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Investment Plan Framework

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This report provides information on the key elements a Mission Investment Plan should capture and an overview of the key Building Blocks to develop an Investment Plan.

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Abbreviations and Acronyms

Acronym	Description
AP	Action Plan
CCC	Climate City Contract
EPR	Extended Producer Responsibility
EU	European Union
IP	Investment Plan
MRV	Monitoring, Reporting and Verification

Keywords

Financing –Funding –Investment Plan –Investment Plan Framework –Local authorities –Cities –Climate Neutrality -Action Plan –CCC –Data –Policy –Stakeholder Engagement –Capital Planning –Capacity Building –Risk Analysis –Monitoring



1 Introduction

The purpose of this document is to outline the key elements of an Investment Plan Framework and provide guiding steps for the development of an Investment Plan in support of the 100 Climate-Neutral and Smart Cities EU Mission by 2030.

For cities, an investment plan framework will be a systematic strategy to map out the actions, impact, cost and capital needed to reach climate neutrality by 2030. It is intended to be a complete 360° approach to revolutionise the way cities plan, organise and develop their economic and financial strategy, taking into consideration every single related dimension/activity.

This will include the use of public resource and private capital, as outlined in the corresponding climate action plans based on the Climate City Contract (“CCC”). Together with the climate action plan, the investment plan will be reviewed as a precondition to receive a “Mission Label” from the Mission, as a tool to enable cities to better access resources and support from an array of EU resources and institutions.

The Investment Plan will be closely aligned with the Mission Action Plans, with both plans forming crucial elements of the Climate City Contract.



2 Purpose of the Investment Plan Framework

The Investment Plan Framework exists to guide cities in their mission to finance the transition to climate neutrality. It will guide cities on key elements including the economic and capital planning necessary to reach net zero by 2030. Whilst many cities have experience of developing action plans, city-wide investment plans for decarbonisation have not been developed before.

The **Investment Plan (IP)** and the **Action Plan (AP)** are strongly integrated within the **Climate City Contract (CCC)**, through which cities and multiple stakeholders confirm their commitment to net zero. Cities across Europe operate in different contexts. As a result, they are characterized by different levels of commitment and development when it comes to become net zero. The Investment Plan Framework, together with the CCC and AP, will undergo an iterative process and will evolve over time. Each city's journey to climate neutrality, the capital and investment planning activities will be highly dynamic, evolving as the scope and scale of actions change. This will be a common learning process, by which administrations will be encouraged to take inspiration from other cities' examples and share their expertise and experience in each sector involved.

The prime objective of Net Zero Cities project is to put cities in the driving seat of the fight against climate change, precisely mapping their current capital and investment needs and unlocking investments in an accelerated transition through a wide variety of funding and financial mechanisms that are appropriate to administrations' local context and needs. The use of the Investment Plan Framework is intended to serve as a reference to satisfy city's demonstration of mobilisation in support of the Mission, and thus be granted the Mission Label.



3 What is an Investment Plan?

Within the CCC, the Investment Plan forms a critical part of a city's journey towards climate neutrality. Herewith NZC partners outline the main characteristics of the Investment Plan Framework:

Figure 1: What is an Investment Plan?



3.1 Align with Mission Action Plan

Whilst it should not be mistaken with the Mission Action Plan, the Investment Plan and the Mission Action Plan will be closely aligned. The Investment Plan will build upon the portfolio of actions cities have committed to take within their Action Plans and quantify the capital needs and sources to deliver on these actions. Cities, with the support of NZC partners will undergo iterative process of developing actions to achieve impact, identify the costs of these actions and source capital to meet these costs. One of the main building blocks in the development of an Investment Plan is the alignment with the Action Plan.

3.2 Multi-Stakeholder Involvement

The development and implementation of the Investment Plan will require not only the involvement of public municipality, but also of other city stakeholders, including private sectors and citizens. Stakeholders from different backgrounds need to be involved in the process of developing an Investment Plan. Such stakeholders can be both within the city administration such as the environmental, legal, and financial team but also different external stakeholders including citizens, utilities, housing associations and academia.

