



Mayor and Cabinet

Launch of Lewisham Climate Action Bond

Date: 2 November 2022

Key decision: No.

Class: Part 1.

Ward(s) affected: All wards

Contributors: Director of Finance

Outline:

Lewisham Council declared a climate emergency in 2019 and the Climate Emergency Action Plan was agreed by Mayor and Cabinet on 11 March 2020 and sets out our ambition to be carbon neutral by 2030. Since then, Lewisham Council has also signed up to the [UK100 “Net Zero Local Leadership Pledge”](#), alongside over 40 other local leaders, to reach zero carbon before national government. This report sets out the Council’s approach to launching a Climate Action Bond which will raise funds that are invested in projects around the borough that improve residents’ quality of life and help the borough reach carbon net zero by 2030.

Recommendation:

Mayor and Cabinet are asked to;

- Sign the Green Finance Institute’s “Local Climate Bond Pledge”;
- Subject to Full Council approval of the Treasury Management Strategy at its meeting on 23 November 2022, agree the launch of the Lewisham Climate Action Bond;
- Delegate to the Executive Director for Corporate Resources the appointment of a Financial Conduct Authority (FCA) regulated loan counterparty and platform provider to launch the Bond;
- To note the plan to launch an initial Climate Action Bond for £1m with a 5 year maturity at a rate which will match or undercut PWLB borrowing rates, and delegate to the Executive Director for Corporate Resources to agree the final terms of the bond including value, maturity and rate;
- To note the plan to use the proceeds to part fund a package of approved programmes that contribute to a net reduction in carbon emissions in the Borough and delegate to the Executive Director for Corporate Resources, in consultation with the Executive Director for Housing, Regeneration and Public Realm, to amend the schedule of projects if required.

Timeline of engagement and decision-making

- February 2019 Lewisham declares climate emergency;
- March 2020 Mayor & Cabinet agrees the Climate Emergency Action Plan

1. Summary

- 1.1. This report sets out the process and timetable for the launch of Lewisham's Climate Action Bond, a Community Municipal Investment to raise £1m to fund a range of schemes which will assist the Council in achieving its aim of carbon net zero by 2030. A Community Municipal Investment (CMI) and is a bond or loan instrument issued by local authorities directly to the public through an internet crowdfunding platform. This will enable Lewisham's local residents and businesses to invest directly into these schemes to actively contribute to environmental improvements and carbon reduction in the borough.

2. Recommendations

- 2.1. Mayor and Cabinet are asked to;
- 2.2. Sign the Green Finance Institute's "Local Climate Bond Pledge";
- 2.3. Subject to Full Council approval of the Treasury Management Strategy at its meeting on 23 November 2022, agree the launch of the Lewisham Climate Action Bond;
- 2.4. Delegate to the Executive Director for Corporate Resources the appointment of a Financial Conduct Authority (FCA) regulated loan counterparty and platform provider to launch the Bond;
- 2.5. To note the plan to launch an initial Climate Action Bond for £1m with a 5 year maturity at a rate which will match or undercut PWLB borrowing rates, and delegate to the Executive Director for Corporate Resources to agree the final terms of the bond including value, maturity and rate;
- 2.6. To note the plan to use the proceeds to part fund a package of approved programmes that contribute to a net reduction in carbon emissions in the Borough and delegate to the Executive Director for Corporate Resources, in consultation with the Executive Director for Housing, Regeneration and Public Realm, to amend the schedule of projects if required.

3. Policy Context

- 3.1. The Council launched its Corporate Strategy in 2019, with seven corporate priorities as stated below:

Corporate Priorities

- **Open Lewisham** - Lewisham will be a place where diversity and cultural heritage is recognised as a strength and is celebrated.

