
LOCAL CLIMATE BOND TOOLKIT


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Section

01

Local Climate Bonds

82% of UK emissions fall within the scope of influence of local authorities¹. To date, over 300 councils in the UK have declared a climate emergency and share the responsibility of transitioning to net zero. However, with traditional borrowing mechanisms under strain, many councils are seeing shortfalls in funding for core services. Consequently, councils must adopt innovative financing models and a long-term view on their financing strategy to ensure that net-zero solutions remain a priority.

Responding to the challenges of net-zero, **Local Climate Bonds (LCBs), also known as Community Municipal Investments, offer councils a simple, proven, and cost-effective financing mechanism** to raise and deploy private finance for local decarbonisation projects.

LCBs were developed by Abundance Investment Ltd² (Abundance) in 2020 and enable councils to gain long-term access to low-cost funding through crowding in private investment from citizen investors, a new and untapped source of capital. By issuing an LCB, a council can tangibly demonstrate their work towards net-zero and strengthen their engagement with the communities they serve.

The Office for National Statistics (ONS) estimates that on average every 100,000 people in the UK hold £4 billion of savings and investments, and much of this wealth flows out of our communities. Redirecting even a small proportion of this wealth towards the low-risk return profile of an LCB could unlock hundreds of millions of pounds of borrowing within a typical council's area. LCBs are adaptable and can evolve to convene even greater amounts of capital from diverse sources as the market matures.

At the time of publishing, 8 pioneering councils from across the UK have issued an LCB through Abundance Investment. This has amounted to over £6 million of private capital mobilised towards local green projects focused on decarbonisation and community prosperity. As more councils forge new relationships with their communities, a programme of successive LCB issuances has the potential to unlock significant capital for local net-zero projects.

The Green Finance Institute (GFI) is the UK's principal forum for innovative green finance, uniquely positioned at the nexus of the public and private sectors, and committed to the long-term development of the LCB market. Our Toolkit aims to provide local authorities with a succinct source of information on Local Climate Bonds, outlining the optimal issuance process and tackling common misconceptions about LCBs.



8 pioneering councils from across the UK have issued an LCB

£6 million

Over £6 million has been raised for local green projects



Investors



Almost 2,000 investors have participated in an LCB



If your council would like to learn more about issuing an LCB, please contact the Green Finance Institute at localclimatebond@gfi.green

¹ Net Zero Strategy: Build Back Greener

² Abundance Investment Ltd is currently the UK's only FCA regulated ethical crowdfunding platform that provide UK councils with innovative green finance products. Click here for more information on Abundance. Other crowdfunding platforms are expected to follow as the LCB market matures.

