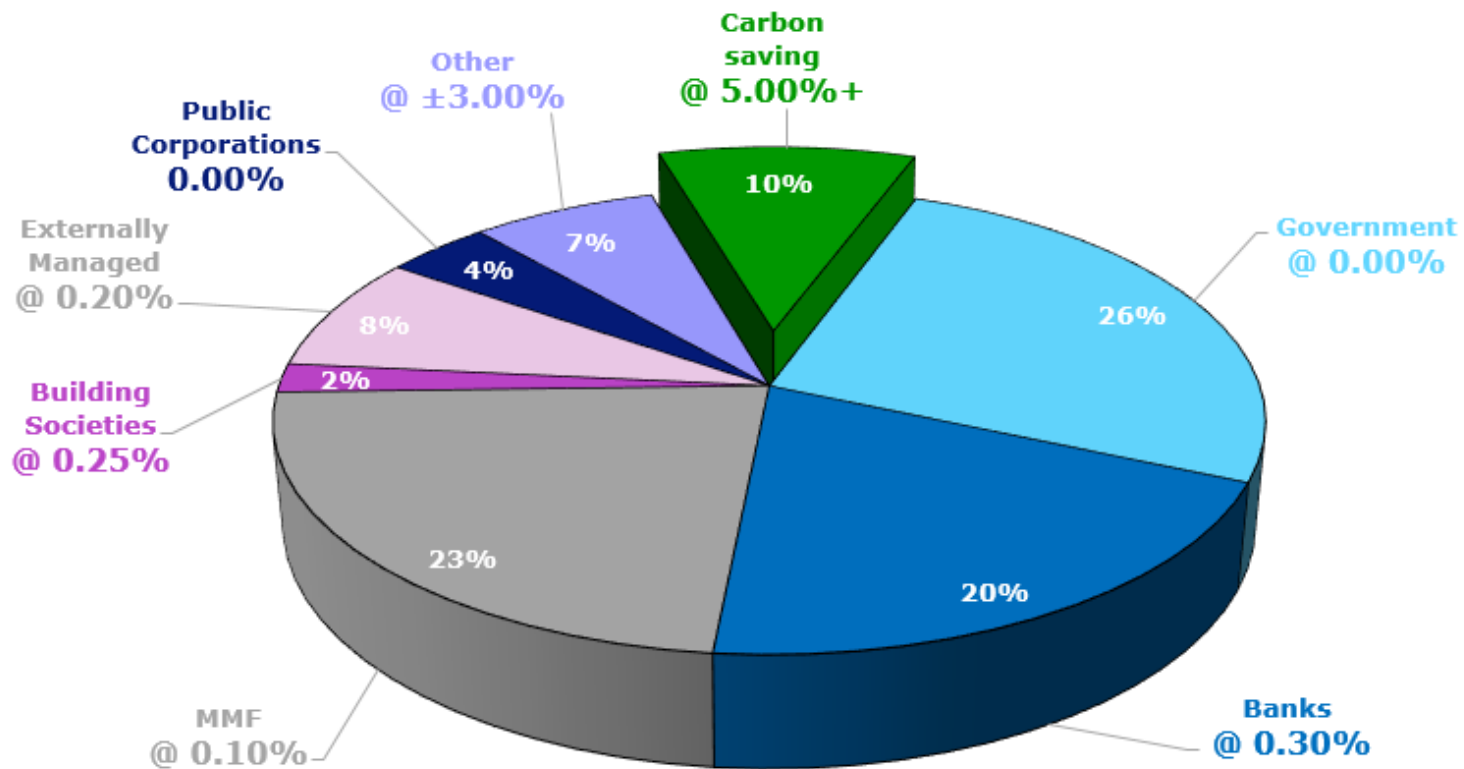
Understand the risks and fees.

Investment Checklist

- Update Permissions within TMS.
- Member Training and PAC compliant Governance.
- Expert Advice from real experts - A solar farm is not the same risk profile as an overnight cash investment.
- Risk Assessment from Risk experts.
- Conflicts of Interest.

Understand the risks and fees.

Local Authority Treasury Funds (Diversified)



YOUR INTEREST
IS OUR BUSINESS

Green Investment Audit Check List

	Finance sector	Alternative Green
Yield	≥0%	5%+
Diversification	Low	High
Carbon impact	x	✓
Asset backed	x	✓
Business case	x	✓
Inflation plus return	x	✓

Change Starts With Better Business Cases

A case for Solar Investment ?

- £1m in solar = removes circa.300 tonnes of carbon.
- Security (asset) and Risk Management (diversification) plus inflation beating Yield.
- Environmental benefits.
- Other non-financial benefits (Silent Evidence).
- Establish a clear process for Review and Monitoring.
- State role of advisers and be clear why they were chosen.
- Have independent expert advice and risk advice.

