



# Midlands Green Bond

UK Municipal Bonds Agency and PWLB  
Midlands Engine Executive Board

October 2023

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

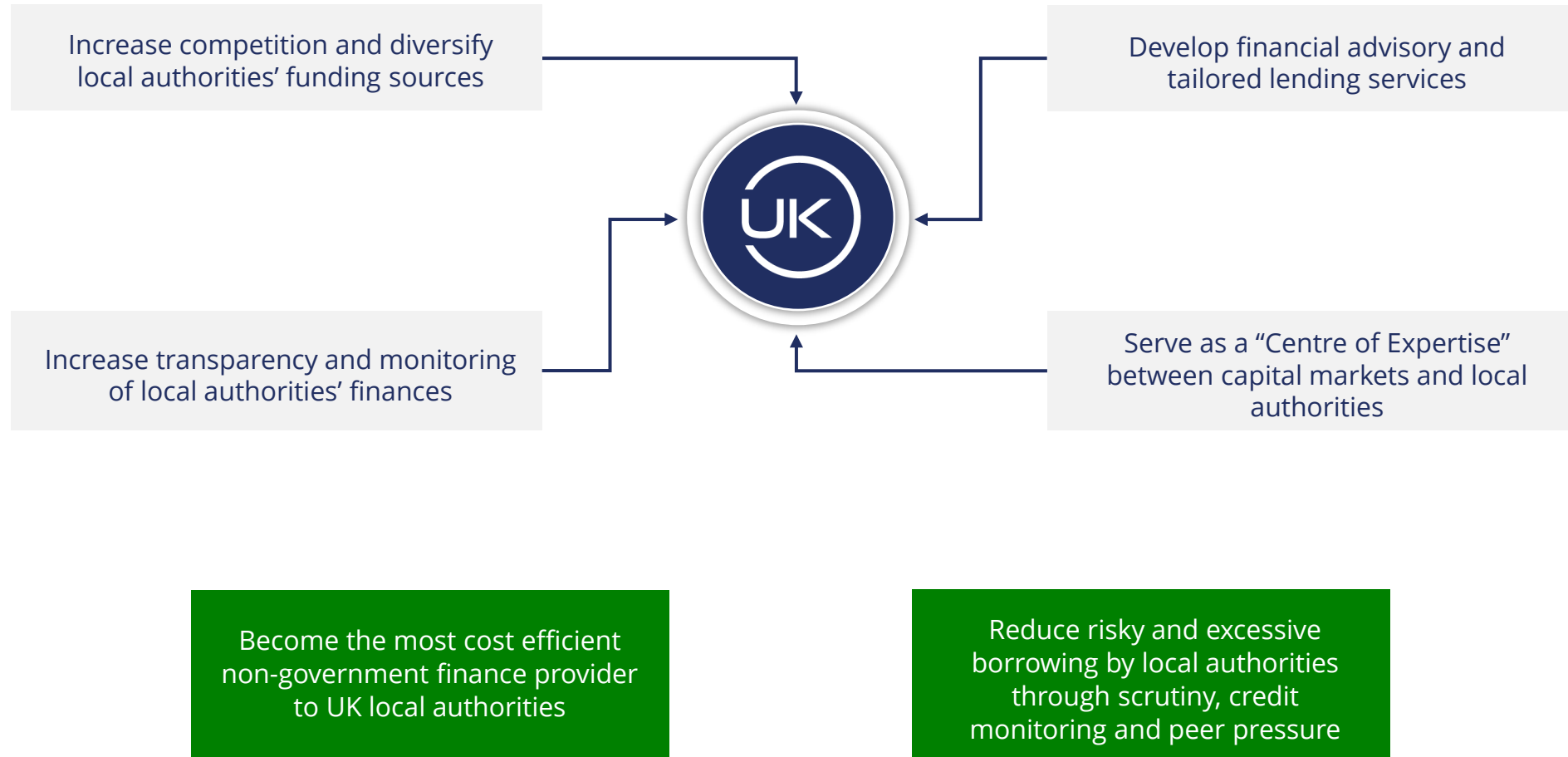
# Agenda

◆ UKMBA

◆ PWLB

UKMBA

# Vision



# Principles

Replicate a proven model for local authority capital finance:

- Owned by local authorities for local authorities
- Local authorities work with the Agency
- Deliver cheaper capital finance and better value for money
- Model has worked well elsewhere e.g. Denmark, Sweden, France

Simplicity at the core:

- Pass-through lending: all loans in Sterling on a back-to-back basis
- Not a financial institution
- Statutory loan security
- Standard documentation

Sound governance, strong credit management:

- Well defined credit scoring model and credit assessment process
- Limited risk appetite focused on councils' funding needs
- Will not finance trading companies, purely commercial investments or joint ventures



# Three Funding Programmes

## The UKMBA provides funding through three lending programmes:

- Proportionally guaranteed, pooled loans of £1 million or more for maturities greater than one year.
- Standalone loans to a single local authority for £250 million or more for maturities greater than one year. These loans are outside of the proportional guarantee and are guaranteed solely by the borrower, who must obtain an external credit rating from one or more of the major credit rating agencies.
- Short term, pooled loans, outside of the proportional guarantee for maturities of less than one year

## The key benefits to local authorities are:

- Savings due to lower interest rates
- Protection from changes to the PWLB's terms and conditions and diversified funding sources
- Fully transparent pricing
- Tailored products to suit local authorities' needs
- Economies of scale thereby reducing costs