3.3 City Wide Approach

The Investment Plan needs to capture both the public and private sector. The public sector usually owns only a fraction of the emitting assets within a city, and a city-wide Investment Plan needs to capture it all. Whilst the public municipality will not have a direct control over all the actions of the corporate and residential sector, it can act as a facilitator, through various policy, finance and regulatory mechanisms, for the development and implementation of new business models for climate neutrality.

3.4 Captures All Sectors

The Investment Plan needs to take an integrated approach, which will capture all emitting sectors/assets across the entire city, including buildings, waste, energy, transport and others. The segmentation of sectors and selected actions as outlined in the Action Plan need to be aligned with the Investment Plan. The top-down approach of cost and capital planning will be complemented with a bottom-up approach to create a portfolio of projects available to invest in.

3.5 Long Term Planning

In contrast to a municipality budgetary planning approach, the development of an Investment Plan is a long-term planning exercise for the identification of cost and capital allocation over time. One of the starting points in developing the plan will be to draw upon existing budgets and identify the investment gap to reach climate neutrality. As part of the planning process, it will be important to analyse the opportunity of redirecting existing public spending, to be aligned with climate goals. These mechanisms need to be closely aligned with other policy mechanisms such as the use of procurement and regulatory powers to drive investments within the city towards climate neutrality.

3.6 Economic & Financial Planning

The Investment Plan will focus particularly on the economic and financial planning of the city becoming climate neutral until 2030. A key facet of the proposed framework is the provision of cost, impact and capital allocation guidance that will be provided to cities. The Investment Plan will provide an estimation of the costs and capital required over time to implement the portfolio of actions outlined within the Mission Action Plan. The resulting direct and indirect impact/benefits of actions will be closely aligned with the capital breakdown. An estimate of the capital allocation per each emitting sector according to ownership will be broken down by public and private capital. This will allow for recommendations of suitable innovative financial instruments and funding mechanisms that can be utilised. Some cities are already using innovative financial instruments such as revolving funds and sustainable bonds which will be amalgamated into the capital planning process.



3.7 Catalyst for Capital

One of the main purposes of the Investment Plan is to help cities gain additional access to capital at scale. The ambition is that the Investment Plan will act as a catalyst in order to optimise funding and financial sources over time towards net zero projects. By clearly outlining the capital allocation required for actions and achieved impact will provide cities with more credibility with funding platforms and financial institutions. The role of public capital, including national and EU structured funds, and private investment capital will be closely analysed and optimised.

3.8 Iterative Process

The process of developing an Investment Plan will iterate over time as the project team in partnership with the cities, will learn, develop and tailor individual plans to city's local circumstances. Whilst the plans will be fluid over time and vary from city to city, the development of the first version will be of particular importance. The Investment Plan will also incorporate a set of indicators as part of a monitoring framework to track progress of the city over time.



4 Building Blocks and Actions

The Investment Plan Framework represents a comprehensive economic and financial mapping effort, quantifying and planning the capital needs, sources, and instruments to deliver actions for each of the city sectors interested. In order to guarantee the right planning and execution of the economic and financial activities at the basis of the framework, it is fundamental to use a wide approach that involves every dimension where the city administration will need to be involved.

