

Sustainability Framework Alignment Opinion

# King's College London Sustainable Financing Framework

March 1, 2021

## Sustainable Financing Framework Overview

The King's College London's (KCL's) sustainable financing framework, published on March 1, 2021, is aligned with the four components of the Green Bond Principles (GBP) and the four components of the Social Bond Principles (SBP), collectively referred to under the Sustainability Bond Guidelines, as well as the four components of Green Loan Principles (GLP). KCL is a university college with a focus on medicine, law, humanities, and sciences. In our view, it has a strong reputation and is renowned for its teaching quality and research capability. KCL aims to provide high-quality research that contributes to the advancement of Sustainable Development Goals (SDGs) and more equitable access to education. These aims are complemented by strong environmental commitments including, but not limited to, increased recycling rates and decreasing carbon emissions. The main objectives of the framework correspond with KCL's social and environmental commitments.

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## Framework Alignment Overview



### 1. Use of proceeds

KCL's sustainable financing framework is aligned with this component of the GBP, GLP, and SBP because it commits to using net proceeds of financing issued under the framework to fund eligible green and social projects that fit into the categories defined by the principles. The GBP and GLP categories are green buildings, energy efficiency, sustainable water and wastewater management, renewable energy, pollution prevention and control, and clean transportation. SBP categories are socioeconomic advancement and empowerment, and access to essential services.



### 2. Process for project evaluation and selection

KCL's sustainable financing framework is aligned with this component of the GBP, GLP, and SBP because it outlines how the sustainable finance committee approves and oversees the eligible project portfolio. The committee ensures compliance of selected projects with the framework and excludes projects that do not fit into defined eligibility criteria. The framework provides additional details about the selection process of Ph.D. research governed by the KCL's Centre for Doctoral Studies.



### 3. Management of proceeds

KCL's sustainable financing framework is aligned with this component of the GBP, GLP, and SBP because the issuer commits to track net proceeds and ensure that the value of sustainable assets will at all times exceed the net proceeds raised. The issuer manages unallocated funds following its treasury policy.



### 4. Reporting

KCL's sustainable financing framework is aligned with this component of the GBP, GLP, and SBP because it intends to report the allocation of proceeds and social impact of the eligible categories until fully disbursed. The issuer will provide a Sustainable Finance Allocation Report on an annual basis.

## Issuer Sustainability Objectives

KCL has a comprehensive sustainability agenda to contribute positively to a variety of social and environmental issues globally and locally. As a teaching and research institution, KCL has significantly contributed to the UN Sustainable Development Goals (SDGs), primarily SDG 1 No Poverty; SDG 3 Good Health and Wellbeing; SDG10 Reduced Inequalities; SDG 11 Sustainable Cities and Communities; SDG 16 Peace, Justice and Strong Institutions; and SDG 17 Partnerships for the Goals. In its Strategic Vision 2029, KCL highlights the importance of research institutions to respond to global issues such as forced displacement. It has defined its main strategic priorities for 2020-2022 as education, research, service (make impactful and innovative contributions to society through education and research), London (contribute to the wellbeing of the city and its communities) and internationalization. In addition, KCL is committed to improving diversity, inclusion, and equal access to essential services in its institutes and centers. KCL's Strategic Vision also reflects the university's environmental targets, including achieving 70% recycling of nonhazardous office and residential waste by July 2021, net zero carbon emissions by 2025, and a reportable environmental pollution incident rate of zero. KCL is also developing a climate action plan with the support of its recently launched Climate Action Network (CAN).

## Framework Description

### 1. Use of proceeds



The GBP, GLP, and SBP stipulate that a seeker of finance should commit the net proceeds of an issuance exclusively to eligible green and social projects, respectively. According to the GBP and GLP, eligible projects will seek to achieve at least one of five environmental objectives: 1) climate change mitigation, 2) climate change adaptation, 3) natural resource conservation, 4) biodiversity conservation, and 5) pollution prevention and control. According to the SBP, the following eligible project categories capture the most common social issues: 1) affordable basic infrastructure, 2) access to essential services, 3) affordable housing, 4) employment generation, and programs designed to prevent and/or alleviate unemployment, 5) food security and sustainable food systems, and 6) socioeconomic advancement and empowerment.

