

# UK MUNICIPAL BONDS AGENCY SUSTAINABLE FINANCE FRAMEWORK 2022

## DNV INDEPENDENT ASSESSMENT

### Scope and Objectives

The UK Municipal Bonds Agency (henceforth referred to as “The UKMBA” or “the Agency”) is an institution that was established by the Local Government Association (“LGA”) in 2014. The Agency’s key shareholders are the LGA along with 56 local authority shareholders. The Agency’s key purpose is to attract investment to fund UK local authority infrastructure projects - schools, care homes, recycling centres, other infrastructure projects - through the provision of loans to UK local authorities. The UKMBA makes it clear that it does not operate as a bank and will only borrow to fund loans that have already been agreed in principle.

In March 2020 the LGA shared the results from its climate change survey which revealed, the lack of funding was the single, largest barrier to many councils. With an increasing number of local authorities declaring a climate emergency and many having committed to decarbonisation by 2050, targeted investment into sustainable, climate-focused projects is necessary. Local governments have a key role to play in implementing sustainability initiatives and social infrastructure, such as local roads, public transport, schools, care homes, libraries, street lighting, waste disposal facilities, parks, leisure centres and local flood defences.

The UKMBA’s mandate is to be the most efficient and cheapest provider of capital finance to UK local authorities, helping to reduce reliance on the Public Works Loan Board (“PWLB”). The Agency has developed a funding strategy to support capital projects that are aligned to the UN’s Sustainable Development Goals (SDGs), the UK Government’s vision for a Net Zero future, local authorities’ work to tackle the Climate Emergency that most have declared, together with projects that expand and enhance public services and widen access to key services and infrastructure. Subsequently, the UKMBA has created a ‘Sustainable Finance Framework’ (the “Framework”) under which it can issue Sustainable Financing Instruments (green, social, sustainable finance) to local authorities.

DNV Business Assurance Services UK Limited (henceforth referred to as “DNV”) has been commissioned by the UKMBA to provide a review of the Framework against the International Capital Market Association (“ICMA”) Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP) and Sustainability Bond Guidelines 2021 (SBG), as well as the Loan Market Association (LMA) Green Loan Principle 2021 (GLP) and Social Loan Principle 2021 (SLP). Our methodology to achieve this is described under ‘Work Undertaken’ below. We were not commissioned to provide independent assurance or other audit activities. No assurance is provided regarding the financial performance of the bonds issued via the Agency’s Framework, the value of any investment, the alignment of associated bonds with Regulatory requirements, or the long-term environmental and social benefits of the associated transactions. Our objective has been to provide an assessment that the Framework has met the criteria established on the basis set out below.

## Responsibilities of the Management of THE UKMBA and DNV

PFM Financial Advisors LLC (“PFM”)<sup>1</sup> on behalf of the UKMBA has provided the information and data used by DNV during the delivery of this review. Our statement represents an independent opinion and is intended to inform the UKMBA management and other interested stakeholders in the Framework, as to whether the Framework is aligned with the principles issued by the ICMA, based on the information provided to us. DNV’s assessment is supplemented with international guidelines and standards, as well as DNV’s own technical expertise to assess sustainability eligibility. In our work, we have relied on the information and the facts presented to us by PFM. DNV is not responsible for any aspect of the projects or assets referred to in this opinion, and cannot be held liable if estimates, findings, opinions, or conclusions are incorrect. Thus, DNV shall not be held liable if any of the information or data provided by the UKMBA or PFM management and used as a basis for this assessment were not correct or complete.

## Basis of DNV’s opinion

We have adapted our eligibility assessment methodology to create a UKMBA-specific Sustainable Finance Framework Eligibility Assessment Protocol (henceforth referred to as “Protocol”) - see Schedule 2. Our Protocol includes a set of suitable criteria that can be used to underpin DNV’s opinion.

As per our Protocol, the criteria against which the Framework has been reviewed are grouped under the four Principles:

- **Principle One: Use of Proceeds.** The Use of Proceeds criteria is guided by the requirement that an issuer of a Green, Social or Sustainable Bond, must use the funds raised to finance or refinance eligible activities. The eligible activities should produce clear social and environmental benefits.
- **Principle Two: Process for Project Evaluation and Selection.** The Project Evaluation and Selection criteria are guided by the requirements that an issuer of a Green, Social or Sustainable Bond/Loan, should outline the process it follows when determining the eligibility of an investment using Green, Social or Sustainable Bond proceeds and outline any impact objectives it will consider.
- **Principle Three: Management of Proceeds.** The Management of Proceeds criteria is guided by the requirements that a Green, Social or Sustainable Bond should be tracked within the issuing organisation, that separate portfolios should be created when necessary and that a declaration of how unallocated funds will be handled should be made.
- **Principle Four: Reporting.** The Reporting criteria are guided by the recommendation that at least annual reporting to the bond investors should be made of the use of Green, Social or Sustainable Bond proceeds, and that quantitative and/or qualitative performance indicators should be used, where feasible.

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<sup>1</sup> PFM was appointed as the managed service provider to the UKMBA. PFM acts for the UKMBA in most day-to-day matters and manages the Agency’s lending operations and borrowing.

## Work undertaken

Our work constituted a high-level review of the available information, based on the understanding that this information was provided to us by the UKMBA in good faith. We have not performed an audit or other tests to check the veracity of the information provided to us.