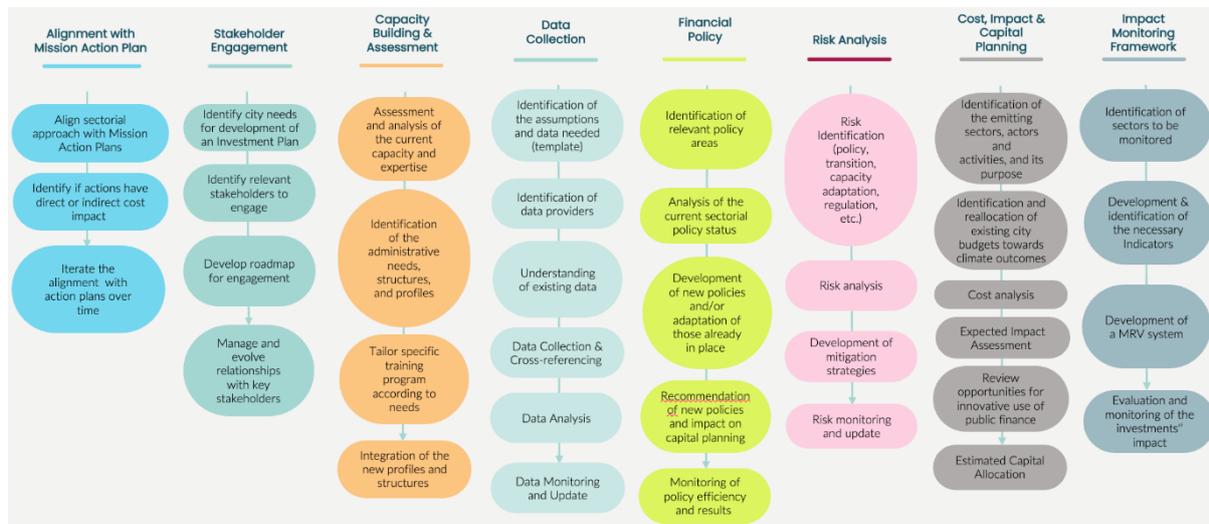
This is why the development of the Investment Plan Framework is comprised of several pillars, many of which are interdependent with each other, as illustrated below. These pillars do not have a specific order of execution. The city administration will be free to focus on the pillars that they consider may have the priority, knowing the city's specific points of strengths and weaknesses.

- **Alignment between Mission Action Plan & Investment Plan:** The work carried out in the Investment Plan will be closely aligned to the portfolio of actions and sectors identified in the Mission Action Plan.
- **Stakeholder Engagement:** this block will act as an ongoing process to engage and manage the key stakeholders that will be required to contribute to the development of the Investment Plan.
- **Capacity Building:** It is important to understand the capacity and expertise within the city administration so to subsequently tailor the right support effectively.
- **Data Collection:** this block is a key component, where information on the cost and capital sources, together with KPIs in each city sector involved, will be gathered so to be aligned with the impact achieved.
- **Financial Policy:** this element captures the policy landscape and analyses opportunities for the use of policy instruments to enable additional capital to flow within the city.
- **Risk Analysis:** risk analysis will be conducted as part of the due diligence processes of the investment plan.
- **Cost Analysis, Impact Assessments & Capital Planning:** This block will be dedicated to develop tailored and sector-focused cost analysis, impact assessments and capital planning over time across the entire city.
- **Impact Monitoring Framework:** An impact monitoring framework will be developed to track progress over time and help evaluate the impact of investments.

As the NZC Investment Plan is a newly developed concept, the proposed building blocks are still in draft format. However, these building blocks will form the base for the development of the training programme to support cities in the development of such plans.



Figure 2: Investment Plan Modular Roadmap Draft



4.1 Alignment with Mission Action Plan

The Investment Plan will be closely aligned with the portfolio of actions within the sectorial approach in the Mission Action Plan, ensuring that the city specific investment plans focus on those key emitting assets relevant to each city. The cost and associated impacts are tailored to the portfolio of interventions outlined in the Mission Action Plans and allow for the identification of funding and financial sources to complement the plan. The alignment between the Investment Plan and Action Plan will be iterated over time on an ongoing basis based on new relevant information that arises.

4.2 Stakeholder Engagement

In order to identify the key stakeholders that are relevant within each key emitting sector to scale up the impact of this Mission, the city specific needs for development of an Investment Plan will need to be outlined in alignment with the Mission Action Plan. Once the city needs are assessed, the relevant private and public stakeholders will be identified. The engagement process will be clearly outlined through a step-by-step roadmap which will ease and facilitate the task of managing and evolving relationships with key stakeholders over time.

