

## Policy Committee Decision Report

**Title of Report:** Evaluation of Local Climate Bonds (LCBs) for financing climate projects

**Date of Decision:** 11/12/2024

**Report To:** Strategy and Resources Policy Committee

**Report Of:** Wil Stewart / Philip Gregory

**Report Author:** Mark Whitworth / Leila Gunnewicht / Richard Hallam

### Executive Summary:

A motion was passed at Full Council in February 2024 asking Officers to explore Local Climate Bonds (LCBs). This report has been developed in response to this and outlines what LCBs are, their potential for supporting citizen engagement and how they could contribute to climate action in Sheffield. For a Local Climate Bond to be issued, our Treasury Management Strategy will have to be amended to enable the Council to raise funds from the public. Members are recommended to support this alongside signing a Local Climate Bond Pledge. If agreed, Officers will then develop a bond proposal and seek full approval from Committee to launch a 'Sheffield climate bond' in 2025.



### **Council Plan outcomes:**

[Great neighbourhoods that people are happy to call home](#)

[A city on the move – growing, connected and sustainable](#)

### **Policy Committee remit:**

This report is to be considered by the Strategy and Resources Policy Committee as although its remit includes Council finance, it is also crosscutting and will impact many areas across the Council. As mentioned in the committee remit document, Strategy and Resources Policy committee have “Responsibility for any issue identified as being of significant strategic importance or financial risk to the Council (which is considered to be by its nature cross-cutting)” [Part 3C - 3.3 Matters Delegated to Committees May 2024.pdf \(sheffield.gov.uk\)](#)”

### **Does the report contain confidential or exempt information?**

No

## Recommendations:

### It is recommended that the Strategy and Resources Policy Committee:

1. Agree to updating the Treasury Management Strategy to include Local Climate Bonds, to enable the Council to raise funds from the public.
2. Agree to sign the Green Finance Institute Local Climate Bond pledge,
3. Agree to Officers developing a Local Climate Bond (LCB) issuance proposal, including a Green Finance Framework and that Officers will seek full approval from the Strategy and Resources Policy Committee to launch a 'Sheffield climate bond' in 2025.

**Financial Implications:** Yes [Approved by: Jane Wilby]

**Legal Implications:** Yes [Approved by: Gemma Beecroft]

**Equality and Inclusion Implications:** Yes [Approved by: Ed Sexton]  
[Initial Equalities Impact Assessment completed with EIA number: 2847]

**Climate Change Implications:** Yes [Approved by: Leila Gunnewicht]

**Background Papers:** Appendix 1: Options Appraisal

**Appendices:** [GFI-LOCAL-CLIMATE-BOND-TOOLKIT\\_public.pdf](#)

## **1. Background to the issue**

### **1.1 Tackling the climate emergency in Sheffield**

- 1.2 The UK Government's Climate Change Committee has estimated that between £50-60 billion of investment per year will be required to enable the UK to meet net zero by 2050. It is widely acknowledged that public funding will not be sufficient to cover this, and that a large proportion of this investment will be raised from the private sector as well as from other sources, such as community investors. Local Climate Bonds are one approach which can help provide a blend of borrowing that can support climate action.
- 1.3 The 10 Point Plan for Climate Action, agreed by the Cooperative Executive in March 2022, included a commitment that the Council will be proactive in finding ways to resource the action that is needed (to support climate action). One of the approaches outlined was that we would be creative and ambitious in our approach to investment, including exploring innovation financing instruments.
- 1.4 These alternative routes include working with the Government's National Wealth Fund (formally UK Infrastructure Bank) and UK Cities Commission on Climate Investment (3Ci) to explore other potential funding and investment opportunities, as well as more traditional routes such as conventional borrowing. It has been shown that £4 of private capital has been created for every £1 of public funding invested.
- 1.5 In addition to raising private capital there are also opportunities to raise funding from other community-based investors, including local residents. Such approaches can provide local people with an opportunity to invest into local decarbonisation and climate programmes, through financial instruments that are often referred to as 'green bonds', or more specifically Local Climate Bonds (LCBs).
- 1.6 At Full Council in February 2024, a Motion on the five-year anniversary of the declaration of the climate emergency included a request for the Strategy and Resources Policy Committee to consider adding to its work programme as a matter of urgency, investigation of the practicalities of issuing Green Bonds to raise extra funding to support climate action.
- 1.7 This report has been produced in response to this motion, and the growing demand from local community groups and members of the public. The report evaluates the potential use of green bonds, more specifically Local Climate Bonds as a funding mechanism for the delivery of climate-related projects in Sheffield.