KCL has committed to allocate the net proceeds of financing issued under its framework exclusively to green and social projects. In our view, all six green categories stated in KCL's sustainable financing framework – green buildings, energy efficiency, sustainable water and wastewater management, renewable energy, pollution prevention and control, clean transportation – meet at least one of the GBP's and GLP's environmental objectives. Examples of projects include the construction or refurbishment of campus buildings that have or will get a green building certification, and the upgrade of heating and cooling systems and electrical equipment, which contribute to climate change mitigation objectives. Similarly, eligible green projects such as the improvement of waste management systems, can contribute to the objective of pollution prevention and control.

The framework outlines that social proceeds will be used to finance projects in two categories of the SBPs: socioeconomic advancement and empowerment and access to essential services. The first category includes projects such as Ph.D. research, education, service, civic, and international engagement activities, which aim to promote scientific and societal advancement and advance one or more of the UN SDGs. The second eligible category includes projects to improve access to health and education, including scholarships and inclusive education facilities and projects.

## 2. Process for project evaluation and selection



To align with the second component of the GBP, GLP, and SBP, a seeker of finance must explain the process by which eligible projects are selected, the related eligibility criteria applied to select those projects, including exclusionary criteria, if applicable, and the overall sustainability objectives that underpin the selection process.

KCL's sustainable financing framework includes a description of its process to approve and oversee eligible projects. The issuer has established a sustainable finance committee, which is responsible for evaluating the alignment of projects with eligibility criteria and KCL's strategy. The committee comprises representatives from the treasury and finance, environmental, sustainability and corporate social responsibility operations, and reports to the university's executive revenue and expenditure review committee. The sustainable finance committee is also responsible for excluding projects that do not comply with the framework and replacing them with better available options.

The framework also highlights the selection process of eligible Ph.D. research providing socioeconomic advancement and empowerment benefits. The process is defined and governed by KCL's Centre for Doctoral Studies in consultation with members of the Sustainable Finance Committee to ensure the selected research will advance at least one of the UN SDGs and, therefore, have positive social or environmental benefits.

## 3. Management of proceeds



The GBP, GLP, and SBP require a seeker of finance to monitor the net proceeds of all outstanding green and social bond transactions, which include appropriately tracking the proceeds and adjusting the balance of net proceeds to match allocations to eligible green and social projects. The GBP, GLP, and SBP also require a seeker of finance to disclose to investors the intended types of temporary placement they intend to use for unallocated proceeds.

KCL's sustainable financing framework outlines its plan to allocate all proceeds from sustainable debt instruments issued under the framework to eligible projects, assets, and expenditures.

KCL will track the net proceeds of the financing via its financial control systems. The issuer will ensure that the value of sustainable assets always exceeds the net proceeds raised until maturity of the debt instruments. Any differences will be met by alternative financing.

The issuer has also committed to reallocate the net proceeds to new green and/or social eligible assets in the event of divestments or if any assets are identified as no longer eligible. Unallocated funds can be used for debt repayment or any other transactions as long as they follow KCL's treasury policy. The issuer aims to allocate all funds to eligible projects between 36 months before or 24 months after the issuance date.

## 4. Reporting



The GBP, GLP, and SBP stipulate that a seeker of finance should report on the use of proceeds annually until full allocation. Information presented in the annual report must include a list of the projects that receive financing, a description of each project, including the amount allocated to each project, and their expected environmental and social impacts.