4.3 Capacity Building & Assessment

Initially, there will be an assessment of the current capacity and capabilities of city officials to work in integrated ways to accelerate the transition to climate neutrality through the increased mobilisation of capital. This assessment will focus on the city's ability to source and manage public and private capital - including blended structures - as well as to prepare climate projects, with a clear understanding of key investment processes, and ability to use data frameworks and associated tools etc.



In combination with the analysis of current capacity and expertise in cities, the identification and understanding of the cross-departmental administrative needs relating to the investment processes will be evaluated. This will include the level of integration between the climate and finance teams both at a senior and junior level. The assessment will also ensure that members who are involved throughout the process have both the technical capacity and designated number of teams to support the implementation and execution of the Investment Plan. This will also include relevant structural changes to facilitate the process and profile gaps that may currently exist within the city administration.

Training programs will be tailored to address the technical capacity/capability gaps within the city administration. Although there will be training programmes already outlined, this process will allow for the refinement and deployment of training and tutoring, accessible to all cities and delivered to cities via the platform. This will include online resources, webinars, peer to peer learning, and tailored engagements facilitated by the City Advisors.

Once the technical capacity gap is addressed via the tailored programmes, the relevant structures and profiles needed to develop the plan will be integrated within cities to ensure the most efficient implementation of the investment planning framework. This could include finance-specific roles or refined organisation within city-wide structures in the administration.

4.4 Data Collection

This section is concerned with the collection and analysis of data (emissions per sector, cost breakdown, capital sources and others) that is currently available. Any available data from the Expression of Interest or through the Action Plans developed under the Covenant of Mayors will be utilised for the purpose of investment planning. A standardised data collection template, available through the platform, will be designed with the purpose to help cities and partners in the data collection process, providing estimations of key assumptions for data that is unavailable from cities and providers.

Having engaged with cities around the provision of data, it has been identified that some cities have partnered with data partners (such as ClimateView, Futureproofed or Kausal). Remaining cities can also engage at their discretion, if needed. The purpose of this is to provide accurate and comprehensive data to fill in gaps from the data collected within the data template request. Data providers will be assessed based on costs, quality of data, and their obtainability of data gaps.

Once there is an outline of the data collection template, identification of data providers, and an understanding of the level of data currently in possession, this will enable cities to input the data and collaboratively assess data gaps. This will include a cross-referencing validation process that will ensure data provided by the cities in combination with the data providers are aligned, in order to isolate any anomalies.

Once the capital planning has been undertaken, the allocated experts within the city and NZC project partners will be better informed with regards to the portfolio of investments that will be needed, to meet the ambition of the Mission Action Plan within the Climate City Contracts.

Post data analysis, there will be a continuous process of monitoring and updating the data based on additional data that becomes available. This can be both through cities themselves or data providers that will continue to collate data based on new information.



4.5 Financial Policy

Firstly, the key policy areas related to each sector will need to be identified including at EU, national and regional level. This may include convening with multi-level funding agencies, banks, investors, foundations, and other climate finance and municipal finance-related actors in order to understand what key policy actions could help unlock additional investment capacity and facilitate the transition to climate neutrality. Therefore, the purpose of identifying the relevant policy areas is to illustrate where existing policy structures both support and/or hinder the city in mobilising capital to meet the net zero goal – including procurement & general municipal budgeting, use of innovative public sector finance instruments, incentive schemes to households and private sector, and more.

Once the key policy areas are identified, there will be an analysis of how the policy landscape needs to change in order to enable cities to have greater access to climate finance as well as ability to invest that will support their transition to climate neutral by 2030. This will include the development of current policies to further support financing as well as recommendations of new policies.

