Financing Green Growth: the Midlands Green Bond proposal

The scale of investment needed to achieve net zero and grow a green, sustainable economy in the Midlands outstrips that available through public coffers.

At present local authorities typically borrow from the Public Works Loan Board to finance capital projects, often above market rates and without consideration of a local authority's financial health, while businesses have flagged a lack of suitable finance to support activities that lead to decarbonisation, such as upgrading equipment, plant and facilities.

The Midlands Engine is working with partners and PFM to develop a new green finance initiative for the Midlands, one that utilises public sector support to unlock significant, affordable private sector finance.

The Midlands Green Bond will consist of two programmes:

- **The Midlands Green Finance Fund for public sector finance**
- **The Midlands Green Finance Lending Programme for private sector finance**

The Midlands Green Finance Fund will finance not only energy efficient buildings, green places and renewable energy infrastructure, but also electric vehicles and other capital projects with a positive environmental impact. It could also help deliver the green elements of the **£48 billion** of priority investment needs presented in the **Midlands Investment Portfolio.**

The Midlands Green Finance Lending Programme could provide longer term, lower rate loans to businesses seeking to upgrade equipment, plant and buildings, sourcing new renewable energy and more. The Enterprise Research Centre's Business Futures Survey 2020 noted 52% of respondents reported 'reducing environmental impact' as a business priority.

Bonds are a tried and tested mechanism that can have great impact at scale, but also as a mechanism through with pension funds, insurers and other institutional investors can invest in local places.

What is a Green Bond?

A bond is a loan with a fixed end date (maturity) and set repayments that is divided into small pieces that are easily bought and sold. A green bond funds projects that deliver environmental benefits, particularly those tackling climate change.

The **Midlands Green Bond** will fund a collection (pool) of individual loans to different organisations. The bond will be sold via the public capital markets, enabling asset managers, pension funds and insurers to buy the debt and receive a fixed income over a long period of time. The loans are made to organisations rather than against individual projects, but the projects funded by the loans must meet certain green criteria.

> "Only around £10bn of public and private investment in the UK in 2020 went towards low-carbon projects, but the independent Climate Change Committee think this needs to rise to about £50bn per year by the late 2020s – mostly on transport, renewables and buildings – and stay around that level until 2050.
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> **The Institute for Government, 2021, on the UK's Net Zero ambitions.**

Why a Midlands Green Bond?

Pooling finance needs for projects in this way brings with it a number of benefits, some of which collectively lead to cheaper finance:

- **For local authorities and public sector partners**, a new mechanism controlled by the partners working together that delivers cheaper capital finance than the PWLB and complex PPP arrangements.
- **For businesses, access to longer term finance** that is focused on the capital investment needed by a business and the environmental benefits that investment delivers; finance that is currently unavailable to many businesses.
- **Accessing Environmental, Social and Governance investment funds** that increase demand suitable bonds and reflect investors' appetite for "doing the right thing".
- **The opportunity for the private and public sector** in the Midlands to work together to decarbonise and build a greener, more sustainable Midlands while increasing productivity, creating jobs and growing the region's economy.

The future

The capacity developed to deliver the Midlands Green Bond has enormous potential to drive public and public-private sector investment across the Midlands.

Transformative green programmes such as the infrastructure to support the STEP fusion reactor and East Midlands Hydrogen could be supported through the Midlands Green Bond and lending expanded beyond the initial green remit.

The Midlands Investment Portfolio, the Fifity:500 programme, infrastructure upgrades, social housing, hospital redevelopments and major regeneration projects across the region could all be funded through the Midland Green Bond funding vehicle.

Experience abroad, such as North-Rhine Westphalia's NRW.Bank, demonstrate that a public body that spurs economic development can make a significant contribution to improving productivity and reducing unemployment.

Case Study: Transport for London Green Bond
In April 2015, Transport for London (TfL) issued the first ever green by bond from a UK local authority. The proceeds of the £400 million 10-year bond were primarily used to fund station upgrades and capacity increases, with smaller sums for rolling stock energy saving measures and cycle routes.

TfL has continued to maintain its green bond framework and the bond saved considerable sums over the PWLB.

Case Study: US Municipal Bonds
In the USA, municipal bonds (similar in concept to the Midlands Green Finance Fund) are the primary means to fund capital investment. Local authorities often access the public capital markets through regional authorities, where the local borrowers' joint effort streamline the borrowing process and drives economies of scale for the participants. The US municipal bond marke is made up of local governments borrowing for their capital needs and has a current value of US$3.8 trillion.

Case Study: UK Municipal Bonds Agency & Lancashire County Council
The UK Municipal Bonds Agency was set up in 2014 with 56 Local Authorities, representing 62 councils, and the Local Government Association as the shareholder to provide.

The Agency's most significant recent activity was a pair of bond issues worth £600 million for Lancashire County Council. One of the bonds has saved the Council £1.8 million per annum in interest costs.