

APPENDIX A

Southwark Green Finance Framework

Introduction to the Council

Southwark is an inner London borough extending from the River Thames in the north to Dulwich in its south. The borough is made up of varied, vibrant and diverse neighbourhoods including Borough, Rotherhithe, Bermondsey, Walworth, Camberwell, Peckham, Nunhead, East Dulwich, Herne Hill (in part), and Dulwich.

Southwark borough covers just over 11 square miles but is home to 307,000 people, and a place of work and business for thousands of people every day. The borough welcomes millions of tourists every year to its many attractions which include The Shard, Tower Bridge, Tate Modern, Shakespeare's Globe, Borough Market, Dulwich Picture Gallery and the Imperial War Museum.

Southwark is home to 150,000 businesses and a diverse population with 120 languages spoken. Southwark Council is the largest local authority landlords in London and one of the biggest in the UK. In the borough, around 45% of residents live in social housing. Southwark is a young borough, with 57% of the population 35 or under.

The borough is also home to award-winning parks, open spaces and a built environment which provide homes for a range of common and rare wildlife, including birds, bats, invertebrates and plants. Southwark boasts an extensive range of parks and over 80,000 trees that help to green the borough and promote space for leisure and recreation.

Introduction to Climate Change in Southwark

Having declared a climate emergency in March 2019, Southwark Council set out an ambitious strategy to tackle the climate emergency, deliver a sustainable future for the people of Southwark and to achieve net zero by 2030.

The council's first Climate Change Strategy and Action Plan was adopted in July 2021 and aims to accelerate local climate action and carbon emission reductions through delivering a comprehensive set of actions split across five priorities:

- Greener buildings
- Active and sustainable travel
- Thriving natural environment
- A circular economy with green jobs
- Renewable energy

Resilience and adaptation to climate change will also be added as a sixth theme in early 2024. The Green Finance Framework will finance Eligible Green Projects from across the different priorities (see pages 5 to 7).

To deliver these priorities Southwark aims to be inclusive, transparent, and ambitious. Our approach will rely on working in partnership to deliver these priorities. At local, regional, and national levels the council will be a voice for change, lobbying Government for greater action and funding. The council will support businesses to take action. This includes local businesses as well as national and international companies in the borough. As they transition to a sustainable future, the council will invest in green jobs. Southwark will target support most where it reduces inequality and delivers wider benefits to our community, delivering a just transition that ensures a fairer future for all in the borough. The council will engage, educate, and empower their community. Southwark will celebrate and represent every part of our community by ensuring everyone is part of the conversation. This read the full version of the council's Climate Change Strategy visit www.southwark.gov.uk/climate

Council Track Record on Climate

Southwark have already made progress reducing greenhouse gases. Carbon emissions have reduced by around 40% between 2005 and 2018. The council re-baselined emissions in 2021 for both the borough and those emissions directly associated with the council, with updated analysis now taking place annually

Government data shows that borough wide emissions, from households, businesses and transport in the borough is declining. There is a lag in data, but most recent figures show:

- 2018 = 1030kt CO₂e
- 2019 = 824kt CO₂e
- 2020 = 809kt CO₂e

As a council, we also specifically consider the emissions directly under our control, from the heating and powering of our housing, leisure centres, buildings and vehicles (scopes one and two) to the things we purchase through our supply chain (scope three). This data is more recent as it is based on annual energy consumption, mileage and procurement spend:

- 2021 = 432kt CO₂e (19/20 data)
- 2022 = 415kt CO₂e (20/21 data)
- 2023 = 380kt CO₂e (21/22 data)

Breakdown of total council emissions for 2023

- Scope 1 = 62kt CO₂e, 16%
- Scope 2 = 12kt CO₂e, 3%
- Scope 3 = 306kt CO₂e, 81%

While solid progress has been made in reducing emissions over the last three years, we recognise that progress is not fast enough, and the scale of action needed is vast. Independent analysis in 2021 estimated that to become carbon neutral by 2030 would cost the borough around £3.92bn in capital spend alone, a figure which will have since increased.

Each year Southwark are improving both the accuracy of data and our understanding of where emissions come from. This allows the council to focus resource and funding on projects that have the greatest opportunity to reduce emissions.

Green Finance Framework

The council has prepared this Green Finance Framework (the framework) with the intention of raising capital via the issuance of:

- Community Municipal Investments (CMI) in the form of bonds and P2P Loan Agreements to (re)finance Eligible Green Projects.

The framework provides overarching criteria and guidelines as to how the council will issue the above products and manage them on an ongoing basis. The council has developed the framework in line with various applicable market standards as below:

- CMI aligns to the International Capital Market Association (ICMA) 2021 Green Bond Principles (GBP) and Loan Market Association (LMA) 2020 Green Loan Principles (GLP) or as these principles may be subsequently amended.