The work undertaken to form our opinion included:

- Creation of a UKMBA-specific Protocol, adapted to the purpose of the Framework, as described above and in Schedule 2 of this document;
- Assessment of documentary evidence provided by the UKMBA on the Framework and supplemented by a high-level desktop research. These checks refer to current assessment, best practices, and standards methodology;
- Discussions with the UKMBA's management, and review of relevant documentation and evidence related to the criteria of the Protocol; and
- Documentation of findings against each element of the criteria as detailed in Schedule 2 of this document.

Our opinion as detailed below is a summary of these findings.

## Findings and DNV's opinion

DNV's summary findings are listed below with further detail provided in Schedule 2.

### 1. Principle One: Use of Proceeds.

The UKMBA has confirmed that an amount equivalent to the net proceeds of the Green, Social, and Sustainable Financing Instruments issued under the Framework, will be used to finance, or refinance in whole or in part, Eligible Expenditures that fall within the Eligible Categories as defined below:

#### **Green Categories:**

- Renewable Energy
- Energy Efficiency
- Green Buildings
- Clean Transportation
- Sustainable Water & Wastewater Management
- Pollution Prevention & Control
- Environmentally Sustainable Management of Living Natural Resources and Land Use; and
- Climate Change Adaptation

#### **Social Categories:**

- Access to Essential Services – Health / Education
- Affordable Housing
- Employment Generation through SME Financing; and

- Affordable Basic Infrastructure

DNV can also confirm that the Agency has appropriately defined the exclusions within the Framework that it will not facilitate the funding of:

- Vehicles powered by fossil-fuel combustion, ethanol, and biofuels
- Nuclear energy
- Large-scale hydro energy (>25MW)
- Alcohol, weapons, tobacco, gaming, or palm oil industries

Having reviewed the evidence provided, we can confirm that the UKMBA has appropriately defined the eligibility criteria for each category that are aligned to the relevant SDGs, has set out the associated performance criteria, and has provided a list of example projects under each eligible category as well as identifying the relevant target populations where necessary (further detailed in Schedule 1).

DNV concludes that an amount equivalent to the funding raised under the Framework will be used to finance or refinance Eligible Expenditures, that fall within the Eligible Categories, and that such projects will result in clear environmental and/or social benefits. We can also confirm that the Framework and its associated Eligible Categories are aligned to the stated UN SDGs. The Eligible Categories as outlined in the Framework, and the example projects provided to DNV, are consistent with those listed in the GBP, SBP, SBG, GLP and SLP.

## 2. Principle Two: Process for Project Evaluation and Selection.

DNV can confirm that Eligible Expenditures to be financed through the Sustainable Financing Instruments will be subject to due diligence as set out by the UKMBA below, ensuring that they meet the criteria for the Eligible Categories as defined under the Use of Proceeds. This process will be guided by the project information as supplied by local authorities, and will consist of the following steps:

- A. The local authority wishing to borrow funds will need to complete an information sheet and supply any relevant documentation around approvals, certifications or standards met, for each project to be funded by the UKMBA. Prospective borrowers are also required to highlight the project categories (as set out above) that apply to the projects under consideration. Where the UKMBA intends to finance social projects, the UKMBA will evaluate each project to ensure that the project is enabling access to social services and infrastructure and/or targeting vulnerable or disadvantaged populations.
- B. The UKMBA will assess the information and supporting documents provided (e.g., ESG risk policies, Sustainability practices) including the climate, environmental and social benefits, to establish if an eligible project is compliant with the criteria as defined in the Framework. The UKMBA will then draw up a list of Eligible Projects that may be funded through a Sustainable Financing instrument in line with the Framework.
- C. Final approval of the shortlisted projects and the financing instrument for issue will reside with the UKMBA's Board. For Pooled Sustainable Financing Instruments, final credit approval of the borrowers will also be required.
- D. Prospective borrowers will be required to duly confirm compliance with the intended use of proceeds as set out by the Framework, and the specific requirements of the relevant financing instrument issuance. Any re-allocation of funds will be subject to the same requirements and will require approval of the UKMBAs Board.

DNV concludes that the UKMBA's Framework appropriately describes the process of project evaluation and selection, and that it is in line with the requirements of the GBP, SBP, SBG, GLP and SLP.

### 3. Principle Three: Management of Proceeds.

The UKMBA has committed to allocate the net proceeds of each Sustainable Financing Instrument to the relevant local authority borrowers, subject to the allocations specified in the Information Memorandum. For standalone financing instruments, the responsibility for monitoring and reporting the use of proceeds will remain with the borrower, who will have to report to the Agency twice a year until the proceeds are spent. For pooled financing instruments, the Agency will monitor the use of proceeds by each borrower. In both cases, the UKMBA has committed to report the information on their website twice a year, and in its Sustainable Financing Programme Annual Report.

DNV can confirm that in the case of the re-allocation of proceeds, this is subject to the approval of the Agency, and will have to comply with the Framework and the specific requirements of the Sustainable Financing instrument issue. If approved, re-allocations will be reported every month on the Agency's website and will be included in their 'Sustainable Financing Programme Annual Report'.

The UKMBA expects the majority of the proceeds to be used to finance new projects, but it will allow new financing and refinancing in the Loans portfolio. Where local authorities are allocating funds to new projects, there will be a two-year forward-looking period; for funds allocated to existing projects, this will have to fall within a lookback period of three years. The UKMBA expects local authorities to spend the net proceeds within one year, or to be allocated to approved projects falling within the defined lookback period.

DNV has reviewed the evidence and concludes that the UKMBA has committed to appropriately managing the net proceeds arising from the Sustainable Financing instrument issuances, and that this is in line with the Framework and the requirements of the GBP, SBP, SBG, GLP and SLP.