# UKMBA's ESG (Green) Framework

## Use of Proceeds

### Green Categories:

- Renewable Energy
- Energy Efficiency
- Green Buildings
- Clean Transportation
- Sustainable Water & Wastewater Management
- Pollution Prevention & Control
- Environmentally Sustainable Management of Living Natural Resources and Land Use
- Climate Change Adaptation

### Social Categories:

- Access to Essential Services – Health / Education
- Affordable Housing
- Employment Generation through SME Financing
- Affordable Basic Infrastructure

## Selection Process

- The local authority wishing to borrow funds will need to complete an information sheet and supply any relevant information to UKMBA
- The UKMBA will assess the information and supporting documents provided (e.g., ESG risk policies, Sustainability practices) to establish if an eligible project is compliant with the criteria as defined in the Framework.
- Final approval of the shortlisted projects and the financing instrument for issue will reside with the UKMBA's Board

## Management of Proceeds

- For standalone financing instruments, the responsibility for monitoring and reporting the use of proceeds will remain with the borrower, who will have to report to the Agency twice a year until the proceeds are spent.
- For pooled financing instruments, the Agency will monitor the use of proceeds by each borrower.
- A two year forward-looking period 3 year lookback period will be applied

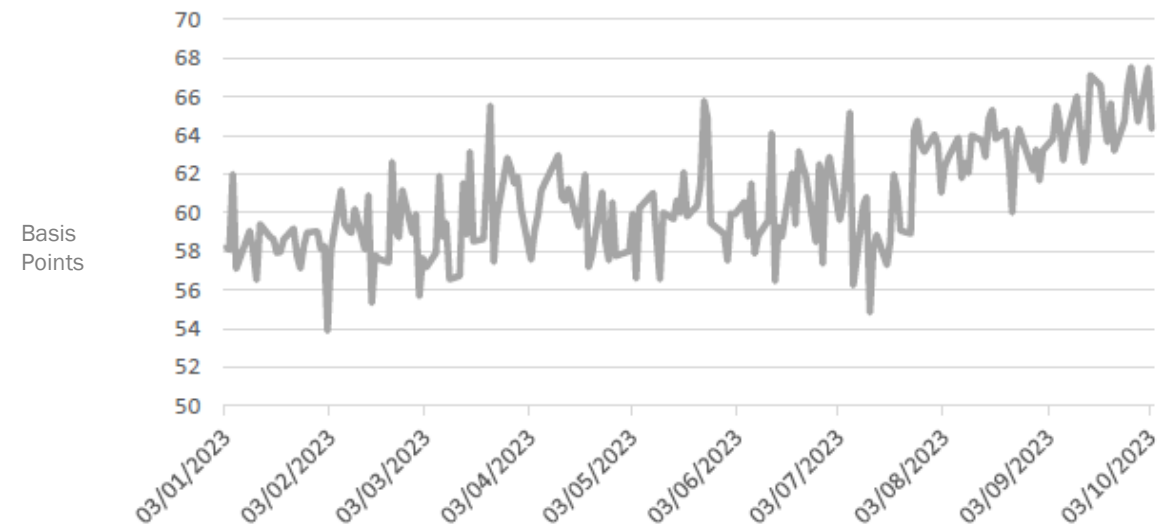
## Reporting and External Review

- UKMBA has committed to report information on allocation on their website twice a year, and in its Sustainable Financing Programme Annual Report
- Where feasible and on an on-going basis, the UKMBA will provide reporting on relevant potential impact metrics for the sustainable projects it funds
- Pre-issuance: Second Party Opinion provided by DNV
- Post issuance verification of the allocation report: To be provided by an independent external auditor

# UKMBA's Shorter Term Bonds Inside PWLB

- UKMBA's / Lancashire's 2025 bond is trading at a spread of less than 0.65 per cent (65 basis points)
- Shorter term UKMBA bonds clearly cheaper than PWLB
- Longer term bonds more mixed across local authorities and across public sector
- Pricing of longer-term bonds affected by perception of S114 Reports

## UKMBA / Lancashire Floating Rate Note Bond Spreads



Source: Bloomberg / Allia CC, 3 October 2023



# Why the UKMBA?

## Benefits to Borrowers:

- Access to cheaper debt finance
- Diverse funding sources
- Greater range of products than the PWLB
- Easier access to complex financing structures
- Standard documents with terms fully contractual – no retrospective penalties or charges
- Greater liquidity in bond markets will drive down bond / loan pricing

## Benefits to Lenders

- Low credit risk for both long-term and short-term lending
- Agency's sector knowledge and credit standards
- Lower brokerage fees
- Greater transparency
- Standard documentation
- Greater liquidity for bond holders

PWLB

# PWLB Lending Programmes

## Three Types of Loan:

- “Maturity” loans: principal repaid at the end (maturity) of the loan; interest payments are constant
- “EIP” loans: principal is repaid in equal instalments throughout the life of the loan; interest payments reduce over time
- “Annuity” loans: repayments constant over life of loan; principal repaid increases and interest paid reduces over time

## Margin:

- Headline rate is 1 per cent over Gilts
- Most authorities borrow at the “Certainty Rate” – 0.8 per cent over Gilts
- But...
  - PWLB calculates its own Gilt curve, so PWLB fixed rates can be over or below those margins
  - Calculation of variable interest rates is not transparent, so can be significantly more expensive or cheaper than the bond markets and margin implies

# PWLB Lending Programmes

## Benefits to Borrowers

- Quick and easy to borrow
- No credit process
- Rate always certain
- Low fees
- Lender of last resort