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- **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
- **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education, and is given the support they need to keep them safe, well and able to achieve their full potential.
- **Building and inclusive local economy** - Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
- **Delivering and defending health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
- **Making Lewisham greener** - Everyone enjoys our green spaces, and benefits from a healthy environment as we work to protect and improve our local environment.
- **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

Values

3.2. Values are critical to the Council's role as an employer, regulator, and securer of services and steward of public funds. The Council's values shape interactions and behaviours across the organisational hierarchy, between officers, and members, between the council and partners and between the council and citizens. The core values are:

- We put service to the public first.
- We respect all people and all communities.
- We invest in employees.
- We are open, honest, and fair in all we do.

Future Lewisham

3.3. As the Council seeks to support the borough and its businesses and residents through the COVID-19 pandemic and beyond, this recovery is based on the four key themes of Future Lewisham, these are:

- A Greener Lewisham;
- A healthy and well future;
- An economically sound future; and
- A future we all have a part in.

3.4. In 2016, the UK Government ratified the Paris Agreement, part of the United Nations Framework Convention on Climate Change. The Agreement commits countries to take action to prevent the global average temperature increasing 2°C above pre-industrial levels. In 2017 the Government published its Clean Growth Strategy setting out its approach to delivering on its greenhouse gas emission targets and in 2019 the Government passed the Climate Change Act 2008 (2050 Target Amendment) Order 2019 <https://www.legislation.gov.uk/ukdsi/2019/9780111187654> committing the UK to a legally binding target of net zero emissions by 2050.

3.5. A Special Report by the Intergovernmental Panel on Climate Change in October 2018 identified the social, economic and environmental damage a 2°C average rise in global temperatures would be expected to cause. The Report confirmed that limiting this to 1.5 °C would have significant benefits and may

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still be possible with ambitious action from national and sub-national authorities, civil society and the private sector.

- 3.6. On the 11 March 2020 the Council's Climate Emergency Action Plan was agreed and supports the delivery of the Council's commitment of being net zero by 2030.
- 3.7. The launch of Lewisham's Climate Action Bond will directly support the strategic objectives of a greener Lewisham and also further the achievement of the objectives in the Climate Emergency Action Plan.

4. Climate Action Bond (CAB) Explained

- 4.1. A Climate Action Bond is also called a Community Municipal Investment (CMI) and is a bond or loan instrument issued by local authorities directly to the public through an internet crowdfunding platform. It is considered an opportunity to engage with residents to support the net zero carbon strategy and due to the low-cost nature of crowdfunding a CAB can be issued via a proven, low risk, easy to use online process. A CAB will match or even undercut current borrowing rates whilst also providing a competitive 'safe' investment product as the risk of the investment is linked to the wider strength of the local authority.
- 4.2. On the 5 October Mayor and Cabinet recommended that Council approve the mid-year update to the Council's Treasury Management Strategy (approved by Council March 2022), which amended the Treasury Management Strategy to include individuals and others lending via a peer-to-peer platform where appropriate counterparty checks are conducted by the platform and investors in capital market bonds and retail bonds issued by the Council, as approved sources of borrowing. Mayor and Cabinet have previously recommended that Council approve the amendments to the Treasury Management Strategy at the meeting on the 23 November 2022, if approved this will enable the launch of the Lewisham Climate Action Bond.
- 4.3. It is necessary to finance a proportion of the capital programme through borrowing and traditionally the Public Works Loan Board (PWLB) operated on behalf of HM Treasury provides loans to local authorities to support capital expenditure. Whilst the historically low interest rates have started to increase (due to the incredibly high levels of inflation), if the Council were to borrow from the PWLB over a 5 year term the interest rate would be 4.75%. This is the PWLB Certainty Rate which reduces the rate on standard loans (where interest payments are made throughout the loan and the principal borrowed is repaid at maturity) by 0.20%. The Council is eligible for this reduced rate because it shares information on its plans for long-term borrowing and associated capital spending with the PWLB. To ensure the cost to the Council is comparable a CAB will need to match or undercut the PWLB and a CAB could (based on current rates) be launched at 4.00%. This is the PWLB Certainty Rate less fees for arrangement and administration and a margin to undercut the PWLB rate. Note that the rate of 4.00% is for illustration only and is subject to change and should therefore not be relied upon by potential investors.
- 4.4. Investors may find it difficult to secure more favourable returns from other products and some rates are not always guaranteed over the full term and may offer limited tax advantages. Even then the difference is marginal as using a 5 Year Fixed ISA (3.75%) as an example the estimated additional compound interest on £500 over 5 years from the CAB is £7.28. A CAB, like other fixed