### 4. Principle Four: Reporting.

DNV can confirm that the UKMBA has committed to providing information, annually, on the allocation and impact of the Sustainable Financing Instruments. In terms of 'Allocation Reporting', the loans to be funded by green, social or Sustainable Financing Instruments to local authorities by the UKMBA, will be reported online on its website, on a monthly basis.

The UKMBA may report on for instance:

- Purpose of the loan
- The relevant project categories
- Relevant Eligible Project categories
- High-level details on the project and its associated benefits.

In terms of Impact Reporting, the UKMBA has committed to disclosing publicly on its website and in the Agency's 'Sustainable Financing Programme Annual Report', detailing the allocation of the net proceeds in terms of the sustainable projects that it funds. DNV can also confirm that, where feasible, the Agency will information on the contribution of the loans given to local authorities through case studies.

The Agency may report on, for instance<sup>2</sup>:

- On-site renewable electricity generation (MWh/GWh)
- GHG emissions reduced / avoided (tCO<sub>2</sub>e)
- Building certification (scheme and ratings)
- Absolute gross water use, before and after a project (m<sup>3</sup> per annum / % reduction)
- reduction of air pollutants – particulate matter (PM), Sulphur Oxides (SO<sub>x</sub>), Nitrogen oxides (NO<sub>x</sub>), Carbon Monoxide (CO), Non-methane Volatile Organic Compounds (NMVOCs)
- Waste recycled / diverted from landfill (t)
- Number and value of loans provided to MSMEs
- Number of homes acquired for social and affordable housing
- Illustrative project examples

DNV concludes that the UKMBA has committed to producing appropriate reporting on the environmental and social impacts of the Sustainable Financing Instruments, and that this is in line with the Framework and the requirements of the GBP, SBP, SBG, GLP and SLP.

On the basis of the information provided by the UKMBA and the work undertaken, it is DNV's opinion that the Framework meets the criteria established in the Protocol, and that it is aligned with the stated definition of sustainability bonds/loans within the Green Bond Principles 2021, Social Bond Principles 2021, Sustainability Bond Guidelines 2021, Green Loan Principles 2021 and the Social Loan Principles 2021.

**for DNV Business Assurance Services UK Limited**

London, 24 January 2022



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**About DNV**

Driven by our purpose of safeguarding life, property and the environment, DNV enables organisations to advance the safety and sustainability of their business. Combining leading technical and operational expertise, risk methodology and in-depth industry knowledge, we empower our customers' decisions and actions with trust and confidence. We continuously invest in research and collaborative innovation to provide customers and society with operational and technological foresight. With our origins stretching back to 1864, our reach today is global. Operating in more than 100 countries, our 12,000 professionals are dedicated to helping customers make the world safer, smarter and greener.

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<sup>2</sup> See Schedule 2 for a further detail.

## SCHEDULE 1: DESCRIPTION OF ACTIVITIES TO BE FINANCED

UKMBA’s Sustainable Financing Eligible Categories	Eligibility Criteria	Alignment to UN SDGs
<b>Green Categories</b>		
<p><b>1. Renewable Energy</b></p>	<p>Financing investments dedicated to the generation, transmission, and distribution of energy from renewable sources operating at lifecycle emissions of less than 100g CO<sub>2</sub>/kWh, including:</p> <ul style="list-style-type: none"> <li>i. Wind</li> <li>ii. Solar</li> <li>iii. Geothermal</li> <li>iv. Hydropower run-of-river plant which does not have an artificial reservoir and having a power density &gt; 5W/m; or</li> <li>v. Waste biomass only using sustainable feedstocks as certified by the Forest Stewardship Council (FSC), Sustainable Biomass Program, ISCC EU or Green Gold Label, or to an equivalent third-party standard. Waste sources may also be used if they do not compete with food products or contribute to deforestation.</li> </ul> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Installing solar panels on council buildings</li> <li>• Balancing services and smart grids</li> <li>• Hydrogen and hydrogen infrastructure projects</li> </ul>	

UKMBA's Sustainable Financing Eligible Categories	Eligibility Criteria	Alignment to UN SDGs
<p><b>2. Energy Efficiency</b></p>	<p>Projects that reduce energy consumption, including:</p> <ul style="list-style-type: none"> <li>i. Energy-efficient HVAC systems, refrigeration, lighting, and electrical equipment that reduces the primary energy demand by at least 30%</li> <li>ii. Projects that reduce energy losses in the delivery of bulk energy services or enhance integration of intermittent renewables</li> <li>iii. Projects that enable monitoring and optimisation of the amount and timing of energy consumption</li> </ul> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>i. Street lighting upgrade to LED;</li> <li>ii. replacing boilers with energy-efficient models;</li> <li>iii. other retrofit measures such as fabric improvements, additional insulation, and the decarbonisation of heating systems</li> </ul>	 
<p><b>3. Green Buildings</b></p>	<p>Investments in commercial or residential local authority buildings, new or existing, that have:</p> <ul style="list-style-type: none"> <li>i. achieved or expect to achieve independently verified energy performance in the top 15% of their local building stock, or</li> <li>ii. received, or expect to receive based on its design, construction, and operational plans, independently verified green building certification such as: <ul style="list-style-type: none"> <li>• EPC A or B</li> <li>• BREEAM Excellent or Outstanding, or</li> <li>• other equivalent certification schemes (at a similar level or above)</li> </ul> </li> </ul>	

