



**Glasgow City Council**

**Net Zero and Climate Progress Monitoring Committee**

**Report by Director of Regional Economic Growth**

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**Item 1**

**23rd May 2023**

### **Climate Finance Update**

#### **Purpose of Report:**

This report presents an update on the Council's approach to Climate Finance.

#### **Recommendations:**

The Committee is asked to note:

- the update on the Council's approach to developing a Climate Finance model; and
- that a further report on this agenda will be presented to a future meeting.

Ward No(s):

Citywide:

Local member(s) advised: Yes  No     consulted: Yes  No

## **1.0 Introduction**

- 1.1 The Council has set a target date of 2030 for the city to achieve net zero carbon emissions. An estimated £40 billion of new investment is required to ensure that that happens. Glasgow is therefore not short of climate ambition. It is, however, short of the capital with which to mobilise that ambition.
- 1.2 This report presents an update to the Committee on work to develop the Council's own understanding of the opportunities and challenges around securing climate finance. It highlights the key areas of discussion in which the Council has been participating and the progress made in creating structures and pathways towards this goal.
- 1.3 The Council has made common cause with its other city peers across Scotland, the UK and globally on the climate finance agenda. This recognises the distinctly urban policy dimension which this brings and the leadership role which cities play in delivering on national climate targets. It also ensures that a collective urban voice is presented to national policy makers at both Scottish and UK levels.
- 1.4 Glasgow will always make a strong case to national government for greater investment in its climate goals. At the same time, it has become increasingly evident that further exploration and understanding of models of investment from the private capital markets needs to be a key part of this work. This reflects the clear public signals emerging from major sectors such as pensions and insurance on their own wish to decarbonise their portfolios and to make investments in measures for net zero.

## **2.0 A climate finance framework for Glasgow**

- 2.1 The Council has been working to develop the component parts of a climate finance framework. This refers to the collective elements which a city needs to draw together in order to fund the transition to a net zero and climate-resilient city and economy. Five key areas to this approach have been identified for further development. Each is described below, along with a note of the progress made so far and the further work which remains to be undertaken.
- 2.2 *Long-term plans*
  - 2.2.1 This is a science-aligned net zero/climate set of plans which define the projects required to meet the city's targets, informed by local citizen engagement and knowledge of the technical context. It acts both to give a public framing to the city's ambitions and to provide a form of forward guidance to the market on where investment would especially be welcome.
  - 2.2.2 The Glasgow Climate Plan and the Adaptation Strategy provide the broad context for this and are subject to annual updates and corresponding scrutiny at committee. These are supported by the Green Deal Action Plan and the forthcoming Local Heat & Energy Efficiency Strategy (LHEES). The latter in

particular will set out a route map for area-based interventions and the deployment of specific interventions.

2.2.3 Further analysis on the city's assets and appropriate technologies is in the process of being collated into a Net-Zero Carbon Routemap, which will analyse the systemic impacts of each decision in relation to net zero, thereby ensuring that the realisation of one opportunity does not inhibit the realisation of an opportunity somewhere else and integrates them in line with the city's net zero ambitions.

### 2.3 *A project pipeline (or portfolio)*

2.3.1 A prioritised list of all investments aligned to the plan, with financial models and routes to market that allow them to be funded and financed. Projects can be structured individually, but ideally are coordinated with other investments. The principal example of this has come through the city's Greenprint for Investment, which was developed for COP26 and presents a range of investable projects to the market with a total funding requirement of £30 billion. It has been drawn up by Invest Glasgow and therefore represents a positive illustration of how the climate agenda has been mainstreamed within the Council's services.

2.3.2 The Council has been working with external partners to review the finance, deliverability and impact of the projects in the Greenprint with a view to developing a shortlist of three to five projects for further development. Projects under review include the Glasgow Metro, District Heating and the Scottish Events Campus Expansion, and also takes into account major projects that have emerged since COP26, such as electric vehicle charging infrastructure as well as the potential around heat from geothermal sources. An allocation from the UK Shared Prosperity Fund has been set aside to support the projects which are prioritised through this process to develop full business cases for investment.