The principles referenced within the framework are voluntary process guidelines and, at the date of this publication, are globally accepted as the standard guidelines. They also follow the principles underpinning the UK Government's Green Gilt and Green NS&I saving bond products.

Abundance Investment Ltd will provide assurance that the projects funded by Use of Proceeds are Eligible Green Projects and that all the Use of Proceeds are spent on Eligible Green Projects.

The council's Section 151 Officer, with assistance from the Climate Change and Sustainability Director, is responsible for ensuring that all borrowing and investment will be in line with the council's standing orders.

The council is committed to following best practice and appreciates any feedback from market participants on the approaches set out in this framework.

This framework may be updated from time to time to ensure continued alignment with voluntary market best practices and emerging standards. For instance, these documents may be amended to align with the UK Government Green Taxonomy when it is published. Any updated version of this framework will either maintain or improve

the current levels of transparency and reporting disclosures, including the corresponding external review.

Considering the Social Co-Benefits of Green Investment

A just transition seeks to ensure that the substantial benefits of a green economy are shared widely, while also supporting those who stand to lose economically – be they, industries, communities, workers, or consumers.

A rapid increase in the speed and scale of actions required to reduce the risks of climate change will create new economic opportunities, but at the same time it may move economic activity away from damaging industries and can carry costs for consumers.

We aim to identify where the challenges will occur and plan the transition, so it minimises the costs to more vulnerable sections of the community. In our reporting we will communicate mitigation that we have put in place when delivering individual eligible green projects to support a just transition.

CMI: Green bonds and green loans

This section of the framework sets out how the council proposes to issue and manage its CMI on an ongoing basis. Green bonds and loans are defined in this framework as bonds and loans established to finance Eligible Green Projects. These are projects or assets that deliver positive environmental outcomes.

The council developed the framework in line with the GBP and GLP and therefore the methodology includes the following four key components:

- Use of proceeds
- Process for evaluation and selection
- Management of proceeds
- Reporting.

Use of Funds

The Use of Funds is defined in the legal documentation for each CMI issued. It is an amount equivalent to the net proceeds (funding raised after costs) of green bonds and loans issued under the framework and can only be allocated to the financing of Eligible Green Projects. These are projects with positive environmental outcomes, which contributed to a low carbon and climate resilient future.

Each CMI will detail which specific projects, asset, or project themes the CMI is funding. Where eligible projects and assets are jointly funded between the council and another party (e.g. central government), funding will be applied only to the council's share of the eligible scheme.

Eligible Green Projects

The following tables outline the categories of Eligible Green Projects. The Eligible Green Projects are derived from the categories laid out in the ICMA Green Bond Principles, but for consistency follow the framework established by the UK Government for the countries Green Gilt and Green NS&I savings product scheme as well as the UK Taxonomy objectives.

<p>Renewable Energy</p> <p>Southwark Climate Action Plan priority:</p> <ul style="list-style-type: none"> • Renewable Energy <p>UK Taxonomy Objective:</p> <ul style="list-style-type: none"> • Climate Change Mitigation 	<ul style="list-style-type: none"> • Schemes generating energy from renewable sources such as wind, solar, geothermal, hydropower (provided environmental and social impact assessments are undertaken and no significant controversies are
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	<p>identified) and bioenergy with lifecycle emissions of less than 100g CO₂e/kWh, declining to 0g CO₂e/kWh by 2030 and only second-generation biofuels are used.</p> <ul style="list-style-type: none"> • Energy storage facilities • Schemes for renewable heat such as district heating and heat pumps where energy is derived from renewable sources
<p>Energy Efficiency</p> <p>Southwark Climate Action Plan priority:</p> <ul style="list-style-type: none"> • Greener buildings <p>UK Taxonomy Objective:</p> <ul style="list-style-type: none"> • Climate Change Mitigation 	<ul style="list-style-type: none"> • Schemes that reduce the energy use (heat and electricity) and therefore the carbon intensity of buildings used by the council or buildings owned by the council but rented out for social housing or commercial purposes. • Schemes that support or provide services to the private residential or commercial market to encourage or implement energy efficiency measures. • Schemes that utilise energy more effectively to generate heat or utilise waste heat.
<p>Clean Transportation</p> <p>Southwark Climate Action Plan priority:</p> <ul style="list-style-type: none"> • Active and sustainable travel <p>UK Taxonomy Objective:</p> <ul style="list-style-type: none"> • Climate Change Mitigation 	<ul style="list-style-type: none"> • Schemes that support low and zero emission mobility, including EV (Electric Vehicle) charging infrastructure, EV fleet conversion, cycle way improvement, car reduction schemes and other schemes that encourage cleaner transportation.
<p>Pollution Prevention and Control</p>	<ul style="list-style-type: none"> • Schemes that support waste prevention, waste reduction, waste recycling