UKMBA's Sustainable Financing Eligible Categories	Eligibility Criteria	Alignment to UN SDGs
	<p><b>Examples include</b> projects aimed at building energy efficiency for private sector buildings and Local Authority buildings, based on EPC Framework for instance.</p>	
<p><b>4. Clean Transportation</b></p>	<p>Low-carbon transport projects falling into the following categories:</p> <ul style="list-style-type: none"> <li>• Zero tailpipe emission vehicles and associated infrastructure (incl. hydrogen, fuel cell, electric)</li> <li>• Infrastructure, rolling stock and vehicles for electrified public transport and freight, except where the primary purpose is fossil fuel transport</li> <li>• Motor-free mobility such as cycling and pedestrian infrastructure</li> </ul> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Investments in charging infrastructure for electric vehicles</li> <li>• Replacing small and medium-sized internal combustion powered vehicles with electric vehicles</li> <li>• Switch internal combustion engine vehicles to low-emission vehicles</li> <li>• Physical measures to improve cycling and walking (such as new cycleways, widening pavements, junction improvements, cycle storage, etc.)</li> <li>• Schemes to encourage staff to cycle or invest in electric vehicles</li> <li>• Public transport infrastructure (such as stations, rail and tram track and rolling stock)</li> </ul>	

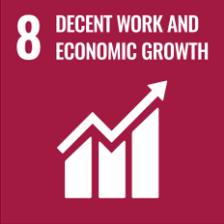
UKMBA's Sustainable Financing Eligible Categories	Eligibility Criteria	Alignment to UN SDGs
<p><b>5. Sustainable Water and Wastewater Management</b></p>	<p>Projects that improve water quality, water efficiency, or climate change resilience, including technologies and projects for collection, distribution, treatment, recycling or reuse of water, rainwater, or wastewater.</p> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Separation of greywater from sewerage systems</li> <li>• Reuse of greywater</li> <li>• Drainage system construction, maintenance, and upgrades to reduce pollution and contamination of watercourses</li> </ul>	 
<p><b>6. Pollution Prevention and Control</b></p>	<p>Projects that reduce and manage emissions and waste generated, including:</p> <ol style="list-style-type: none"> <li>i. Technologies and projects for collection, sorting, treatment, recycling or re-use of emissions, waste, hazardous waste, or contaminated soil</li> <li>ii. Technologies and projects to salvage, use, reuse, and recycle post-consumer waste products</li> <li>iii. Waste treatment and environmental remediation projects</li> </ol> <p>Financing investments in facilities that produce power and/or heat/cooling by the thermal processing of residual waste that meets the following criteria<sup>3</sup>:</p> <ol style="list-style-type: none"> <li>i. Plant efficiency <math>\geq 25\%</math>; and</li> <li>ii. Bottom ash recovery; and</li> <li>iii. <math>\geq 90\%</math> recovery of metal from ash; and</li> </ol>	

<sup>3</sup> Climate Bonds Initiative: Waste Management Criteria – The Climate Bonds Standard & Certification Scheme's Waste Management Criteria, December 2019 p.12

UKMBA's Sustainable Financing Eligible Categories	Eligibility Criteria	Alignment to UN SDGs
	<p>iv. Average carbon intensity of electricity and/or heat over the life of the plant <math>\leq</math> waste management allowance; and</p> <p>v. The capacity of the plant does not exceed the calculated residual waste at any time in the plant's life.</p> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Recycling infrastructure</li> <li>• Separation of food wastes for anaerobic digestion</li> <li>• Funding the treatment of electrical and electronic equipment waste</li> <li>• Decontamination of brownfield sites</li> <li>• Energy from waste facilities</li> </ul>	
<p><b>7. Environmentally Sustainable Management of Living Natural Resources and Land Use</b></p>	<p>Investments contributing towards the protection, restoration, and enhancement of terrestrial and marine biodiversity, ecosystems, and natural capital, including:</p> <p>i. Sustainable land use and protection</p> <p>ii. Reforestation programmes such as:</p> <ul style="list-style-type: none"> <li>• Repair of damaged areas to reconstruct distorted natural habitats</li> <li>• Planting of new woodland</li> </ul> <p>iii. Funding of educational facilities to enhance parks and other environmental spaces</p>	

UKMBA's Sustainable Financing Eligible Categories	Eligibility Criteria	Alignment to UN SDGs
<p><b>8. Climate Change Adaptation</b></p>	<p>Financing action plans and activities to reduce the impacts of extreme climatic events in areas vulnerable to flood, drought, forest fire, etc.</p> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Managing Flood Risk</li> <li>• Carrying out flood risk management works on minor watercourses</li> <li>• Infrastructure for flood prevention, flood defences or storm-water management</li> </ul>	
<p><b>Social Categories</b></p>		
<p><b>1. Access to Essential Services – Health / Education</b></p>	<p>Investments that enhance access to public, not-for-profit, free, or subsidised essential services aimed at the General Public, such as:</p> <ol style="list-style-type: none"> <li>Healthcare, children and young people's care, and older people's care</li> <li>Education, including schools, adult education, and vocational training</li> <li>Infrastructure for sport, leisure, and cultural services</li> <li>Public order and safety</li> </ol> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Construction, refurbishment and equipping of schools, colleges, and libraries</li> <li>• Construction, refurbishment and equipping of leisure centres</li> <li>• Financing of public libraries and museums</li> <li>• Development, refurbishment, and modernisation of healthcare and public health facilities</li> </ul> <p><b>Target population:</b> General Public</p>	 

