



MUNICIPAL
BONDS AGENCY

Financing Local Authorities' Green Ambitions

April 2022



Section 1

UKMBA's Green Financing Framework

- Owned by the sector, for the sector, the UKMBA:
 - will only act in the interests of local authorities
 - accesses the capital markets to provide cost effective financing and deliver savings to local authorities
 - is transparent and its costs and pricing clear
- Provides flexibility and ability to tailor financing for local authorities' unique needs
- Green and broader ESG financings are leading the way

- Good for the environment and society
 - Focuses the market on financing projects that support environment and social goals
- Significant focus of the local and central Government
 - Local government has embraced climate goals – most have declared a “climate emergency”
 - Central government focused on climate change
- Strong market investor demand
 - In response to customer pressure
 - Demonstrated advantages of ESG investment
 - Lack of supply of investments for growing institutional demand
 - Pricing advantage for borrowers

- UKMBA's Green Framework based on the international standard developed by the ICMA
 - A set of principles developed as a tool to create an international standard for all ESG Bonds
 - The framework is comprised of 4 Components:
 - Use of Proceeds
 - Process for Project Evaluation and Selection
 - Management of Proceeds
 - Reporting



- Representative types of ‘eligible green projects’:
 - Renewable energy
 - Energy efficiency
 - Pollution prevention and control
 - Environmentally-sustainable management of land
 - Protection and promotion of biodiversity
 - Clean transportation
 - Climate change adaptation
 - Eco-efficient and / or circular economy adapted products, production technologies and processes

- Social Bonds: bonds where the proceeds are used to finance 'eligible social projects'. Social Bonds are NOT Social Impact Bonds

Social Projects

- Affordable basic infrastructure
- Access to essential services
- Affordable housing
- Employment generation, and programs designed to prevent and / or alleviate unemployment stemming from socioeconomic crises
- Socioeconomic advancement and empowerment

Sustainability Bonds: used to finance 'eligible green projects' and 'eligible social projects'

Green + Social = Sustainable

Certain social projects may also have environmental co-benefits, and certain green projects may have social co-benefits.

Classification - as a Green Bond, Social Bond or Sustainable Bond - is based on the issuers' primary objectives for the underlying projects



Section 2

**How Can Local Authorities Participate
in Green Bonds?**

- UKMBA has developed a number of borrowing options for local authority to consider
 - Local Authority can look back 3 years and forward 2 years for eligible projects to finance or refinance
- UKMBA will work with the LA to identify the financing option that best meets the authority's needs
 - Short-term and long-term options available
- Standardised legal documents save time and money
- Bonds will be certified as Green and will be sold into the public market

- Loans for up to one year maturity, funded by commercial paper:
 - Cheap funding while a project is completed or a bond is being readied
 - No need to commit to a long-term loan
 - Borrowers are subject to Agency's credit process
 - Simplified loan agreement
 - Very short lead times: less than 2 weeks initially, 48 hours in time for established borrowers
 - Arlingclose has reached out to its clients

- Guarantees the interest rate on a loan that is drawn down up to 2 years in the future:
 - Used when the cost of funding needs to be certain e.g. complex capital projects
 - Costs fully transparent for local authorities
 - Agency is partnered with an investment bank
 - Not a derivative instrument
 - Not available for speculative purposes
- Rate-lock can be included as part of a tailored financing package

- **Standalone loans** to a single local authority for £250 million or more for maturities greater than one year
 - Up to £100 million may be “retained” i.e. drawn down later
 - 4-8 weeks to issue; latter if first time public credit rating needed
- Proportionally guaranteed, **pooled loans** of £1 million or more for maturities greater than one year:
 - Guarantee confined to loans via UKMBA and only applies as a last resort to prevent the entire pool being in default
 - No local authority has ever defaulted on a loan
 - Maturities of 10, 25, or 40 years
 - May use short term loans as pooled bonds are being readied
- Both structures can be certified as green, social or sustainable

- Various principal repayment structures e.g. amortising, bullet, weighted average, EIP, repayment-free periods
- Interest rates can be floating, fixed, index-linked or even “zero coupon”
- Maturities from 3 months upwards
- For benchmark bonds (£250 million or greater) can use various products e.g. commercial paper, rate-lock and long-term bonds to deliver a tailored loan

Questions?