



# Midlands Green Bond

Feasibility Study and Roadmap  
Midlands Engine Executive Board

October 2023

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

# Agenda

- ◆ **The Prize**
- ◆ **Funding Options and Principles**
- ◆ **Emerging Options**
- ◆ **Discussion and Questions**
- ◆ **Appendix 1 – High Level View of Funding Options**
- ◆ **Appendix 2 – Overview and Remit**

# The Prize

# A Transformational Opportunity

- This is one of the most exciting and ambitious programmes in the UK
- It will deliver substantial environmental benefits
- The Midlands Green Bond will make a very significant contribution to economic growth, job creation, service provision and regeneration across the Midlands
- Lending and outcomes should not be limited to initial use cases:
  - Financing vehicles can fund green projects beyond the initial targets
  - Can be used to deliver other funding i.e. non-green expenditure such as long-term business loans, general local authority borrowing, wider university and NHS funding
  - Can help deliver regeneration and economic development in disadvantaged areas

# Funding Options and Principles

# Leveraging All Funding Sources

- The Midlands Green Bond should draw upon all the funding sources available to it to deliver value for money for each “use case”:
  - UKMBA is set-up to do this e.g. EIB wanted to lend to the UKMBA
  - Different borrowers require different sources of funding over time absent an open-ended guarantee from an infinitely funded guarantor
  - Different borrowers present different credit risks
- Scale likely to come from public capital markets:
  - Greater liquidity (more issuance) delivers lower bond pricing
  - Lending to businesses requires funding at scale
  - Allows widest access to funding at all maturities

# Underlying Principles

- Where multiple sources of funding are utilised to fund a loan, the interest rate will be a “blended rate”:
  - Treats all parties fairly
  - Ensures transparency for all parties
  - PWLB rates set a floor for local authority funding costs
- Ensure rapid delivery of funding where possible – quick wins while delivering solutions to more complex funding needs
- Match funding to borrowing – “asset / liability matching”
- Focus on outcomes

# Green Bond Structuring Features

- Flexibility in the types of projects funded
- Bespoke repayment of amount borrowed
- Level of administrative and reporting burden
- Public recognition of green financing and expenditure

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



# Questions and Issues

# Local Authority and Combined Authority Risk Appetite

## ➤ Willingness to work together

- Some options for each use case require funding
- Local business investment versus regional business investment
- Likely need to compromise on maturity and timing of bonds

## ➤ Financial investment and risks

- Cheaper local authority financing may require a form of cross guarantee e.g. the GLA's Green Financing Fund is underwritten by the GLA
- Willingness to support lending to businesses and other public bodies e.g. funding of vehicle, guarantees, subsidised rates
- Lending to smaller businesses incurs greater costs and requires greater investment than lending to large businesses

# Other Public Bodies and Universities

## ➤ NHS

- DHSC policy and approvals for borrowing
- Does it need a “NHS solution” e.g. development finance?

## ➤ Universities

- Willingness to work together e.g. pooled loans and cross guarantees
- Bond market pricing may not be based on credit quality

## ➤ Do Other Public Bodies Need Funding?

- Transport authorities, development corporations

# Some Questions

- What are the investable propositions for natural capital?
- Would funding for projects in the Midlands Investment Portfolio speed-up delivery? If yes, should this come via local authorities, universities etc?
- How can public schemes with no obvious source of revenue be funded e.g. flood alleviation schemes?
- What are the priorities for lending to businesses e.g. sector or size?
- How to balance regulation, cost, speed of delivery and maximising benefits?
- How to manage credit risks, both lending and borrowing?
- How to ensure best bond and loan pricing?
- Can HM Treasury provide support?
- How to avoid duplication of effort? For example, the British Business Bank provides start-up loans to small businesses

# Questions and Discussion

# Appendix 1 – High Level View of Funding Options

# Local Authorities, Universities and Public Bodies

## ➤ UKMBA:

- Owned by local authorities and LGA
- Has all necessary documentation and infrastructure in place for local authority borrowing
- Could issue a bond within 12 weeks of decision to proceed (local authorities need to approve documentation)
- Can be used for other public sector borrowers
- No cost to establish
- Built to accommodate other sources of funding e.g. UK Infrastructure Bank, private loans

## ➤ UK Infrastructure Bank:

- Provides cheap funding
- Although established for project financing, will fund lending programmes
- Unlikely to fund more than 40 per cent of local authority / public body lending programme
- Could also be accessed for significant schemes

# Local Authorities, Universities and Public Bodies

## ➤ PWLB:

- Can only lend to certain bodies
- Provide a “floor” for loan pricing to local authorities

## ➤ Private Placements and Direct Funding:

- Pricing not competitive to PWLB right now
- Is suitable for some complex or off-balance right sheet schemes, particularly in NHS and universities
- Is suitable for some development schemes in Midlands Investment Portfolio
- Some loan structures not cost effective even if popular



# Private Business

- All options involve some sort of financing vehicle:
  - Needs different financing vehicles and funding sources to solve different issues / target different groups of businesses
  - UKIB and British Business Bank should be able to provide funding for some programmes if structured to suit their programmes
  - Likely to require some more complex financing solutions to fund significant pool of loans; much funding may come from the capital markets
  - Regulation determines the viability of some options
  - Most options will require some equity investment

# Appendix 2 – Feasibility Study Overview and Remit

# Three Potential Uses Set Out in ItQ

## ➤ Public Sector Real Estate

- Major capital projects
- Must meet specific green criteria
- Covers renewable energy infrastructure, “green” buildings etc

## ➤ Private Business Capital Expenditure

- Longer term financing for capital expenditure
- Focused on new “greener” equipment

## ➤ Natural Capital

- Expansion of natural capital, including payments for ecosystem services
- “Investable propositions” – offer a financial return

# Deliverables by December 2023

## ➤ Feasibility Study:

- Market analysis – supply and demand
- Recommendation for structuring the facility, including governance and administration
- Summary plan including high level costings, milestones etc

## ➤ Roadmap:

- More detailed timeline
- More detailed costings
- Recommended role for the Midlands Engine

## ➤ Presentation to partners and stakeholders