UKMBA's Sustainable Financing Eligible Categories	Eligibility Criteria	Alignment to UN SDGs
<p><b>2. Affordable Housing</b></p>	<p>Provision and financing of social, intermediate, affordable, and shared ownership housing, as set out in the UK Government's Policy Statement on Rents for Social Housing.</p> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Social housing</li> <li>• Affordable and intermediate rental properties</li> <li>• Supported housing</li> <li>• Financing of housing built and operated by social landlord organisations, such as housing associations</li> </ul> <p><b>Target population:</b> The exact target population may vary between Local Authorities, but the aim is to support vulnerable people served by THE UKMBA's Local Authority borrowers, including people on low incomes, homeless, ageing populations, and vulnerable youth.</p>	
<p><b>3. Employment Generation through SME Financing</b></p>	<p>Financing for micro-, small- and medium-sized enterprises (MSMEs) and businesses, as defined in the UK Companies Act 2006 in vulnerable areas or areas with high unemployment rates, with the aim of alleviating poverty and creating employment opportunities.</p> <p>Financing micro, small and medium-sized enterprises (SMEs) and businesses to support business continuity in the case of extraordinary circumstances (e.g., natural disasters, pandemics, or other crises).</p> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Providing finance to MSMEs to support employment</li> <li>• Construction and refurbishment of offices for use by small businesses</li> <li>• Provision of vehicles and equipment to small businesses</li> </ul>	

UKMBA's Sustainable Financing Eligible Categories	Eligibility Criteria	Alignment to UN SDGs
	<p>Projects in this category will primarily be aimed at MSMEs, businesses and unemployed people.</p>	 
<p><b>4. Affordable Basic Infrastructure</b></p>	<p>Financing projects aimed at the General Public and that provide or increase access to:</p> <ol style="list-style-type: none"> <li>i. Public transport facilities in rural areas</li> <li>ii. Broadband and internet connections</li> <li>iii. Public services and facilities in rural areas</li> </ol> <p><b>Examples include:</b></p> <ul style="list-style-type: none"> <li>• Renovation, upgrade, safety of existing public buildings and public infrastructure, facilities supporting rural development, and street lighting</li> <li>• Roll out of 5G and fibre broadband</li> </ul> <p><b>Target Population:</b> General Public</p>	 

