



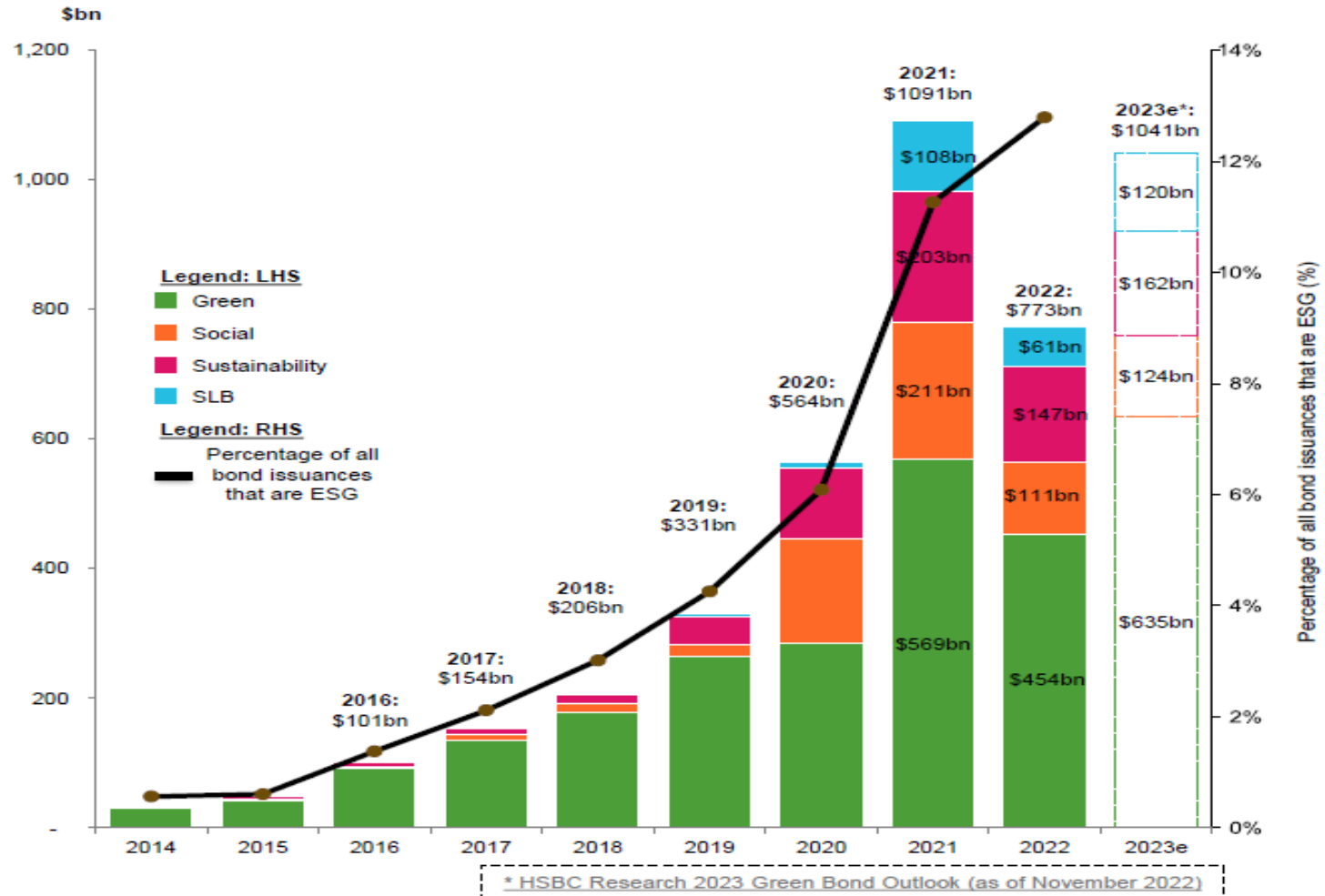
# The UK Municipal Bonds Agency

Financing Net Zero Projects

[ukmba.org](https://ukmba.org)