2.3.3 This process has been undertaken with a view towards publicising and promoting these at the Conference of Business event, which has been organised by the Glasgow Chamber of Commerce for 24 May and is itself intended as a key input to preparing the city for its participation in COP28 later in the year.

2.3.4 The city also benefits from strong links to the academic sector, with the universities both generating valuable research findings and providing further access to funding mechanisms through the Research Councils and other bodies.

### 2.4 *Access to finance*

2.4.1 A range of activities and approaches which maximises the council's ability to raise and spend capital and its flexibility and choice in financing options. One of the principal approaches from the Council in this respect has been to work with and learn from its urban peers through the Core Cities and London Boroughs network to through the UK Cities Commission for Climate Investment

(now called 3Ci). It is specifically aimed at driving additional investment into local net zero programmes and supporting cities to bring forward a pipeline of projects to government and the private capital markets. This has helped to add further prominence and greater potential opportunities to Glasgow's own green investment prospectus and ensured that a meaningful legacy relationship with other cities across the UK has been taken forward from COP26.

- 2.4.2 The Council has subsequently supported the engagement of the Scottish Cities Alliance with this collaboration, thereby ensuring that it has a wide scope across the urban landscape of Scotland/UK. The 3Ci partnership played an important part in the Council's preparations for and participation at COP27.
- 2.4.3 As a direct follow-up to this approach, a regional investor gathering was organised by 3Ci in Glasgow for the week after COP27, with an event in the city on 22 November 2022. Glasgow also continues a range of COP legacy work with other global networks on this agenda, such as the C40 Invest/Divest collaboration and the Cities Climate Finance Leadership Alliance.
- 2.4.4 There is strong evidence that climate investment can bring long-lasting social, economic and environmental gains, as well as being essential for realising the city's ambitions to reach net zero and enhance its climate resilience. However, mobilising the capital needed to realise these benefits, and efficiently allocating it to well-designed investment opportunities, represents a significant challenge. Last year, the Council commissioned Pengwern Associates, which identified seven levers that are currently being considered to help realise these ambitions, including Community Municipal Investments, engaging the UK Infrastructure Bank and the development of blended finance vehicles. The success of projects will be linked to strong business cases aligned to these investments which support the repayment of the investments. Glasgow City Council continues to face significant financial constraints and is not in a position to provide funding to support these projects under current funding models.

## 2.5 *Coordinated governance*

A group of project owners and enabling functions which operationalises the approach, coordinating project development and prioritising funds. This group could be within a particular organisation, such as the Council, and draw together its various functions and services. It could also be across partners and sectors in order to draw upon collective goals and potentially pooled resources. The city's key partnership in this respect is Sustainable Glasgow, which brings together the business, academic and public sectors with the shared ambition of achieving a just transition to net zero carbon emissions for Glasgow by 2030. Within the Council a climate Board has also been established to consider project proposals and ensure that integration across services is enhanced. The recent announcement by the UKIB on support for further feasibility work on the Clyde Metro is a good example of this activity being progressed. Work through the Glasgow Chamber of Commerce, especially in relation to the development of the circular economy, also ensures that the city is in close alignment with the local business sector and its vital contribution to delivering a shared set of climate objectives for the city.

## 2.6 *A set of delivery mechanisms*

- 2.6.1 This relates to the key area of governance and the means by which projects are appropriately delivered and how delivery is overseen. This could include arrangements such as joint ventures, direct contractors or in-house Council services.
- 2.6.2 There is a growing body of evidence on the diverse means by which project delivery takes place across cities. For instance, work which has been undertaken by the city of Bristol and the West Midlands Combined Authority offer lessons from other urban peers on acquiring capital, developing governance and prioritising project selection. In order to get a better sense of opportunities in this area, a budget from the UK Shared Prosperity Fund has been set aside by the Council for work on assessing the appropriate models and associated funding to deliver net zero neighbourhoods (and draws on previously commissioned work on domestic retrofit from Glasgow City Region).
- 2.6.3 The Council remains mindful of the challenge of finding appropriate means of paying back any form of capital loan and how the burdens of funding the transition to net zero are equitably distributed.