### **1.8 Local Climate Bonds**

- 1.8.1 Local Climate Bonds are municipal investments that allow local citizens to invest directly in climate initiatives within their communities. They provide a

low-risk, low-return financial product, but their true value lies in fostering community engagement and contributing to climate action.

- 1.8.2 Local Climate Bonds, also known as Community Municipal Investments (CMIs) were first launched by West Berkshire Council and Warrington Borough Council in 2020 with help from the Green Finance Institute (GFI).
- 1.8.3 The GFI was established in 2019 as a direct response to a policy recommendation made by the Green Finance Taskforce to the UK Government in March 2018. The Institute is an independent, commercially focused organisation backed by the Government but led by experienced bankers. The GFI works with finance practitioners, policymakers, business innovators, academics and non-profit professionals to identify the required policy, technology and financial pathways that will enable the transition to a green economy. The GFI offer support and guidance throughout the issuance process, whilst Abundance Investments handle the investment administration for the loan and support with marketing the investment.
- 1.8.4 Abundance Investment Ltd is a Financial Conduct Authority regulated investment crowdfunding platform. It specialises in enabling the public to invest in and finance the development of low carbon and social infrastructure projects, both within the commercial and public sector. Abundance Investment is a founding member of the UK Crowdfunding Association (UKCFA) and has pioneered the development of public sector investment crowdfunding within the UK. They are the only company in the UK regulated by the Financial Conduct Authority (FCA), to deliver LCBs.
- 1.8.5 Local Climate Bonds offer a tested approach for financing climate projects while engaging local citizens and diversifying financial strategies. To date, fourteen LCBs have been issued by twelve pioneering Councils, raising almost £1 million on each 'issuance' for local climate projects such as renewable energy installations and energy efficiency improvements. Bonds remain accessible to local businesses and residents with the minimum amount investable being £5.
- 1.8.6 The maximum funding secured in one raise by any Council to date has been £1m. However, the model is moving toward larger sums of investment, launched in tranches. This allows awareness to be built over an extended period, developing a community of investors and a portfolio of projects that can successfully secure funding.

## **2. Proposal**

- 2.1 This report proposes that officers develop a project suitable for delivery with funds raised through an LCB and return to committee to launch a 'Sheffield Climate Bond' in 2025.

- 2.2 For LCBs to be issued, the Treasury Management Strategy will need to be amended to enable the Council to raise funds from the public. This report recommends that the Treasury Management Strategy is amended in early 2025, as part of the annual budget process.
- 2.3 This report also recommends that the Council signs the Green Finance Institute Local Climate Bond pledge, which will indicate the start of the LCB issuance process and commits the Council to funding a project or climate programme via this route. This will be the start of the Council's communication of issuing a LCB to the public.
- 2.4 Once the recommendations have been agreed, a Green Finance Framework (based on the Green Loan Principles) will be developed. This assures investors that funds raised can only be used to help deliver on eligible green projects from within this framework, and Abundance will monitor the use of funds across the investment term to ensure the principles are being adhered to.