# Overview of the ESG Funding Market

# Capital Market Funding of ESG Projects



# ESG Projects are the Remit of Local Government

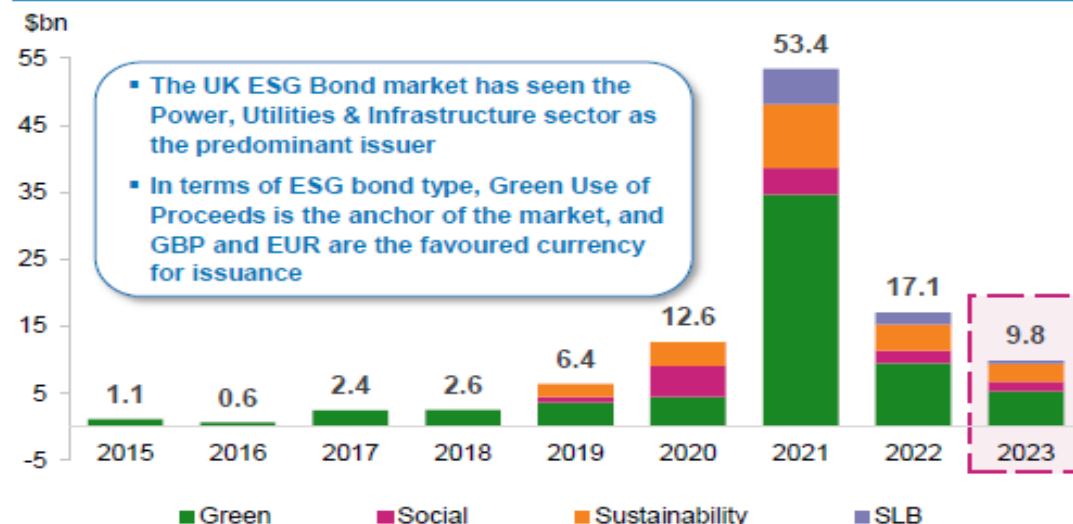
Use of proceeds based				KPI-Linked
Green Bond	Sustainability Bond	Social Bond	Transition Bond	Sustainability-Linked Bond
<ul style="list-style-type: none"> <li>◆ Official ICMA label</li> <li>◆ Proceeds allocated towards environmental projects:               <ul style="list-style-type: none"> <li>✓ Renewable energy</li> <li>✓ Energy efficiency (such as energy storage, smart grids)</li> <li>✓ Pollution prevention and control</li> <li>✓ Environmentally sustainable management of natural resources</li> <li>✓ Terrestrial and aquatic biodiversity conservation</li> <li>✓ Clean transportation</li> <li>✓ Sustainable water and wastewater management</li> <li>✓ Climate change adaptation</li> <li>✓ Eco-efficient products, production technologies and processes</li> <li>✓ Green buildings which meet recognised standards or certifications</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Official ICMA label</li> <li>◆ Proceeds allocated towards to environmental and social projects:               <ul style="list-style-type: none"> <li>✓ Renewable energy</li> <li>✓ Energy efficiency (such as energy storage, smart grids)</li> <li>✓ Pollution prevention and control</li> <li>✓ Environmentally sustainable management of natural resources</li> <li>✓ Terrestrial and aquatic biodiversity conservation</li> <li>✓ Clean transportation</li> <li>✓ Sustainable water and wastewater management</li> <li>✓ Climate change adaptation</li> <li>✓ Eco-efficient products, production technologies and processes</li> <li>✓ Green buildings which meet recognised standards or certifications</li> <li>✓ Carbon, capture and storage (CCS)</li> <li>✓ Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport)</li> <li>✓ Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)</li> <li>✓ Affordable housing</li> <li>✓ Employment generation including through the potential effect of SME financing and microfinance</li> <li>✓ Food security</li> <li>✓ Socioeconomic advancement and empowerment</li> </ul> </li> <li>• Some issuers try to have both environmental and social criteria met in the same project (energy efficient hospitals, for</li> </ul>	<ul style="list-style-type: none"> <li>◆ Official ICMA label</li> <li>◆ Proceeds allocated towards social projects:               <ul style="list-style-type: none"> <li>✓ Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport)</li> <li>✓ Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)</li> <li>✓ Affordable housing</li> <li>✓ Employment generation including through the potential effect of SME financing and microfinance</li> <li>✓ Food security</li> <li>✓ Socioeconomic advancement and empowerment</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Not official ICMA label</li> <li>◆ Bonds proceeds supporting carbon intensive players that are actively decarbonizing but have not yet reached the "greenness" that makes these efforts eligible to green bonds. Examples of projects include:               <ul style="list-style-type: none"> <li>✓ Energy efficiency</li> <li>✓ Carbon, capture and utilization (CCU)</li> <li>✓ Recycled carbon fuels</li> <li>✓ Renewable transport fuels of non-biological origin</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>◆ Official ICMA label</li> <li>◆ Bond characteristics vary depending on whether the issuer achieves predefined Sustainability Performance Targets material to its business               <ul style="list-style-type: none"> <li>◆ Some examples of KPIs are: Scopes 1, 2 and 3 GHG emissions, percentage of waste recycled, percentage of renewable energy in the energy mix, percentage of female representation at leadership level, etc.</li> <li>◆ The market precedent is to include a coupon step up after the trigger date</li> </ul> </li> </ul>