KCL has committed to annually report on the allocation of proceeds and, where feasible, on the environmental and social impact of the eligible green and social projects until full allocation of net proceeds. The issuer will report this information on an annual basis in a dedicated sustainable finance allocation report. Allocation reporting will include the total amount of net proceeds allocated to each eligible project category, the amount dedicated to financing and refinancing, the balance of unallocated proceeds, the type of financing instruments (private placements, loans, and bonds) used and their outstanding amounts. KCL will also disclose the progress and impact of eligible projects. The issuer selected a set of sustainable impact metrics that it will use to quantify its performance against each eligible category where feasible. For example, energy efficiency metrics include an estimate of annual avoided GHG emissions in tons of CO<sub>2</sub>; while volume of water saved in m<sup>3</sup> and a number of water conservation measures will be used for projects included in the sustainable water and wastewater management category. Metrics to measure the impact of projects in the socioeconomic advancement and empowerment category include the number of postgraduate research students and number of staff benefitting from training and development programs. Examples of metrics used in the access to essential services category include number of vulnerable students (for example, refugees) benefitting from KCL's learning programs, the number and value of scholarships awarded to asylum seekers, and the number and value of scholarships awarded to students from lower-income groups.

## Additional Features Of The Framework

This section of the report provides additional information about whether the framework incorporates recommended aspects of the GBP, GLP, and SBP and goes beyond minimum requirements. This section does not impact on our alignment opinion with the stated principles.

The KCL's sustainable financing framework follows the voluntary guidelines provided by the GBP, GLP, and SBP. It provides a good level of transparency and disclosure. In some cases, the framework goes beyond the requirements of the GBP, GLP, and the SBP. The key strengths of the framework include:

- The use of proceeds clearly outlines the rationale for the selected eligible categories, which helps to understand the potential environmental and social benefits associated with selected projects. In addition, the framework maps eligible project categories to relevant SDGs.

- KCL follows the GBP's, GLP's, and SBP's recommendation to provide an impact report of the projects funded with the environmental and social proceeds. It outlines impact indicators for each eligible category and commits to report those indicators annually. This framework also includes a commitment to follow the guidelines outlined in the International Capital Market Association (ICMA) Harmonized Framework for Impact Reporting.
- KCL will obtain assurance from its external auditor to verify the tracking method of the proceeds until repaid. It provides a credible external review to ensure proceeds are properly tracked and allocated and thereby supports the integrity of financing issued under the framework.
- The framework outlines that eligible green building projects should have attained or are expected to attain certification against industry standards, such as BREEAM, SKA, PassivHaus, EnerPHit, or similar recognized national or international standards.
- In addition, KCL commits to provide a second-party opinion about its sustainable financing framework, to ensure alignment with the GBP, GLP, and SBP, collectively referred to under the Sustainability Bond Guidelines.

Offsetting the above strengths are the following limitations:

- The GBP, GLP, and the SBP recommend that an issuer's process for project evaluation and selection be supplemented by the review of an auditor, or other third-party verifier. The framework does not meet these recommended criteria.
- KCL does not disclose in its framework the underlying methodology to calculate quantitative impact indicators as stated in its impact reporting.

## Conclusion

Based on our assessment of the contents of KCL's sustainable financing framework, we regard this framework as being aligned with the four components of the GBP, GLP, and SBP, collectively referred to under the Sustainability Bond Guidelines, given that the seeker of finance has committed to:

- Allocate the full amount of the net proceeds of bonds to eligible green and social projects, as defined by the seeker of finance;
- Use clear "green" and "social" criteria (as defined by the seeker of finance) to select projects for funding;
- Manage and track proceeds; and
- Commit to regular reporting of the environmental and social impact and use of proceeds.

## Mapping To The UN Sustainable Development Goals

The SDGs were set up by the UN in 2015 and form an agenda for achieving sustainable development by the year 2030. The KCL's sustainable financing framework intends to contribute to the following SDGs:

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Use of proceeds

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*Green buildings*



**11. Sustainable cities and communities**



**13. Climate action**

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*Energy efficiency*



**7. Affordable and clean energy**

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*Sustainable water and wastewater management*



**6. Clean water and sanitation**

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*Renewable energy*



**7. Affordable and clean energy**

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*Pollution prevention and control*



**11. Sustainable cities and communities**

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*Clean transportation*



**11. Sustainable cities and communities**

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*Socioeconomic advancement and empowerment*



**4. Quality education**



**3. Good health and wellbeing**



**12. Responsible consumption and production**



**13. Climate action**



**16. Peace, justice, and strong institutions**

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*Access to essential services*



**4. Quality education**



**10. Reduced inequalities**



**3. Good health and wellbeing**

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