## 2.5 The Local Climate Pledge

2.5.1 The GFI have set out a 'Pledge', which is a tool that can hold the Council to account. The Pledge is not a legally binding document and is primarily used as a communication and engagement tool. Once this is signed, the Pledge commits the Council to:

- Explore the launch of LCBs within 18 months, with an aim to raise funding for a specific local net-zero project.
- Set and share publicly the target date for completion of the project.
- Provide public updates on the measurable positive impacts.

2.5.2 The pledge presents an initial opportunity to raise awareness about the Council issuing an LCB. It serves as a powerful communications tool in developing investor appetite in the run up to formally launching the LCB offering.

## 3 Options Appraisal

3.5 Comparisons have been made for LCB issuance against prudential borrowing. More detail on this is shown in Appendix 1.

### 3.6 Option 1: Local Climate Bond

3.6.1 LCBs are structured to be cost-effective for local authorities, with the cost of capital generally lower than traditional financing mechanisms like the Public Works Loan Board (PWLB), averaging 17 basis points below the regular rate of borrowing. However, these savings are negligible when taking into account the work required to administer the bond and report to bond holders.

3.6.2 Whilst the options appraisal shows that although LCBs are riskier and require more up front work than prudential borrowing methods, the social value and engagement benefits they offer present a valuable

opportunity in engaging with residents and encouraging action from communities.

### **3.7 Option 2: Business as Usual (BAU)**

3.7.1 Finance Climate initiatives through the normal Capital Programme with borrowing taken for the Capital Financing Requirement (CFR) as a whole. Appendix 1 highlights the merits of financing via this method. This is simple and the most cost-effective way for Councils to manage their capital programme. Financing through the CFR method allows the Council to delay borrowing which is desirable in a falling interest rate environment. For a climate capital programme, although an effective route for borrowing, this does not offer the same benefits in terms of engagement with citizens to help finance local climate initiatives.

### **3.8 Conclusion**

- 3.8.1 Local Climate Bonds present a valuable, cost-effective financing tool for local authorities to invest in climate projects, engage citizens, and diversify their funding strategies.
- 3.8.2 Although challenges exist, particularly regarding the (limited) scale of capital raised and administrative costs, the benefits of community engagement and local economic impact make LCBs an attractive option for Councils aiming to meet their climate commitments.
- 3.8.3 A 'blended' approach can be used to fund projects on the capital programme, with a portion of the funds coming from LCBs and the rest through traditional borrowing methods.
- 3.8.4 Agreeing to the recommendations in this report is a pre-requisite for Officers to bring this back to committee with a developed proposal for a project to fund through an LCB. For this to proceed, Members are requested to approve an update the Treasury Management Strategy, which will enable an LCB to be issued.
- 3.8.5 Members are also asked to agree on a way forward and to sign 'The Pledge', which, although not legally binding, will hold the Council to account and shows commitment.
- 3.8.6 The UK's first two LCBs demonstrate that they can begin to improve attitudes towards the Council amongst local people. Attitudes improved markedly as residents were introduced to local Net Zero strategies and to LCBs as a simple, low-risk solution that they could participate in.

## **4 How does this decision contribute to the Council Plan?**

### **4.5 Council Plan outcome**

- 4.5.1 'City on the Move' - Through the ambition to become a leading city in the journey to a net zero, climate resilient future.
- 4.5.2 'Caring, engaged communities' - The issuing of an LCB is a great opportunity to involve communities in a just transition to net zero.

### **4.6 People – Prosperity – Planet**

- 4.6.1 People – This is an opportunity to connect with the people of Sheffield and collaborate with them in bringing forward a positive scheme that will benefit the planet and the wider community.
- 4.6.2 Prosperity – This innovative way of funding climate related projects will contribute to our collective prosperity. Through exploring alternatives and doing things differently, the Council will deliver sustainable growth that will benefit both our communities and the planet.
- 4.6.3 Planet – LCBs offer an opportunity to fund projects which will contribute to our ambition of being net-zero by 2030, whilst also raising awareness across the city about the need for decarbonisation.