<p>Southwark Climate Action Plan priority:</p> <ul style="list-style-type: none"> • Renewable Energy • A circular economy with green jobs <p>UK Taxonomy Objectives:</p> <ul style="list-style-type: none"> • Climate Change Mitigation • Pollution Prevention and Control • Transition to a Circular Economy 	<p>and energy/emission-efficient waste to energy</p> <ul style="list-style-type: none"> • Reduction of air and water emissions and greenhouse gas control • Schemes that support the circular economy
<p>Climate Change Adaptation</p> <p>Southwark Climate Action Plan priority:</p> <ul style="list-style-type: none"> • Resilience and Adaptation <p>UK Taxonomy Objective:</p> <ul style="list-style-type: none"> • Climate Change Adaptation 	<ul style="list-style-type: none"> • Schemes that deliver flood protection, resilience, and other risk mitigation programmes • Schemes that deliver heat protection, resilience, and other risk mitigation programmes • Engineering activities and technical consultancy dedicated to adaptation to climate change
<p>Living and Natural Resources</p> <p>Southwark Climate Action Plan priority:</p> <ul style="list-style-type: none"> • Thriving natural environment <p>UK Taxonomy Objective:</p> <ul style="list-style-type: none"> • The Protection and Restoration of Biodiversity and Ecosystems • Sustainable use and Protection of Water and Marine Resources • Climate Change Mitigation • Climate Change Adaptation 	<ul style="list-style-type: none"> • Schemes that protect and enhance terrestrial and marine biodiversity, ecosystems and natural capital • Schemes that support sustainable land use and protection, including environmentally sustainable agriculture • Schemes that support environmentally sustainable clean water, water storage and wastewater management initiatives • Funding for environmental activities of third sector partners.

Process for evaluation and selection

For new and existing CMI, the council will manage the eligible scheme selection process by applying professional judgement, discretion, sustainability knowledge and by considering the following objectives, features, and benefits:

- Conformance with the relevant principles
- Conformance with the eligible criteria set
- Alignment with the Council's Climate Change Strategy and Action Plan
- Broader environmental and/or social risks associated with the project

The resultant list of eligible assets and their budgets will be provided in the Use of Funds details associated with an individual CMI.

Before a CMI is launched Abundance will validate that the Use of Proceeds only includes Eligible Green Projects. In cases where Abundance and the council do not agree on the classification of a project as green, a third-party opinion may be sort.

Management of proceeds

To manage the risk of holding unallocated proceeds from the CMI, the combined value of the CMI will be less than the total value of the eligible assets and any balance of funding will be met through existing funding sources.

Tracking of proceeds

The council tracks the receipt and use of proceeds via its internal reporting systems, ensuring Eligible Green Projects (re)financed are appropriately identified.

In addition, to ensure appropriate earmarking for the purpose of internal monitoring and external reporting of proceeds, the council has established a register that contains details (including value) of all Eligible Green Projects.

The council will service its debt obligations under CMI and loans out of general cash flows and not specifically from revenues generated by eligible projects alone. This will also help in minimising risks to the investors. The overall financing cost of CMI will be met from the same central budget as PWLB debt.

Unallocated proceeds:

To the extent that green bond and loans proceeds have not been allocated to eligible assets at issuance, or if during the life of the green bond and loans proceeds become unallocated ("Unallocated Proceeds") (for example, because an eligible asset has been sold), the amount of unallocated proceeds shall be:

- held in temporary investment instruments that are cash, or cash equivalent instruments, within a treasury function; or
- held in temporary investment instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy; or
- applied to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to eligible assets.

Should unallocated proceeds arise for any outstanding green bond or loan:

- The council will disclose this information within the annual use of proceeds reporting
- No contractual right of review or repayment will arise, and no loss of green classification will occur.

The council expects there to be adequate headroom of eligible assets and will endeavour to ensure that funds are disbursed to eligible assets within 36 months of the issuance of the green bonds and loans.

Reporting

The council will publish information on the Use of Proceeds as follows:

- Details of the schemes (re)financed and amount of money spent on each project
- A summary of the environmental outcomes that have been delivered by the projects

The information will be published as follows:

- Investor Update, this is the digital communication emailed to all investors in a specific GMI
- Abundance Project Page, the same information will be published on the Council GMI webpage so that any member of the public can view the information.
- Council Website, the same information will be published on the Council Website, or a link provided to the Council page on the Abundance website.

Governance

The council is committed to pursuing the highest standards of integrity relating to its GMI programme. By providing an independent and third-party check Abundance Investment provide confidence that the programme is being delivered in line with the GBP and GLP and that the schemes selected are Eligible Green Projects.

The projects selected to be financed by the Use of Proceeds will be reviewed by Abundance to ensure they qualify as Eligible Green Projects. Where the green

credentials of a project are not clear, Abundance might recommend the recruitment of a technical expert to provide an expert opinion on the qualification of a project.

Abundance from time to time will spot check the council's programme to ensure that the updates provided are accurate and the internal systems and controls remain in place to ensure that ongoing compliance with the framework is assured.