## SCHEDULE 2: THE UKMBA-SPECIFIC SUSTAINABLE FINANCING ELIGIBILITY ASSESSMENT PROTOCOL

### 1. Use of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
1a	Type of Financing Framework	<p>The Green/Social/Sustainable Bond must fall in one of the following categories, as defined by the Green/Social/Sustainable Bond Principles:</p> <ul style="list-style-type: none"> <li>• Use of Proceeds Bond</li> <li>• Revenue Bond</li> <li>• Project Bond</li> <li>• Securitized or covered Bond</li> </ul> <p>Green/Social/Sustainable Loans are defined as any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing Eligible Sustainable Projects.</p>	<p>Discussions with the UKMBA and review of the following document:</p> <ul style="list-style-type: none"> <li>• UKMBA Sustainable Finance Framework (2022)</li> <li>• August 2020 - MBA Standalone - Information Memorandum 176317-4-2919 v0.1_Final</li> </ul>	<p>The Framework clearly outlines the type of financing expected to be issued under the Framework, as limited to the Use of Proceeds that are Green, Social or Sustainable in nature. Sustainable Financing Instruments will include, but not limited to, Public Bonds, Private Placements, Commercial Paper, and other debt instruments.</p>
1b	Green/Social/Sustainable Project Categories	<p>The cornerstone of a Green/Social/Sustainable Bond/Loan is the utilization of the proceeds of the bond which should be appropriately described in the legal documentation for the security.</p>	<p>Discussions with the UKMBA and review of the following documents:</p> <ul style="list-style-type: none"> <li>• UKMBA Sustainable Finance Framework (2022)</li> <li>• UK Government Green Finance Strategy (2019) – online.</li> <li>• UKMBA Governance and Board</li> <li>• August 2020 - MBA Standalone - Information</li> </ul>	<p>The Eligible Expenditures to be financed or refinance, in part or in whole, fall within the below Eligible Categories:</p> <p><i>Green Categories:</i></p> <ul style="list-style-type: none"> <li>- Renewable Energy</li> <li>- Energy Efficiency</li> <li>- Green Buildings</li> <li>- Clean Transportation</li> <li>- Sustainable Water &amp; Wastewater Management</li> <li>- Pollution Prevention &amp; Control</li> <li>- Environmentally Sustainable Management of Living Natural Resources and Land Use</li> <li>- Climate Change Adaptation</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
			<p>Memorandum 176317-4-2919 v0.1_Final</p>	<p><i>Social Categories:</i></p> <ul style="list-style-type: none"> <li>- Access to Essential Services – Health / Education</li> <li>- Affordable Housing</li> <li>- Employment Generation through SME Financing</li> <li>- Affordable Basic Infrastructure</li> </ul> <p>The eligibility criteria as stated above have well-defined boundaries and are supported by example projects to clarify the types of projects which can be funded.</p> <p>Exclusions are also outlined by the UKMBA, making it clear the types of activities that are not normally supported by local authorities, including:</p> <ul style="list-style-type: none"> <li>• Vehicles powered by fossil-fuel combustion, ethanol, and biofuels</li> <li>• Nuclear energy</li> <li>• Large-scale hydro energy (&gt;25MW)</li> <li>• Alcohol, weapons, tobacco, gaming, or palm oil industries</li> </ul> <p>DNV concludes that the Use of Proceeds are appropriately described in the Framework and support the achievement of the applicable UN SDGs (see Schedule 1). However, DNV will not be reviewing the specific utilisation of the proceeds of each issuance unless specifically engaged by the UKMBA to do so. The UKMBA will review the Use of Proceeds of each issuance and its bond documentation is standardised.</p>
1c	Green/Social/Sustainable benefits	All designated Green/Social/Sustainable Project categories should provide clear socially and environmentally sustainable benefits, which, where feasible, will be quantified or assessed by the issuer.	<p>Discussions with the UKMBA and review of the following document:</p> <ul style="list-style-type: none"> <li>• UKMBA Sustainable Finance Framework (2022)</li> <li>• UKMBA Governance and Board</li> <li>• August 2020 - MBA Standalone - Information Memorandum 176317-4-2919 v0.1_Final</li> </ul>	<p>The Agency outlines the expected environmental, social, or sustainable benefits that will be realised by any sustainable financing instrument issued under the Framework. Specific quantifiable and qualitative benefits, where feasible, of each issuance will be evaluated on a case-by-case basis and is subject to further assessment. The UKMBA has outlined the potential reporting metrics to demonstrate the impact from the different projects.</p> <p>For instance:</p> <p><i>Green Categories:</i></p> <ul style="list-style-type: none"> <li>• <i>Renewable Energy</i> – impact reported by: <ul style="list-style-type: none"> <li>○ Annual renewable energy generation in MWh or GWh of electricity (or other applicable SI units)</li> <li>○ Capacity of renewable energy plant(s) constructed or rehabilitated in MW</li> </ul> </li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>○ Annual GHG emissions reduced / avoided in tonnes of CO<sub>2</sub>e</li> <li>• <i>Energy Efficiency</i> – impact reported by:               <ul style="list-style-type: none"> <li>○ Annual energy savings in MWh or GWh</li> <li>○ Annual GHG emissions reduced / avoided in tonnes of CO<sub>2</sub>e</li> </ul> </li> <li>• <i>Green Buildings</i> <ul style="list-style-type: none"> <li>○ Area of certified green buildings in square feet or square metres and by certification level</li> <li>○ Annual amount of waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or in absolute amount in tonnes per annum</li> <li>○ Annual absolute (gross) water usage before and after the project in m<sup>3</sup> per annum/reduction in water usage in %</li> <li>○ Annual GHG emissions reduced / avoided in tonnes of CO<sub>2</sub>e per annum</li> </ul> </li> <li>• <i>Clean Transportation</i> <ul style="list-style-type: none"> <li>○ Passenger miles travelled</li> <li>○ Annual GHG emissions reduced / avoided in tonnes of CO<sub>2</sub>e per annum</li> <li>○ Reduction of air pollutants: particulate matter (PM), sulphur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)</li> </ul> </li> <li>• <i>Sustainable Water &amp; Wastewater Management</i> <ul style="list-style-type: none"> <li>○ Annual absolute (gross) water usage before and after the project in m<sup>3</sup> per annum/reduction in water usage in %</li> <li>○ Annual absolute (gross) amount of greywater reused and not sent for treatment, before and after the project in m<sup>3</sup> per annum/reduction in water usage in %</li> </ul> </li> <li>• <i>Pollution Prevention &amp; Control</i> <ul style="list-style-type: none"> <li>○ Tonnes of waste reduced</li> <li>○ Tonnes of secondary raw materials or compost produced</li> <li>○ Absolute or % reduction in air/water pollutants</li> <li>○ Number of people or % of population provided with improved municipal waste treatment or disposal services</li> <li>○ Number of people or % of the population with access to waste collection under the project</li> </ul> </li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>○ The absolute amount or % of residual non-separated waste before and after the project</li> <li>○ Added monetary value created using waste</li> <li>• <i>Environmentally Sustainable Management of Living Natural Resources and Land Use</i> <ul style="list-style-type: none"> <li>○ Total surface financed (hectares), with reference to specific certification schemes where relevant</li> <li>○ Volume of organic products procured (metric tonnes)</li> <li>○ Number of organic products offered</li> <li>○ Environmentally sensitive areas protected (acres)</li> </ul> </li> <li>• <i>Climate Change Adaptation</i> <ul style="list-style-type: none"> <li>○ Reduction in number of flood events</li> <li>○ Number of households protected from flooding through flood defence works</li> </ul> </li> <li><i>Social Categories:</i> <ul style="list-style-type: none"> <li>• <i>Access to Essential Services – Health / Education</i> <ul style="list-style-type: none"> <li>○ Number of care beds built/upgraded</li> <li>○ Number of pupils in new or refurbished schools</li> <li>○ Number of older people enabled to remain in their own homes</li> <li>○ Number of library users</li> <li>○ Number of trips taken using public transport</li> </ul> </li> <li>• <i>Affordable Housing</i> <ul style="list-style-type: none"> <li>○ Number of households provided with properties at social, intermediate, and affordable rents</li> <li>○ Number of housing units built or funded</li> <li>○ Number of homes acquired for social and affordable housing</li> </ul> </li> <li>• <i>Employment Generation through SME Financing</i> <ul style="list-style-type: none"> <li>○ Number and value of loans to MSMEs</li> <li>○ Number and value of loans to women/minority owned MSMEs</li> <li>○ Number of jobs supported/created/retained</li> <li>○ Number of projects supported</li> </ul> </li> <li>• <i>Socioeconomic Advancement and Empowerment</i> <ul style="list-style-type: none"> <li>○ Number of beneficiaries</li> </ul> </li> </ul> </li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>○ Share of people with broadband network</li> <li>• <i>Affordable Basic Infrastructure</i> <ul style="list-style-type: none"> <li>○ Number of households benefiting from improved access</li> </ul> </li> </ul> <p>The evidence reviewed gives DNV the opinion that the financing instruments will deliver clear social, environmental, and sustainable benefits.</p>