Climate Emergency

Capital Financing Solutions

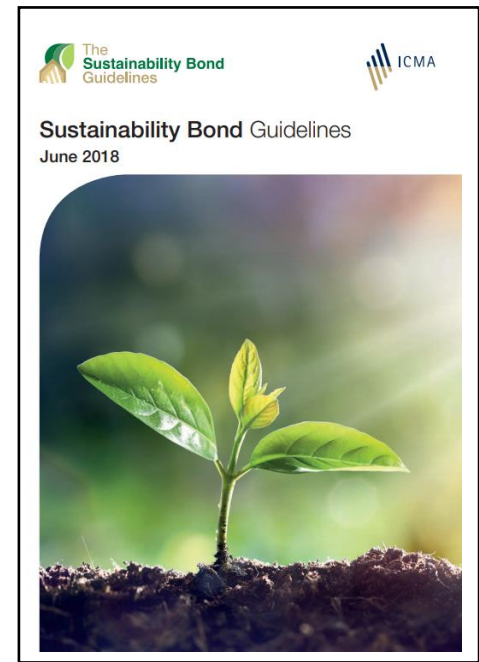
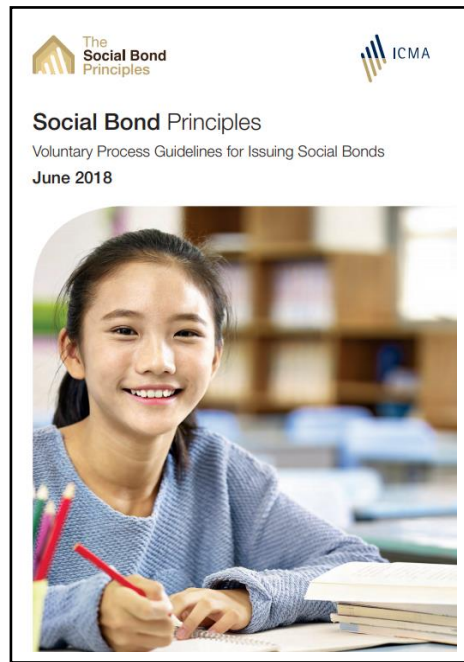
Shane O'Neill

Effective Capital Financing through the lens...

- Importance of effective Capital Financing - (Core business of LA's big numbers, long lasting impact,)
- PWLB Consultation
- Debt Capital Markets
- MBA
- Is your TMS debt strategy 'fit for purpose'?
- CIPFA Review of Prudential Code - PAC Report on Commercial Investments
- There are other options...

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.



Green Bond Principles.

- Use of Proceeds.
- Process for Project Evaluation and Selection.
- Management of Proceeds.
- Reporting.

Eligible Green Project Categories.

Renewable Energy. Energy Efficiency. Pollution Prevention and Control. Clean Transportation. Green Buildings. Climate Change Adaptation

Social Bonds: Funding Positive Social Outcomes.

- Affordable Housing.
- Infrastructure - Waste Management, Transport & Energy.
- Employment Generation.
- Access to Essential Services.

Examples of Target Populations.

Living below the poverty line. Excluded and/or marginalised populations and/or communities. People with disabilities. Migrants and/or displaced persons. Undereducated. Underserved, owing to a lack of quality access to essential goods and services. Unemployed.

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.

Structuring a bond...

The simplest issuance of a Green/Social/Sustainability bond, is a 'vanilla' 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 provider is a market recognised verifier of a proposed project and their approval is confirmation of the bond's green/social/sustainable credentials.

The tenor can range from 5yr (Social bonds) out to 40yr (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.

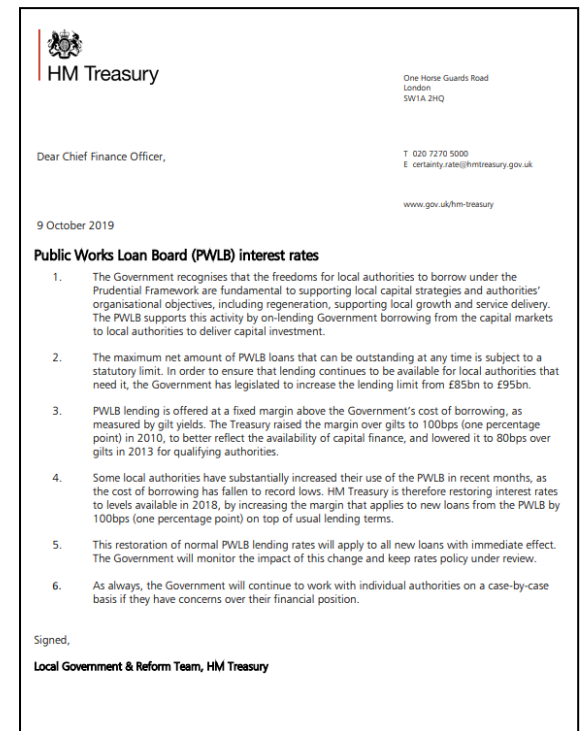
The process should take approximately 6-8 weeks from the Authority committing to the deal to the funds being raised.

Green Bonds provide a viable source of debt finance.

Following the 1.00% hike in PWLB interest rates, there have been many 'fake news' stories on the merits of alternative forms of funding.

The Green, Social and Sustainability bond market's are rapidly growing offshoot of the well established debt capital markets, taking a significant nod to the current demand for ESG (Environmental, Social and Governance) responsible debt.

With growing global institutional climate awareness, demand is high and the subsequent price tension undercuts the standard debt capital markets, creating a competitive real alternative to traditional forms of funding.



Capital Financing Checklist

- Identify Green / Social Projects
- Expert Advice from real experts - Speak to People that have delt in this type of bond
- Commission a quote
- Option Appraisal
- Member Training and PAC compliant Governance
- Conflicts of Interest Statement
- 6-8 Weeks completion time

Time for Questions

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