Section

02

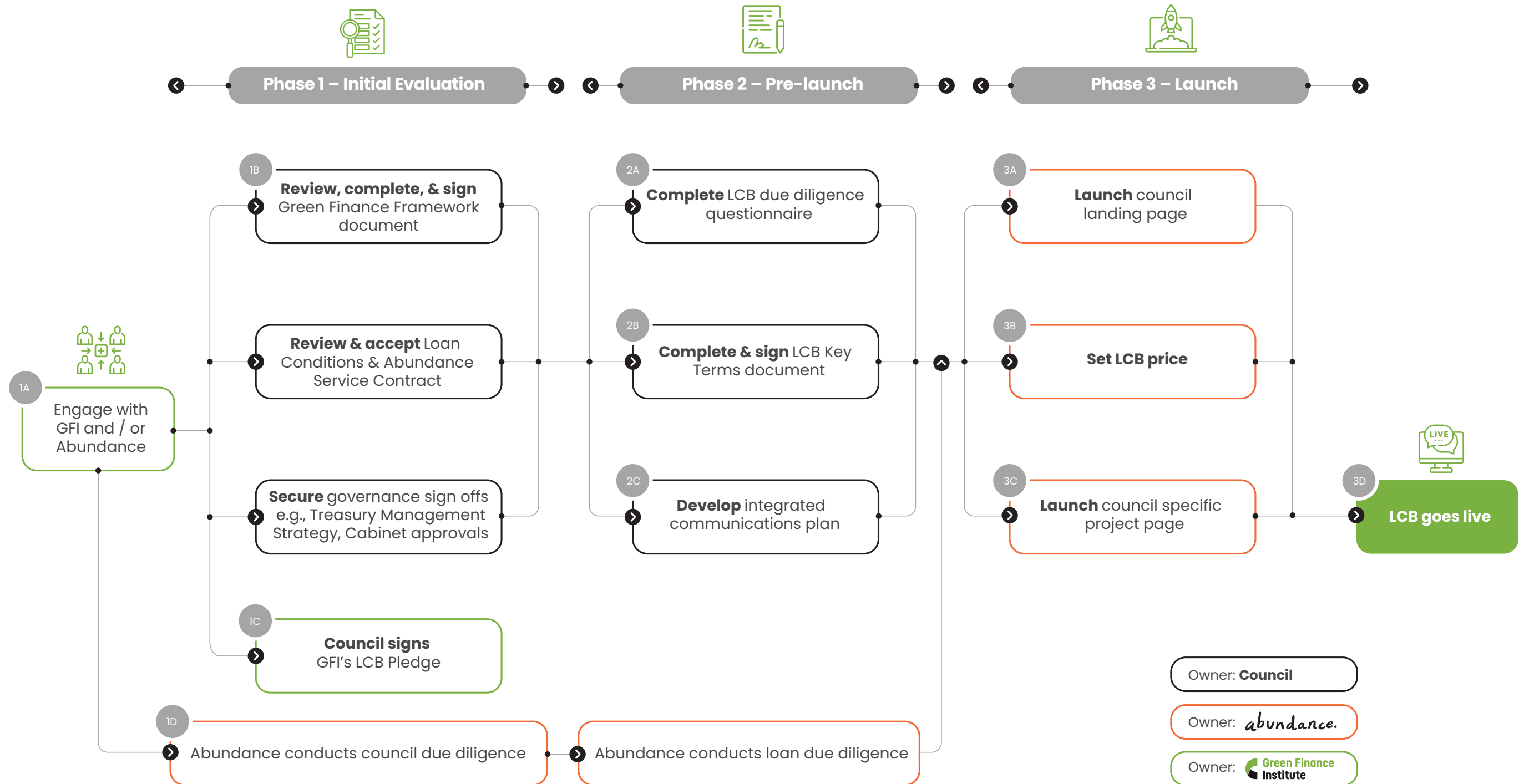
The optimal LCB issuance process

The process to launch a Local Climate Bond is now streamlined and simple, following iterative improvements to the issuance process and the introduction of standardised documentation. The issuance process happens in three key phases:

- initial evaluation,
- pre-launch, and
- launching the LCB to the market.

Each phase of the process is designed to integrate into the council’s normal borrowing practices and communication activities. Abundance Investment, who pioneered the development of LCBs, guides councils throughout the process to ensure an efficient and successful fund raise.

Issuance process overview





Phase 1 – Initial Evaluation

- 1A:** Phase 1 commences with an initial engagement call between the council and the GFI and/or Abundance. The concept of an LCB will be explained in detail, including an overview of the issuance process and previous LCB issuances. This typically requires one or two meetings, with participants including senior members from both the council's finance and sustainability teams.
- 1B:** The council completes and signs off on the Green Finance Framework document, reviews and accepts the Loan Conditions and the Abundance Service Contract documents, and secures internal governance sign offs – which is primarily updating the Treasury Management Strategy to include LCBs and raising funds from the public. These processes are completed by the council using the templated documentation provided by Abundance. Abundance provides guidance and support throughout this phase of preparation. Input is required from the council's finance and sustainability teams, as well as sign off from the council's Cabinet.