## 2. Process for Project Selection and Evaluation

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2a	Investment-decision process	<p>The issuer of a Green/Social/Sustainable Bond/Loan should outline the decision-making process it follows to determine the eligibility of projects using Bond/Loan proceeds. This includes, without limitation:</p> <ul style="list-style-type: none"> <li>• A process to determine how the projects fit within the eligible Green/social Project categories identified in the GBP, SLP, GLP and SBG.</li> <li>• The criteria making the projects eligible for using the proceeds.</li> </ul>	<p>Discussions with the UKMBA and review of the following documents:</p> <ul style="list-style-type: none"> <li>• UKMBA Governance and Board</li> <li>• UKMBA Sustainable Finance Framework (2022)</li> <li>• UK Government Green Finance Strategy (2019) – <a href="#">online</a></li> <li>• UKMBA Governance and Board</li> <li>• August 2020 - MBA Standalone - Information Memorandum 176317-4-2919 v0.1_Final</li> </ul>	<p>The evidence reviewed by DNV clearly outlines a due diligence process to ensure that projects to be funded will fulfil both the eligibility criteria and the Use of Proceeds criteria.</p> <p>The UKMBA will be responsible for reviewing documentation submitted by prospective borrowers and duly assessing projects to establish eligibility. Sustainability assessments and wider ESG impacts of the projects to be funded, along with the borrower’s risk policies and sustainable practices, will be considered. Shortlisted projects will be subject to approval by the Agency’s Board (‘Board of Non-executive Directors’) who have full control over the company’s governance, strategies and policies, and will be subject to credit approval of the borrowers in the case of pooled financing instruments. The Directors of the UKMBA’s Board all have held senior positions in either a local government or in financial services. In addition, the Board retains full oversight of the Agency’s credit process and reserves the right not to lend to a council even if its credit ratings are excellent.</p> <p>The specific issuances will need to be further assessed on a case-by-case basis.</p> <p>DNV concludes that the prospective borrowers and the projects to be financed will be appropriately evaluated and selected in line with the Framework and the GBP, SLP, GLP and SBG.</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
2b	Issuer's environmental and social and governance framework	In addition to the information disclosed by an issuer on its Green/Social/Sustainable Bond or Loan process, criteria and assurances, investors may also take into consideration the quality of the issuer's overall framework and performance regarding environmental sustainability.	Discussions with the UKMBA and review of the following documents: <ul style="list-style-type: none"> <li>UKMBA Governance and Board presentation</li> <li>UKMBA Sustainable Finance Framework (2022)</li> <li>UKMBA Governance and Board</li> <li>August 2020 - MBA Standalone - Information Memorandum 176317-4-2919 v0.1_Final</li> </ul>	Based on the information reviewed, DNV concludes that the Agency is committed to promoting the delivery of its corporate strategy to managing Sustainability, and its wider approach to delivering on the UN SDGs, through its funding strategy and the financing instruments that are to be issued under the Framework.

### 3. Management of proceeds

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
3a	Tracking procedure	The net proceeds of Green/Social/Sustainable Bond/Loan should be credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process that will be linked to the issuer's lending and investment operations for Green/Social/Sustainable Projects. So long as the instruments are outstanding, the balance of the tracked proceeds	Discussions with the UKMBA and review of the following documents: <ul style="list-style-type: none"> <li>UKMBA Standalone Information Memorandum (2020)</li> <li>UKMBA Sustainable Finance Framework (2022)</li> <li>UKMBA Governance and Board</li> <li>August 2020 - MBA Standalone - Information</li> </ul>	<p>The UKMBA has confirmed that the net proceeds of each issuance will be allocated to the relevant local authority borrowers, subject to the allocations specified in the Information Memorandum.</p> <p>Tracking of the allocated proceeds will be based on periodic reports from the borrowers in the case of standalone financing instruments and on the UKMBA's own reporting procedure for pooled instruments. The UKMBA has committed to report information on its website twice a year, and to include information in the Agency's Sustainable Financing Programme Annual Report.</p> <p>A specific approval and reporting procedure has also been provided by the UKMBA, in case of the re-allocation of proceeds. This will be subject to the approval of the Agency and will have to comply with the Framework and the specific requirements of the financing instrument issue. If approved, re-allocations will be reported every month</p>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
		<p>should be periodically reduced by amounts matching eligible sustainability investments or loan disbursements made during that period.</p>	<p>Memorandum 176317-4-2919 v0.1_Final</p>	<p>on the Agency’s website and will be disclosed in the ‘Sustainable Financing Programme Annual Report’.</p> <p>The UKMBA expects the majority of the proceeds to be used to finance new projects, but it will allow new financing and refinancing in the Loans portfolio.</p> <p>Under the Framework, for new projects, DNV notes that local authorities will have a forward-looking period of two years. Where local authorities are allocating funds to existing projects, this will be subject to a lookback period of three years.</p> <p>DNV concludes that the UKMBA has a clear and appropriate procedure in place to track and manage the allocation of proceeds from the sustainable financing instrument issuances.</p>
3b	Temporary holdings	<p>Pending such investments or disbursements to eligible Sustainability Projects, the issuer should make known to investors the intended types of temporary investment instruments for the balance of unallocated proceeds.</p>	<p>Discussions with the UKMBA and review of the following document:</p> <ul style="list-style-type: none"> <li>• UKMBA Sustainable Finance Framework (2022)</li> <li>• UKMBA Governance and Board</li> <li>• August 2020 - MBA Standalone - Information Memorandum 176317-4-2919 v0.1_Final</li> </ul>	<p>We conclude that the UKMBA has disclosed how it will manage any reallocation or disbursements in line with the Framework and its internal policies (Information Memorandum). Any re-allocation of proceeds by borrowers to different projects from those originally approved will be subject to the approval of the UKMBA.</p>