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rate products, is expected to be held for the full term however there is a secondary market available where investors can exit an investment early (if there is a willing buyer and value can be agreed), effectively the secondary market is where investors can sell their loan on to someone else wishing to invest part way through the term of the loan. Across all CABs launched to date the average investment was approximately £2,000 and research indicates that local investors invest more on average.

- 4.5. Furthermore evidence shows that there are many reasons why individuals invest in a CAB including but not limited to supporting climate action and supporting their local communities. Investors are also given the option of donating their interest payments to the Council which would reduce the cost of borrowing compared to PWLB.

5. A Lewisham Climate Action Bond (CAB)

- 5.1. A Lewisham CAB delivers a return on investment for investors many of whom may be local. More importantly, it is an opportunity for residents to help tackle the climate emergency and support the Council in delivering a net reduction in carbon emissions in the Borough. Residents who invest will be making a difference in their local area and should feel more engaged.
- 5.2. Similarly for the Council a CAB represents a genuine example of resident-led, democratic finance and could also help the Council to develop long-term relationships with residents. This innovative form of funding should also help to optimise social value and connect and communicate with an even wider audience and promote the net zero carbon strategy.
- 5.3. Following the earlier launches by other Councils the CAB at Lewisham can now be launched as a loan rather than a bond which will result in the benefit of ISA status with its associated tax advantages to some residents. The reason a loan is ISA eligible and not a bond is due to the wording of the Innovative Financing ISA (a new type of ISA for debt crowdfunding products) which states that for bonds the ISA rules define who the issuer is and this does not currently include local authorities whereas the issuer is not specified for loans and it is therefore ISA eligible. The loan option is a more favourable route for the Council and residents and will be comparable to products launched by other local authorities (also expected to be loans).
- 5.4. Investors will be investing for 5 years and whilst a secondary market is available investors should expect to hold the investment for the full term, with interest paid every six months.
- 5.5. The Council will want to use a Financial Conduct Authority registered provider to be the loan counterparty and platform provider for the Climate Action Bond. The rationale for using an FCA regulated company is that these will usually have a governance and risk management framework and hold high levels of regulatory capital to safeguard against risk of failure. The Council will also investigate providers who are B-Corp registered which will mean that they are required to consider the impact of decisions on all stakeholders, including the environment.
- 5.6. The Financial Conduct Authority regulates the UK financial services industry and will review company reports (including quarterly management accounts and audited annual accounts). The Financial Conduct Authority will monitor and investigate firms that breach specific Key Performance Indicators and require that all complaints are resolved within an agreed time. The Council will want to

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ensure that it does not work with any organisations which have been subject to any sanctions by the regulator, nor that there are any customer complaints been reviewed and upheld by the Financial Ombudsman Service. Further due diligence and consideration will be whether the provider has had any claims on professional indemnity insurance and whether there have been any operational errors identified which cause client money or reputational damage.