- 1C:** In parallel to the template documentation, the council has the opportunity to sign the GFI's LCB Pledge. Signatories from cabinet members for finance and/or sustainability and climate can use the pledge to demonstrate cross-organisation support for the LCB issuance.
- 1D:** Meanwhile, Abundance Investment will begin their council due diligence process to check that the council can borrow and is on a solid financial footing.



Phase 2 – Pre-launch

- 2A:** The council must complete a due diligence questionnaire, which has been designed to mirror the questions required for Public Works Loan Board (PWLB) borrowing and is primarily based on declarations. This questionnaire enables Abundance to conduct their due diligence on the council.
- 2B:** The council must complete and sign off on the key terms of the LCB issuance. This is a templated document gathering key information about the LCB offer, including the use of proceeds of the funds raised.
- 2C:** The council's comms team develop a communications plan, including a strategy for pre-, mid-, and post-raise communications, key messages, and marketing collateral. Abundance will provide the council with a communications handbook, which details the key steps in preparing and delivering the council's communications plan.

The GFI has a dedicated communications team that can help advise on the council's communication plan and amplify digital messaging via the GFI's own channels.



Phase 3 – Launch

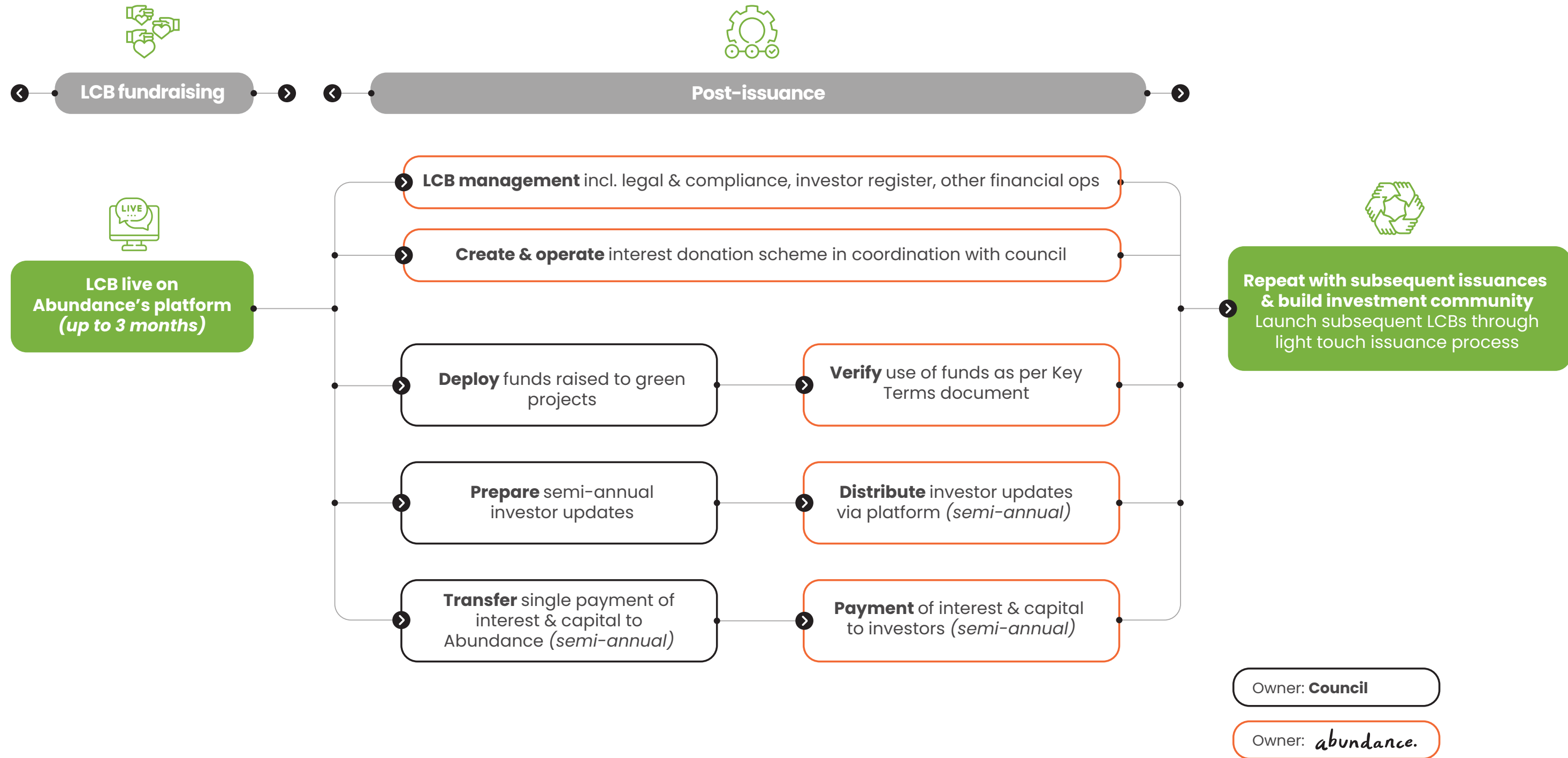
- 3A:** Abundance will publish a landing page, which is the first page that residents and investors land on when directed from the council’s website or relevant communications. The landing page introduces investors to the LCB and describes Abundance’s role in delivering it.
- 3B:** The LCB interest rate is established up to two working days before the LCB is formally launched. The total cost of capital for the council (i.e. interest rate paid plus fees) will be less than or match the PWLB Certainty Rate.
- 3C:** Abundance launches the council project page on the Abundance platform. This page introduces investors to the council and is the start of the investment journey for investors.
- 3D:** The council’s LCB offering formally launches on the Abundance platform. Simultaneously, the council’s launch-specific communications are activated to raise awareness among local citizens.