4. Reporting

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
4a	Periodical reporting	In addition to reporting on the use of proceeds and the temporary investment of unallocated proceeds, issuers should provide at least annually a list of projects to which the proceeds have been allocated including - when possible with regards to confidentiality and/or competitive considerations - a brief description of the projects and the amounts disbursed, as well as the expected environmentally sustainable impact.	Discussions with the UKMBA and review of the following document: <ul style="list-style-type: none"> <li>UKMBA Sustainable Finance Framework (2022)</li> <li>UKMBA Governance and Board</li> <li>August 2020 - MBA Standalone - Information Memorandum 176317-4-2919 v0.1_Final</li> </ul>	<p>The UKMBA has committed to reporting on the Allocation and Impact of the Eligible Expenditures financed through the Sustainable Financing Instruments. This will be made available through its website and the Agency's Sustainable Financing Programme Annual Report.</p> <p>The UKMBA has committed to monthly 'Allocation Reporting' on the loans funded by Sustainable Financing Instruments, including:</p> <ul style="list-style-type: none"> <li>The purpose of the Loan;</li> <li>Relevant project categories; and</li> <li>High-level details of the project and its associated benefits.</li> </ul> <p>Where feasible and on an ongoing basis the UKMBA will provide annual reporting on the relevant 'Impact' metrics for the sustainable projects that it funds. The UKMBA will report against the key KPI's, with the appropriate metrics specifying what targets have been achieved. For instance:</p> <ul style="list-style-type: none"> <li>✓ Renewable energy generation per annum (MWh/GWh)</li> <li>✓ Capacity of renewable energy plants constructed/rehabilitated (MW)</li> <li>✓ Annual GHG emissions reduced / avoided (tonnes / CO<sub>2</sub>e)</li> <li>✓ Annual energy savings (MWh or GWh)</li> <li>✓ Annual GHG emissions reduced / avoided (tonnes of CO<sub>2</sub>e)</li> <li>✓ Building certification (scheme and ratings obtained)</li> <li>✓ Annual amount of waste that is prevented, minimised, reused or recycled before and after the project (% of total waste and/or tonnes per annum)</li> <li>✓ Annual absolute (gross) water usage before and after the project (m<sup>3</sup> per annum) and/or reduction in water usage (%)</li> <li>✓ Passenger miles travelled</li> <li>✓ Reduction of air pollutants: particulate matter (PM), sulphur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)</li> <li>✓ Annual absolute (gross) amount of greywater reused and not sent for treatment, before and after the project (m<sup>3</sup> per annum) and/or reduction in water usage (%)</li> <li>✓ Volume of waste reduced (tonnes)</li> <li>✓ Volume of secondary raw materials or compost produced (tonnes)</li> <li>✓ Absolute or % reduction in air/water pollutants</li> </ul>

Ref.	Criteria	Requirements	Work Undertaken	DNV Findings
				<ul style="list-style-type: none"> <li>✓ Number of people or % of population provided with improved municipal waste treatment or disposal services</li> <li>✓ Number of people or % of the population with access to waste collection under the project</li> <li>✓ The absolute amount or % of residual non-separated waste before and after the project</li> <li>✓ Added monetary value created using waste</li> <li>✓ Total surface financed for Environmentally Sustainable Management of Living Natural Resources and Land Use (hectares and certification schemes)</li> <li>✓ Volume of organic products procured (metric tonnes)</li> <li>✓ Number of organic products offered</li> <li>✓ Environmentally sensitive areas protected (acres)</li> <li>✓ Reduction in number of flood events</li> <li>✓ Number of households protected from flooding through flood defence works</li> <li>✓ Number of care beds built/upgraded</li> <li>✓ Number of pupils in new or refurbished schools</li> <li>✓ Number of older people enabled to remain in their own homes</li> <li>✓ Number of library users</li> <li>✓ Number of trips taken using public transport</li> <li>✓ Number of households provided with properties at social, intermediate, and affordable rents</li> <li>✓ Number of housing units built or funded</li> <li>✓ Number of homes acquired for social and affordable housing</li> <li>✓ Number and value of loans to MSMEs</li> <li>✓ Number and value of loans to women/minority owned MSMEs</li> <li>✓ Number of jobs supported/created/retained</li> <li>✓ Number of projects supported</li> <li>✓ Share of people with broadband network</li> <li>✓ Number of households benefiting from improved access to public services and facilities</li> </ul> <ul style="list-style-type: none"> <li>• Case studies that detail the contribution of the UKMBA's loans to a given local authority, when feasible.</li> </ul> <p>DNV can confirm the UKMBA's intent to report on the environmental, social, and sustainable impacts of the financing instruments, where viable. This will be reviewed by an independent third-party.</p>