# UK ESG Bond Issuance Update

The UK ESG Bond market has seen the issuance of \$9.8bn eq. ESG-labelled transactions in 2023YTD

## UK ESG Bond Market Evolution (2015-2023YTD)

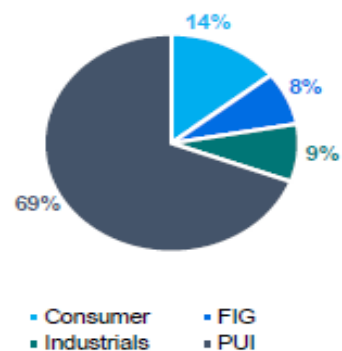


■ The UK ESG Bond market has seen the Power, Utilities & Infrastructure sector as the predominant issuer  
 ■ In terms of ESG bond type, Green Use of Proceeds is the anchor of the market, and GBP and EUR are the favoured currency for issuance

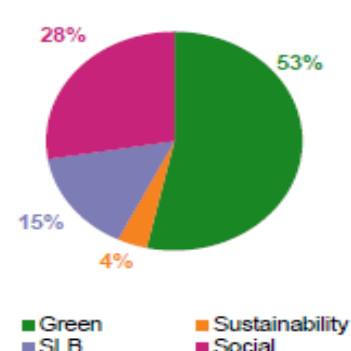
## UK ESG Bond Issuance (2023YTD)

Date	Issuer	Currency	Volume (m)	Coupon	Maturity	ESG
19-Jun-23	United Utilities	GBP	350	5.750	26-Jun-36	Sustainable
13-Jun-23	Anglian Water	GBP	300	5.875	20-Jun-31	Green
13-Jun-23	Aster Group	GBP	350	5.412	20-Dec-32	Sustainable
07-Jun-23	Weir Group	GBP	300	6.875	14-Jun-28	SLB
17-May-23	CO-OP Bank	GBP	200	9.500	24-May-28	Green
30-Mar-23	United Utilities	GBP	300	5.125	6-Oct-38	Sustainable
28-Mar-23	Severn Trent	GBP	400	5.250	4-Apr-36	Sustainable
24-Mar-23	Wessex Water	GBP	300	5.125	31-Oct-32	Sustainable
08-Mar-23	Land Secs	GBP	400	4.875	15-Sep-32	Green
07-Mar-23	Cadent	GBP	300	5.750	14-Mar-34	Green
07-Mar-23	Natwest	EUR	500	4.699	14-Mar-28	Social
21-Feb-23	Yorkshire Water	GBP	250	5.250	28-Apr-30	Sustainable
17-Jan-23	Electricity North West	GBP	425	4.893	24-Nov-32	Green
11-Jan-23	Thames Water	EUR	650	4.000	18-Apr-27	Green
10-Jan-23	Motability	GBP	350	4.875	17-Jul-31	Social
09-Jan-23	National Grid	EUR	750	3.875	16-Jan-29	Green