## 3.0 **Models of finance**

- 3.1 As noted above, the Council has been exploring a variety of potential approaches to acquiring and repaying climate finance. External support from consultants has given a sense of what these models look like and where the Council should focus further work. This exercise identified seven principal areas which were recommended for further consideration:
- *Engagement with the UK Investment Bank (UKIB)*: which has a particular focus on supporting net zero ambitions and regional economic growth. The consultants recommended that the Council should explore lending opportunities with the bank, especially in relation to energy efficiency, renewables, mobility, circular economy, and infrastructure and connectivity. The UKIB has also been developing an advisory function, which will provide an important opportunity to access the expertise needed for such work.
  - *Value capture models*: which would involve requiring developers to make a per tonne of CO<sub>2</sub> payment for the greenhouse gas emissions associated with all new developments (potentially above a certain size threshold). This would both incentivise developers to explore low-carbon initiatives within new developments as well as generate additional resources that can be reinvested elsewhere in the city to support low-carbon and/or climate resilience outcomes, including in activities that are not revenue generating.
  - *Community municipal investment*: which would be instruments issued and backed by the Council that can be purchased by local residents, through a

crowdfunding platform, with the capital hypothecated to funding climate/green investments.

- *Blended finance vehicles*: these vehicles would combine both public and private sector resources in their capital structure and provide capital, using a variety of different instruments (debt, equity, guarantees), to discrete projects that are able to generate some financial return but cannot finance themselves exclusively using private capital provided on fully commercial terms. These approaches can help to de-risk private investment.
- *Strategic partnerships with the private sector*: which could build on the Council's existing use of such an approach – for example the experience gained from the Glasgow Recycling and Renewable Energy Centre (GRREC). The consultants also recommended that the Council should explore some of the more innovative partnership arrangements that other local authorities are using to pursue their climate strategies – such as the Joint Venture agreement Bristol City Council is pursuing in its City Leap project, which is noted below.
- *Investor collaboratives*: a set of continuing discussions with private sector businesses and investors to deepen the Council's understanding of potential routes for climate finance and to keep it aware of options as they develop in the market.
- *Create a city-wide project development facility*: the consultants identified a critical challenge faced by many councils in the transition from high-level statements of ambition to the development of a pipeline of investable projects that are technically sound and financially robust. In the short-term, this challenge can be overcome by exploiting the increasing number of external facilities that are intended to help councils such as those that are or will be provided by UKIB, 3Ci or the NetZeroCities platform. However, the most enduring solution will involve leveraging the expertise realised through participation in these initiatives to create sufficient permanent expertise within the Council, potentially through the establishment of a dedicated project development facility. This would ensure that the city is not solely reliant on these external providers, and provide it with a guaranteed level of capacity .

3.2 Each of these models has both merits and drawbacks and it is likely that any climate finance framework will draw on elements of some/all of them, rather than be tied to a single approach. As the final one listed above notes, the development of capacity within the Council to manage such an agenda is crucial in order to move from business as usual to more rapid action along a reducing timeline towards 2030 and the city's net zero carbon emissions target.

## **4.0 Next steps**

4.1 There are several well-understood challenges for any local authority in this area of work, which include project development finance, governance, procurement, and legal support. The Council has begun to address these, but it is acknowledged that more work is required to understand project business case development needs within a broader. There is also a widespread perception from investors and developers that the planning system is not optimal for getting such projects consented and implemented within the timescale needed to address the climate emergency – a matter which affects every city in Scotland/UK and which requires discussion with national government.

framework to develop and realise bankable investments. Indeed, the sheer scale and necessary pace of the city's decarbonisation challenge brings with it a corresponding need to look closely at how the Council and its partners go about their business – and where there are obstacles that need to be removed and opportunities which require a shift in governance to be grasped.