Once the council’s LCB is formally launched, the investment window will be live on Abundance’s platform for up to 3 months. After the offer closes, Abundance provides the council with comprehensive administration of the LCB, including:

- Know Your Customer checks on investors,
- Safeguarding investor deposits,
- Establishing and maintaining the investor register,
- Processing interest and capital repayments and providing investor updates,
- Providing assurances that the process and use of funds complies with the Green Bond/Loan Principles.

Interest and capital payments are made semi-annually. The council makes a single payment of interest and capital to Abundance’s client money account, which Abundance distributes to the underlying investors. Abundance’s systems automatically generate a reminder for the council prior to the payment date, including the amount of interest and capital due.

Post-issuance process overview



The first issuance of an LCB may be more resource intensive than traditional PWLB borrowing, however the process becomes increasingly streamlined and simple to replicate for subsequent issuances. Subsequent issuances require a similar level of work to PWLB and light touch due diligence, to confirm there are no material changes impacting the council's net-zero strategy or financial standing. Commencing on the LCB journey is an upfront investment for councils, who benefit from long-term access to low-cost funding over the long term by building a community of local investors. Abundance and the GFI provide support throughout the process.

Councils that have previously issued an LCB have found that an integrated communications plan has delivered a consistent inflow of investment throughout the raise window. The communications plan is co-designed with Abundance Investment, with strategic support from the GFI. The essence of the integrated communications plan is to raise awareness among local residents and the investor community across multiple digital channels.



The GFI's Local Climate Bond pledge publicly communicates the authority's intention to issue an LCB within 18-months of signing. Although non-binding, the Pledge encourages councils to commit to raising funds for specific local net-zero project(s), set and share the target completion dates of the project(s), and provide public updates on the measurable positive impacts³. The Pledge is a useful tool for councils in demonstrating leadership and engaging with residents on the authority's climate action plans. It also serves as a powerful communications tool in developing investor appetite in the run up to formally launching the LCB offering. The GFI team can work closely with the council to support and amplify the delivery of an effective media plan, centred on the LCB Pledge.