## **5. What community or partner engagement has been undertaken and how has it informed the proposal?**

- 5.1 Although no formal consultation has taken place for this report, a motion was passed at full Council in February 2024 asking for local climate bonds to be explored as an option to funding decarbonisation projects.
- 5.2 Community groups and members of the public have also expressed an interest in this option being explored. LCBs provide an avenue for residents to participate in the funding of climate initiatives that directly impact their community. This creates a sense of ownership and accountability, promoting broader public support for local climate action. Engaging citizens through LCBs strengthens trust, transparency, and the link between local authorities and their communities.
- 5.3 A formal consultation process will begin once this report has been approved by committee. Work will be done to identify a suitable project to be funded through climate bonds, and a full consultation will be done to mitigate any equality issues and ensure the bond and project is delivered equitably.
- 5.4 Equality impacts are not anticipated to be significant at this stage. This report purely seeks approval from committee to go forward with identifying a project and issuing a climate bond. More in depth consultation and



engagement will need to be done to better establish what residents want from a scheme funded in this way.

## **6. What alternative options did we consider?**

- 6.1 As mentioned in section 3, the alternative option is not to proceed issuing a climate bond, and to continue funding projects through prudential borrowing methods.
- 6.2 This option, however, means missed opportunities for engaging with residents, and building an open dialogue with communities about climate action.

## **7. How has equality, diversity and inclusion been actively considered?**

- 7.1 As part of this proposal an Initial EIA was carried out. It was deemed appropriate to carry out an initial assessment rather than a full assessment due to the limited impacts at this stage.
- 7.2 The initial assessment found that the project is expected to have an overall positive impact on communities, however the mechanism of LCBs means that investors may not be from a diverse background and therefore may feel excluded from the projects funded through this.
- 7.3 A formal consultation process will begin once this report has been approved by committee and a way forward has been established. Work will be done to identify a suitable project to be funded through climate bonds, at this stage a Full EIA will be carried out and a full consultation will be done to mitigate any equality issues and ensure the bond and project is delivered equitably.

## **8 Financial and Commercial Implications**

### **8.1 Scalability**

- 8.1.1 While LCBs have proven successful in 12 Councils, mobilising over £10 million in total, or just under a million per Council. They may not be sufficient to fund large-scale infrastructure projects. Larger investments, such as extensive flood defences or mass transit systems, would require additional or alternative funding sources.
- 8.1.2 Long-Term Impact – Current LCBs are structured with short-term tenors of up to 5 years. While suitable for immediate climate action projects, these bonds may not address longer-term infrastructure needs. Plans to extend LCB tenors to 10-25 years are in development, which could help Councils address more complex, large-scale projects.

### **8.2 Financial limitations**



- 8.2.1 Projects financed through LCBs need to be existing projects on the capital programme, therefore, these bonds do not offer additional funding to fund projects that would not be funded otherwise, only an alternative funding source to fund projects that would be going ahead already.
- 8.2.2 Additional resource will be required to develop the investment proposal and manage the issuance, dependent upon the type of proposal that is pursued. This will be considered in further detail should the Strategy and Resources Policy Committee approve the recommendations to proceed.

### **8.3 Risk**

- 8.3.1 Investor Risk Perception – Although the financial risk to investors is relatively low, as the bonds are backed by the creditworthiness of the local authority, clear communication is needed to manage expectations. The bonds offer a lower return compared to other investment products, and the Council must ensure transparency about the non-financial returns of the investment (i.e., climate and community benefits).
- 8.3.2 There is a possibility that Abundance Investment could fail. Abundance is regulated by the Financial Conduct Authority (FCA) and so it must demonstrate how it ensures investments are administered to their full term and limits any impact to investors. This includes holding an amount of capital in reserve and a full wind down plan to manage the orderly closing of its business. Abundance Investment have also contracted a backup service provider should they be unable to conduct an orderly wind down for itself.
- 8.3.3 A significant advantage of CMLs is an innovative approach to risk. Investors who purchase the bond take local government risk, not project risk. Capital is at risk based on the Council's ability to raise its taxes and the likelihood the Council ceases to exist during the term of investment. Investors do not assume the risk that a given infrastructure project fails.
- 8.3.4 Due to the public facing nature of LCBs, there is a risk that if the project is delivered poorly, the reputation of the Council could be affected. It is vital that due diligence is taken to ensure a good quality and attractive project is selected, and sufficient resources are allocated.