- 4.2 The Council has a strong relationship with the Global Resilient Cities Network, having been one of its first member cities. One of the legacy outputs from attendance at COP27 last year is the network's confirmation that the Council will benefit from a senior seconded post from the insurance sector to support its thinking on climate risk and finance. This post is called a Global Risk & Resilience Fellowship and the secondee began work with the Council on 25 April. The secondment is due to complete at the end of the summer and its key output will be to offer reflections with which the Council can inform its approach to the climate finance, risk and insurance agenda. It will also link to the findings of a similar arrangement with other cities in the Resilient Cities network and be used to convene discussion at COP28. This work will directly inform the Council's approach to developing a climate finance framework and a further update report will therefore be presented to the committee in the light of the secondee's recommendations and other ongoing activity on this agenda.
- 4.3 One of the options being explored, is the way in which other peer cities are approaching the challenge of decarbonising. Discussions with Bristol are taking place to better understand their journey in appointing Ameresco to deliver a large, multi-pronged approach to building the city's future smart energy system. This is a unique public private partnership structure to provide services including energy efficiency upgrades, wind and solar services, project financing, long-term operation and maintenance and more. The Council is analysing the process through which this has been achieved with a view to progressing along a similar path.
- 4.4 Members will also be aware that the Council has established a cross-party Just Transition Working Group with the key aim of protecting communities and businesses in the shift to a net zero economy and society and harnessing opportunities arising from that. Its remit includes addressing the green skills challenge, energy security and mobility justice. The values which have guided the Council's decision to bring this group together also inform all of the work described above. Its report and recommendations will be brought to the Net Zero committee meeting of 8 August. The Council is also progressing work on a Thriving Cities Initiative with the C40 network on sustainable and fair urban living within the 1.5 degrees limit of the Paris agreement. This has brought partners and communities together to look at sustainable living within both planetary boundaries and in a socially just way.
- 4.5 Given the scale of the challenge, the ambition of the city's 2030 targets, and the recognised need to innovate new approaches and remain at the forefront of a rapidly emerging and critical agenda, it is clear that the Council must progress its work on Climate Finance with urgency and pace. Officers across NRS, Economic Development, Finance and Procurement will therefore now work intensively to finalise a Climate Finance Framework in the coming months.

- 4.6 A further report to this committee will be presented by officers after the summer recess, outlining a Climate Finance Framework for consideration by this committee and subsequent approval by City Administration Committee.

## 5.0 Policy and Resource Implications

### Resource Implications:

*Financial:* There are no immediate financial implications from the proposals in this report for the Council.

*Legal:* There are no legal implications arising from the proposals in this report for the Council.

*Personnel:* Actions relating to the proposals in this report will be undertaken using existing staff resources.

*Procurement:* There are no immediate procurement issues relating to the proposals in this report.

**Council Strategic Plan:** This work supports Grand Challenge 3 of the Strategic Plan, with a particular focus on climate finance and ensuring a just transition.

### Equality and Socio-Economic Impacts:

*Does the proposal support the Council's Equality Outcomes 2021-25* The activities described in this report are informed by the work which the Council is undertaking on a just transition and the associated equalities analysis.

*What are the potential equality impacts as a result of this report?* The Council's approach to climate finance has the potential to create decent jobs and support social justice in mobility, energy and quality of life.

*Please highlight if the policy/proposal will help address socio economic disadvantage.* This work supports the approach of the forthcoming Just Transition Skills Action Plan.

### Climate impacts:

*Does the proposal support any Climate* The work noted in this report both contributes to and is informed by the key aims of the Climate Plan.



*Plan actions? Please specify:*

*What are the potential climate impacts as a result of this proposal?* This report looks to set a framework for financing the city's decarbonisation ambitions and therefore support a range of positive climate impacts.

*Will the proposal contribute to Glasgow's net zero carbon target?* Yes, this approach is a principal contributor to the realisation of the city's net zero target.

**Privacy and Data Protection impacts:** This report has no impacts upon privacy or data protection.

## **6.0 Recommendations**

6.1 The Committee is asked to note:

- the update on the Council's approach to developing a Climate Finance model; and
- that a further report on this agenda will be presented to a future meeting.