- 5.7. In choosing an organisation to be the loan counterparty and platform provider the Council will obtain independent treasury advice from its treasury advisors Link Asset Management, who will provide a report on the most appropriate provider.
- 5.8. To date seven other Councils have launched similar bonds and have used Abundance Investment as the investment platform, who are FCA regulated.
- 5.9. In terms of counterparties and platform providers, in addition to being FCA regulated, the Council would also look to appoint a provider who will prepare the offer documents and factsheets for investments and ensure that these are clear that with this type of investment part/all of an investor's capital may be at risk and that investment values can rise and fall. It will also be a requirement that the provider administers the onboarding of new investors (including all Know Your Customer and money laundering checks) and are the first point of contact for queries.
- 5.10. It is expected that the provider will work with officers in the Communications Team to issue regular investor updates including return on investment and performance on specific programmes. It will be incumbent on Council departments including Finance and Communications to help publicise the CAB and administer it once established (including for example investor updates). However, technological advances in crowdfunding mean this is now much less burdensome as it is likely that the Council will be able to connect with investors through the provider platform.
- 5.11. It is intended that the loan counterparty and platform provider will charge an arrangement fee and ongoing management fee which when combined with the interest rate offered to investors in the CAB will be less than the cost of PWLB, thus ensuring that the CAB demonstrates value for money for the Council.
- 5.12. It is intended that the current agreed capital programme be used to source the schemes appropriate for funding via the £1m CAB. Specifically where there are projects in the revised Capital Programme for 2022-27 scheduled to start in 2023 and proposed to be funded by borrowing. The CAB could effectively swap this borrowing out. Schemes felt to warrant consideration which already form part of the committed capital programme include: energy efficiency measures on some of our refurbishment schemes within the corporate estate management programme and cycle hangar and electric vehicle charging point installation that form part of the Council's active travel plan aspirations.
- 5.13. If there are not sufficient or appropriate debt funded schemes in the capital programme the Council could look to fund existing low carbon schemes which did not rely on debt funding (and re-jig the capital programme borrowing), or identify new low carbon schemes and bring these into the capital programme, with approval to the programme obtained in the usual way. Although the impact of this on the wider treasury management would need to be modelled. There may be opportunities to use the CAB to match fund some of the retrofit works to civic buildings that are the subject of a developing bid to the Government's Public Sector Decarbonisation Scheme, which include schools and community centres.

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- 5.14. Mayor and Cabinet are asked to delegate to the Executive Director for Corporate Resources, in consultation with the Executive Director for Housing, Regeneration and Public Realm, to amend the schedule of projects if required
- 5.15. Officers in the Communications Team will work with the appointed provider to develop a communications plan informed by experience of other local authorities who have launched CMI's. The preferred timeline is set out below:
- **November 2022:** sign up to the Green Finance Institute's "Local Climate Bond Pledge";
 - **November – December 2022:** appointment of provider and due diligence;
 - **November – December 2022:** finalise the appropriate low carbon capital projects for funding via the £1m CAB;
 - **November – December 2022:** Communications Team start engagement with businesses and residents;
 - **January 2023 onwards:** work with the provider to agree the final terms of the CAB, the prospectus and communications strategy;
 - **Post January 2023:** launch the Lewisham CAB (exact timing still to be determined)
- 5.16. To date six other local authorities have launched CMI's to date, being: Warrington, West Berkshire, Islington, Camden, Cotswolds, and Telford & Wrekin. A further four councils have signed the Green Finance Institute's "Local Climate Bond Pledge" and are therefore expected to launch their CMI within the next six to twelve months. Lewisham will seek to ensure that it times the launch of its CAB so as not to compete with other London based authorities. Whilst the intention is to generate as much local investment as possible it is understood that for those CMI's already launched the levels of local investment have ranged from 6% - 23% in terms of number of investors who were within the borough.
- 5.17. The Council will also commit to signing the Green Finance Institute's "Local Climate Bond Pledge", part of the Local Climate Bond Campaign which launched in the Summer of 2021 by the Green Finance Institute and Abundance Investment, supported by UK100, Local Partnerships and Innovate UK to raise awareness and support Local Authorities in the issuance of a local climate bond or related municipal finance investment.
- 5.18. In the specific, the Campaign aims to highlight the benefits of local climate bonds, build a community of knowledge sharing, and provide access to green finance and municipal investment experts.