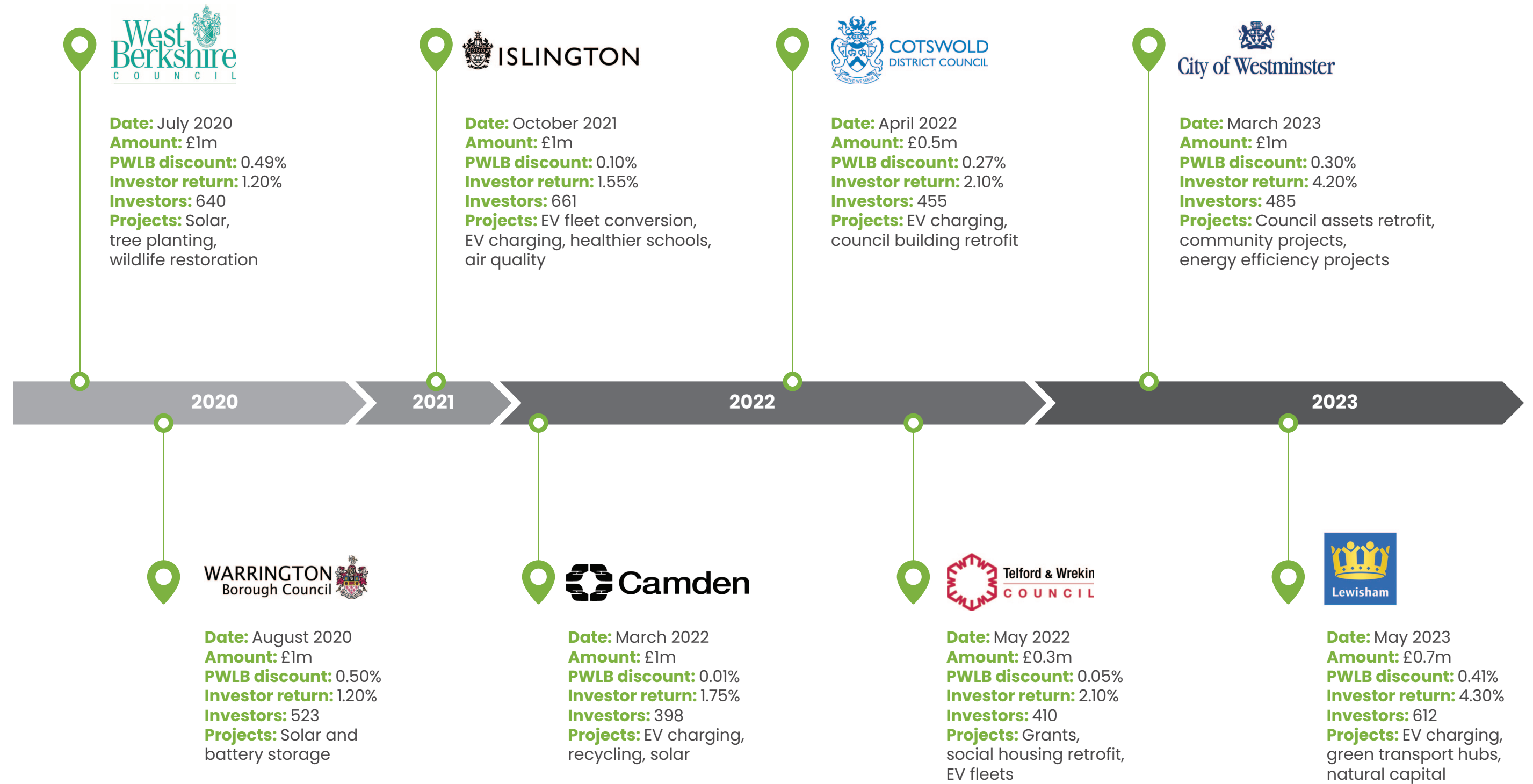
Section

03

Past-issuance overview & case studies

Past-issuance overview

At the time of publishing, 8 pioneering councils have issued an LCB to help finance their net-zero plans. These councils have catalysed a shift towards a long-term view on how councils utilise private finance and citizen investment to bridge the decarbonisation funding gap and deliver net-zero for their communities.