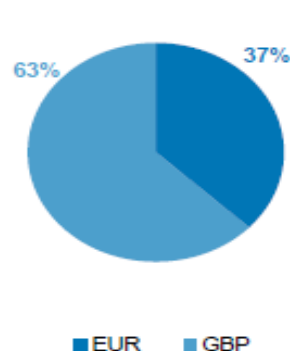
### Sector<sup>(1)</sup>



### ESG Type<sup>(1)</sup>



### Currency<sup>(1)</sup>

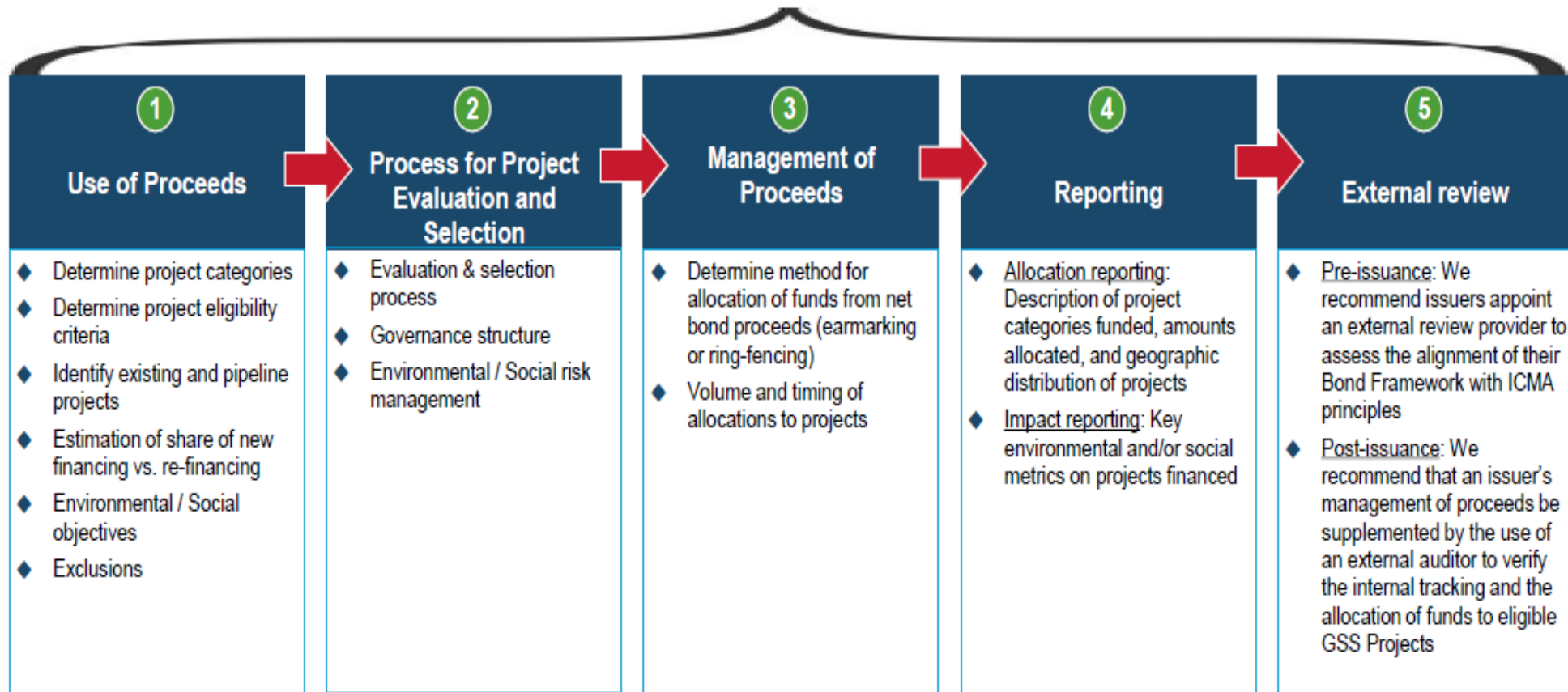


Sources: Barclays, Bond Radar as at June 2023. Note: (1) For 2023YTD.



# Overview of ESG Bond Framework

Issuers should explain alignment of their Use of Proceeds Bond with the five below sections in their publicly available Framework document



Sources:

1. <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>
2. <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Social-Bond-Principles-June-2021-140621.pdf>

<https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-bond-guidelines-sbg/>  
<https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/climate-transition-finance-handbook/>



# Funding Options for Net Zero

# Interim Funding Sources for Net Zero

## Considerations:

- Funding required during project development and procurement?
- No repayment until project in service?
- Flexible repayment required?
- Floating rate available?

## Options:

- Inter-Authority Loans
  - Supply varies with liquidity in the sector
- Commercial Paper
  - One year or less
  - Flexible Repayment
  - May or may not be ESG designated



# Long Term Funding Sources for Net Zero

## Considerations:

- Flexibility in the types of projects funded?
- Is bespoke amortisation available?
- Additional administrative burden?
- Net effective cost of funding

Funding Options	Public ESG Designation	Flexible Amortisation	Funding for All ESG Projects	After Market Reporting
UK Municipal Bonds Agency	●	●	●	●
National Infrastructure Bank		●		●
PWLB			●	
Private Placements		●		●

# Summary

- ◆ There is funding available for Net Zero projects
- ◆ Not all funding sources offer equal benefits
- ◆ Focus on the true net cost of funding
- ◆ Do the research to find the best option for your local authority