6. Financial implications

- 6.1. If approved by Full Council on the 23 November 2022, the amended Treasury Management Strategy now includes individuals and others lending via a peer-to-peer platform (where appropriate counterparty checks are conducted by the platform), and investors in capital market bonds and retail bonds issued by the Council, as approved sources of borrowing. This approval will enable the Council to launch its Climate Action Bond.
- 6.2. The Council's capital programme is funded from a mixture of grants, capital receipts, reserves and anticipated borrowing. The intention is that existing low

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carbon schemes which would have been funded by PWLB borrowing are instead funded by the Lewisham Climate Action Bond, at a rate less than that of PWLB. This would therefore be slightly less costly for the Council.

- 6.3. If there are not sufficient or appropriate debt funded schemes in the capital programme the Council could look to fund existing low carbon schemes which did not rely on debt funding (and re-align the capital programme borrowing), or identify new low carbon schemes and bring these into the capital programme, with approval to the programme obtained in the usual way. Although the impact of this on the wider treasury management would need to be modelled, it is not expected that the overall cost to the Council would increase.

7. Legal implications

- 7.1. By signing the Local Climate Bond Pledge as recommended, Mayor and Cabinet will be pledging to explore the launch of a Local Climate Bond or related Community Municipal Investment within 18 months of signing the pledge, aiming to raise funding for a specific local net zero project; set and publicly share the target dates for the completion of the project; and provide updates on the measurable positive impacts of the funded project. This is a commitment to explore possibilities, rather than a legally binding commitment to launch a bond or Community Municipal Investment.
- 7.2. Mayor and Cabinet's approval of the launch of the Lewisham Climate Action Bond will be subject to Full Council's approval of the amended Treasury Management Strategy.
- 7.3. The Council has power in principle to borrow as described in this report, relying on the general power of competence in section 1 of the Localism Act 2011 and section 1 of the Local Government Act 2003, which provides an express power to borrow for any purpose relevant to the Council's functions or for the purposes of the prudent management of its financial affairs. Section 12 of the Local Government Act 2003 also gives the Council a power to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs.
- 7.4. In exercising its borrowing and investment powers the Council must show regard to relevant guidance, including the CIPFA codes of practice (Prudential Code for Capital Finance in Local Authorities and Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes). The Council must also have regard to Statutory Guidance issued by the Department of Levelling Up, Housing and Communities (DLUHC) under section 15 of the Local Government Act 2003.
- 7.5. The Council must exercise its powers in accordance with public law principles and in a manner consistent with its fiduciary obligations to local taxpayers. Any financial transaction must therefore be prudent both in regard to the level of risk that the Council is undertaking and in regard to the Council's ability to meet the obligations (e.g. repayment) that might arise in respect of that transaction.
- 7.6. Before exercising the delegated authority to appoint a loan counterparty and platform provider to launch the Bond, the Executive Director for Corporate Resources should obtain advice from Legal Services and any agreements entered into must be approved in advance of commencement by the Director of Law, Governance and Elections.

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8. Equalities implications

- 8.1. There are no negative equalities implications arising from this report. The minimum investment is expected to be circa £5, meaning that this is a very inclusive form of finance and investment opportunity for both individuals and organisations.

9. Climate change and environmental implications

- 9.1. The launch of the Lewisham Climate Action Bond will assist the Council in its ambition for achieving net zero carbon by 2030. It will enable local residents and businesses to invest in schemes that reduce the Council's carbon footprint and improve the environment.

10. Crime and disorder implications

- 10.1. There are no direct crime and disorder implications arising from this report.

11. Health and wellbeing implications

- 11.1. There are no direct health and wellbeing implications arising from this report.

12. Background papers

- 12.1. None

13. Report author and contact

- 13.1. For more information please contact David Austin, Director of Finance, 1st Floor Laurence House, 020 8314 9249, David.Austin@lewisham.gov.uk.
- 13.2. Financial implications: Katharine Nidd, Head of Strategic Finance, Planning and Commercial
- 13.3. Legal implications: Melanie Dawson, Principal Lawyer - Place

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