West Berkshire Council –
The first council to issue an LCB

Date: July 2020
Amount: £1m
PWLB discount: 0.49%
Investor return: 1.20%
Investors: 640
Projects: Solar, tree planting, wildlife restoration



The first UK council to issue a Local Climate Bond



Raised £1 million from 640 investors



16% of investors donated their first interest payment towards wildflower restoration

West Berkshire Council launched its inaugural LCB in October 2020, the first UK council to issue an LCB to finance their ambitious plans to become carbon neutral by 2030.

After successfully raising £1 million from 640 investors, West Berkshire used their LCB to finance projects across sustainable transport, buildings retrofit, waste and resource efficiency, and nature positive schemes. The projects include solar power panels on council buildings and schools, cycleway improvements, tree planting, a flood defence scheme and LED lighting installation on traffic lights.

West Berkshire’s LCB was the first investment enabling investors to donate part or all of their investment returns back to the council to fund hard-to-fund projects. These are projects that may have an unclear revenue profile, or often get deprioritised.

West Berkshire Council’s commitment to engage with local people throughout their green transition has been a key part of the success of their LCB.

In March 2023, West Berkshire became the first council to pledge to issue a second Local Climate Bond.

“We were delighted to successfully launch the first local climate bond in the country and have been really pleased with the public response we have had. The bond was simple to launch and has enabled us to communicate our work on helping to deliver our Environment Strategy.”

Joseph Holmes, Executive Director (Resources) and s151 Officer, West Berkshire Council

Westminster City Council – The fastest raise by an LCB

Date: March 2023

Amount: £1m

PWLB discount: 0.30%

Investor return: 4.20%

Investors: 485

Projects: Council assets retrofit, community projects, energy efficiency projects



Fastest ever LCB raise taking 9 days



Raised £1 million from 485 investors



First LCB issued under a Green Finance Framework⁴

Westminster City Council launched their first LCB, which they termed the Westminster Green Investment, in March 2023. This was a record-breaking issuance, with £1 million of private finance raised in 9 days from 485 investors, demonstrating the potential and power of community investment.

Westminster's first LCB will help fund a range of green projects, including energy efficiency measures for council owned buildings or community owned sites, such as schools and community centres. Energy efficiency measures funded by the LCB include the installation of solar PV, draught proofing, LED replacement schemes, cooling improvements, and the introduction of heat pump technologies.

Energy efficiency upgrades already implemented across several community leisure centres in the borough are estimated to result in a lifetime saving of 923tCo₂e⁵ (tonnes of carbon dioxide equivalent).

“The City of Westminster has some of the highest carbon emissions in the country by local authority area and we need to find ways to reduce city-wide emissions by 91,000 tonnes a year if we're to meet our goal of being a net zero city by 2040. [...]

We want to support residents and local businesses to make a positive impact in their neighbourhoods, by reducing their climate impact and improving the local environment and this new Westminster Green Investment scheme is one way that can help us reach our goal. Residents can invest as little as £5 to make a difference in supporting sustainable projects in their local area to create a cleaner, greener and fairer Westminster for every-one.”

Cllr David Boothroyd, Cabinet Member for Finance and Council Reform at Westminster City Council

⁴ The Green Finance Framework is a voluntary standard setting out how Westminster intends to manage its green investments and meet the Green Loan Principles.

⁵ Westminster City Council (September 2023)

Section

04

FAQ

LCBs are an innovative green finance product

emerging in the market, designed to support councils with funding their net-zero plans. The purpose of this FAQ section is to address some of the key questions that frequently arise during engagement with councils looking to make their first LCB issuance.