### **8.4 Opportunities**

- 8.4.1 Investors have the option to donate part or all of their interest returns back to the Council, further reducing the effective cost of borrowing and allowing the possibility of contributing towards harder to fund decarbonisation projects.
- 8.4.2 Local Economic Impact - The funds raised through LCBs are dedicated to environmental and social impact projects, generating benefits for the local economy while supporting local and national net-zero goals. These projects, such as green infrastructure developments, not only mitigate climate change but can also stimulate local job creation and economic growth.

## 9 Legal Implications

- 9.1 Under the Climate Change Act 2008, the UK has a target to reduce emissions by 2050. The Council also have a climate change plan to get to Net Zero by 2030.
- 9.2 The Council has a general power under Section 1 of the Localism Act 2011 to do anything that an individual may generally do, provided it is not prohibited by other legislation and the power is exercised in accordance with the limitations specified in the Act. This enables the Council to implement the recommendations outlined in this report.
- 9.3 As detailed within the report, if the recommendations are approved then the Council will sign up to the Local Climate Pledge. The Local Climate Pledge provides the Councils commitment to exploring the launch of a Local Climate Bond.
- 9.4 If the recommendations are approved, and following the signing of the Local Climate Pledge, a Local Climate Bond (LCB) issuance proposal, including a Green Finance Framework (based on the Green Loan Principles) will be developed. This is a voluntary standard which sets out how the Council intends to manage its green local authority securities in the future. There are four parts to this framework:
  - 1. Use of Proceeds – This should detail where funds are to be used.
  - 2. Process for Project Evaluation and Selection – the Council should clearly communicate the environmental sustainability objectives of the project with investors
  - 3. Management of Proceeds – the proceeds of an LCB should be credited to a dedicated account or tracked by the Council to maintain transparency.
  - 4. Reporting – the Council should make, and keep, readily available up to date information on the use of proceeds.
- 9.5 Approval will be sought from the Strategy and Resources Committee on the proposals outlined above prior to launching a 'Sheffield climate bond'.

## 10 Climate and Environmental Implications

- 10.1 This proposal is expected to contribute positively to the Council's climate and environment commitments due to the nature of the projects the bond will likely fund, and the opportunity for community engagement and awareness raising around climate issues.
- 10.2 As it is unclear what the nature of the project funded through bonds will be, it is difficult at this stage to pinpoint the exact impact the project will have on emissions or biodiversity. Therefore, a CIA has not been conducted since it is unknown what the LCB may fund, and this will determine the impact on the climate.
- 10.3 A rapid assessment has been completed but this will be revisited once more detail is known about the nature of the project.

## 11 Reasons for decision

- 11.1 Evaluation has been undertaken to compare LCBs to other forms of borrowing, this has demonstrated that under certain circumstances LCBs can be more cost effective than typical borrowing methods, however the real value of LCBs lies with the engagement opportunity with communities.
- 11.2 Research has been conducted into other Councils who have delivered successful LCBs, and learning from them has been valuable in developing this proposal and allows for a more informed decision to be made.
- 11.3 Engagement – LCBs offers communities an opportunity to engage and participate in a wider approach whilst contributing to climate solutions.
- 11.4 There has been growing demand from local community groups and members of the public for the Council to issue an LCB. This report responds to this demand by providing an overview to allow Members to make an informed decision about how to proceed.