FAQ

Q: How are LCBs aligned with the Green Loan Principles?

A: The Green Loan Principles were developed by the Loan Market Association to promote the development and integrity of the green loan market. LCBs can be accredited as green loans if the proceeds are used entirely for green purposes and the issuance process adheres to the Green Loan Principles⁶. Abundance has aligned its processes with the Green Loan Principles so that all LCB issuances are labelled as green. The framework is the same as that used by the UK Government in its Green Gilt programme. The five core tenets of the Green Loan Principles being 1) use of proceeds, 2) process for project evaluation and selection, 3) management of proceeds, and 4) reporting and verification, are embedded in the LCB process in an accessible way for councils.

Q: What is the financial structure of an LCB?

A: Despite their name, LCBs can be structured either as a peer-to-peer loan between Abundance Investment and the council for term periods up to 5 years, or as a bond for investments longer than 5 years.

The peer-to-peer loan structure is ISA eligible, providing retail investors the opportunity to invest via an Innovative Finance ISA (IFISA) and access the tax benefits associated with ISAs. ISA eligibility is not currently afforded to bond structures.

The peer-to-peer loan and bond terms are materially the same.

Q: What do the cash flows look like?

A: There are three notable phases related to the movement of cash, including fund raising, deployment, and interest and capital payments.

Abundance collects and safeguards investors' deposits in their client money account until the funds raised are transferred to the issuing council. This can be done incrementally throughout the raise period, or once the offer closes. Incremental transfer of funds to the council can only be completed 15 days after receipt of an investor's deposit, when the investor cooling off period has ended.

The council deploys the funds raised across the pipeline of green projects. It is expected that funds are deployed within 12 months of the LCB offer closing. Interest and capital payments are made semi-annually. The council makes a single payment of interest and capital to Abundance's client money account and then Abundance distributes this to the underlying investors. Abundance's systems automatically generate a reminder for the council prior to the payment date, including the amount of interest and capital due.

Q: How much financial admin does the council's treasury department manage on an ongoing basis?

A: The LCB is launched and managed on an ongoing basis by Abundance Investment. This includes handling compliance with FCA rules and financial operations such as administering semi-annual payments of interest and principal to investors. Once issued, the LCB has a low operational demand on the council's treasury department.

As part of the LCB agreement, the council is expected to provide semi-annual investor updates (see Post-issuance process overview), which are led and managed by the council's comms department. The council has the freedom to design their own investor updates in a way that will best engage their local residents – this could be short email update, a PDF, or even providing links to video content.

Q: Where does a council find the funds to service the LCB?

A: The link between underlying assets (i.e. green projects) funded by the LCB and the debt raised from citizens is a notional one. This is because the debt arranged by Abundance is secured against the revenue of the council, not the underlying projects. This is the same for any other debt the council takes on.

As a direct result, an LCB provides an issuing authority with even greater flexibility on how the authority generates the required return for investors. In an optimal scenario, projects funded by a LCB would generate sufficient returns to fully service the authority's liabilities to investors, however, other revenue sources available to the authority can be used to supplement investor returns as required.

Q: What is the repayment term of an LCB?

A: An LCB can be structured as two different instruments: a peer-to-peer loan or a bond. The peer-to-peer loan instrument provides councils with access to borrowing from less than 1 year and up to 5 years. The bond instrument provides access to longer-term borrowing of more than 5 years. In principle, Abundance can arrange a bond with a term up to 100 years.

Q: Can an LCB be blended with other sources of financing?

A: LCBs are an adaptable and complementary form of financing and well-suited to blending with other sources of finance. For projects with larger capital requirements, the council can supplement funds raised from citizens – via an LCB – with other traditional sources of borrowing. The overall cost of capital for the authority is reduced when an LCB – which prices lower than PWLB – is combined with other traditional sources.

Q: Can LCB investors donate their returns to the council?

A: Yes. Councils can offer LCB investors the opportunity to donate part or all of their interest back to the council. This can create a donation-based income stream for councils to support the 'hard-to-fund' elements of the council's net-zero plan. Projects funded by interest donations have included rewilding and tree planting schemes. Abundance supports the council in developing the donation scheme and manages the financial process.

Q: Are there any fees for using this type of financing?

A: The GFI does not receive any fees for supporting councils in issuing an LCB.

There are two separate fees taken by Abundance Investment for a successful LCB issuance – an arrangement fee and ongoing administration fee. The total cost of capital (i.e., interest rate to investors and fees paid) will always be lower than or match the PWLB Certainty Rate, ensuring that LCBs deliver cost-effective financing for councils.

Q: We would like to raise a larger amount – are there rules around the ticket size?

A: There are no rules around the ticket size of an LCB. Abundance Investment works closely with a council to appropriately scale the ticket size, depending on use of proceeds and market conditions. It is expected that councils will be able to generate larger ticket sizes as they grow their community of local investors. In addition, LCBs can attract investment from different types of investors, such as local corporates, who may wish to invest larger sums to support local green prosperity and decarbonisation.

Q: Can LCBs attract investment from different types of investors?

A: LCBs can provide a range of investors with a low-risk moderate-return investment that supports councils in delivering net-zero projects and local benefits. The GFI and Abundance Investment are exploring how LCBs can accommodate investment from a wider pool of investors, including local corporates, regional employers, and institutional investors. LCBs will retain the crowd funding benefits from retail investors, while enabling the mobilisation of larger sums of capital towards local net-zero projects.

Q: How should we select suitable projects to fund with an LCB?

A: All proceeds raised from an LCB are dedicated solely to decarbonisation projects – which is a core principle of the product. This enables the council to channel private finance into a broad range of green projects, driving positive outcomes for the local economy, environment and society, whilst returning value to local people. Some impactful examples include building mounted solar, retrofit of schools or other council owned assets, electric vehicle (EV) charging infrastructure, nature-positive schemes, sustainable transport, or community engagement projects.

To operate within the existing parameters of the LCB framework, authorities can only use the product to fund projects or investments that form part of their capital / investment programme.

Q: Is there anything the council can do to generate more investment from local residents?

A: A comprehensive communications campaign is one of the most effective ways for a council to raise awareness locally of the LCB issuance and increase the proportion of local investment. The aim of the communications campaign is to create multiple touchpoints with local residents to raise awareness about the LCB issuance.

Councils are encouraged to deliver their communications across different channels, both pre-launch and during the raise. Past issuances have shown that the consistency and frequency of messaging is directly linked to local engagement and investment. Abundance Investment will support in raising awareness of the council's raise to its nationwide community of investors.

In addition, councils can sign the GFI's LCB Pledge, which provides access to the GFI's communications capability with strong engagement rates across multiple digital channels.

Q: What happens if Abundance Investment fails?

A: Abundance Investment has a wind down plan that sets out how they would manage the orderly wind down of its business. As a firm regulated by the Financial Conduct Authority (FCA), Abundance Investment must demonstrate how it ensures the investments are administered to their full term and limits any impact to investors. This includes a requirement to hold an amount of capital in reserve to support this wind down.

In addition, in the event that Abundance Investment was unable to conduct an orderly wind down itself, they have contracted a backup service provider who would step in and administer the outstanding investments.

Q: Where can I find more information about the risks of investing in a Local Climate Bond?

A: More information on the risk associated with investing in a Local Climate Bond via the Abundance Investment crowdfunding platform can be found [here](#) and the procedures in place if a council investment were to fail can be found [here](#) on the Abundance Investment website.



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The information contained herein provides only an introduction to and answers to common queries related to Local Climate Bonds. These products are designed for Local Authorities and should not be considered for issuance by any other parties.

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