It is important to stress that new policies will need to be structured and implemented to favour a more effective engagement with private actors which in turn will help cities to obtain investment that enables meeting their climate goals. Understanding and analysing how such policies will impact the allocation of capital over time will also be completed in this step. Examples of such policies include green procurement, increase in taxes for diesel transport, congestion charges, Extended Producer Responsibility (EPR), and re-alignment of city budgets with climate goals etc., as well as innovative public sector finance instruments. Whilst such policies will be within the remit of the city administration, they need to be aligned with the other relevant stakeholders of the city. The efficiency of the recommended policies will be monitored on an ongoing basis and adapted to support the cities to mobilise capital.

4.6 Risk Analysis

The first step of the risk analysis block will outline several risk categories which will impact the capital allocation. Examples of these risks are directly linked to the other building blocks, and includes: policy risk, capacity and capability risk, supply chain risk, institutional adaptation risk, the risk of not acting, and asset transition risk. It is key to identify all relevant risks to ensure the implementation of the Investment Plan and action plan are completed as efficiently as possible without predictable issues arising.

Once the relevant risks are identified, there will be a thorough analysis to understand why and how they may arise to understand how potential mitigation strategies can be developed. The analysis will be made across various stakeholders to have a comprehensive view and ensure any other key risks are not overlooked.

Once the relevant risks are identified and analysed, mitigation strategies can be developed to ensure the capital allocation is not negatively impacted when implementing the action plan. These mitigation strategies will be reviewed to ensure they concisely address the relevant risks identified above.



These risks will be monitored and updated on an ongoing basis, and will evolve based on new information and changes in city administrations if any occur. Any risks that are identified throughout the monitoring process will then be analysed, and corresponding mitigation strategies will be developed, following the same process above.

4.7 Cost, Impact & Capital Planning

The data will be analysed by the city together with the relevant NZC project partners to inform an understanding of the portfolio of investments that will be needed to meet the ambition of the Mission Action Plan on the Climate City Contracts.

Working closely with the development of the Mission Action Plan to identify the portfolio of initiatives and their ability to reveal pathways towards climate neutrality, an analysis and estimation of the costs of implementation will be calculated. This sub-pillar is essential to understand the amount of capital and the appropriate funding and financing schemes, tools and solutions for the implementation of the identified climate actions across a number of different stakeholders.

There will also be a focus on the level of impact achieved, specifically the co-benefits such as carbon abatement. This will be monitored by outlining the key milestones as well as the monitoring and evaluation process to measure the level of impact achieved within the Investment Plan. This will be through highlighting the metrics and indicators necessary within cities to track progress of implementation and compare actual delivery to projected impact. This is particularly important to the overall Investment Plan given stakeholders such as philanthropies and financial institutions require verified environmental and social returns when investing capital.

Once costs are identified and calculated, the capital allocation by asset ownership will provide a breakdown between repayable and non-repayable capital. The precise allocation over time will be dependent on specific local circumstances in each city, subject to varying national contexts, as well as several enabling factors. This capital needs assessment exercise will help to inform the development of capital structures and financial instruments needed for each city, including both public and private capital. The capital breakdown will allow for interlinkages between sector specific investments.

4.8 Impact Monitoring Framework

The next step is to identify and develop a set of economic and financial indicators/metrics and key milestones to assess the level of impact achieved within the Investment Plan. This will enable cities to track progress of implementation, compare actual delivery to projected impact, and assess impact through investments.

Once the indicators are identified and developed, a Monitoring, Reporting and Verification (MRV) system is required to objectively assess progress over time. This will be an overarching framework that allows for a holistic and multidimensional assessment of the cities' progress and realistic objectives and milestones, both financial and climate related (these are currently being scoped out).



The MRV system will be utilised to assess, evaluate and verify the level of impact each investment has achieved. This will allow transparency for direct linkages between financial and social/environmental impact for example, the reduction in health costs due to reduced pollution. At the conclusion of specific investments, the actual impact will then be compared with the projected level of impact to understand if/why differences have occurred. The Monitoring framework developed under the Investment Plan will be closely aligned with the framework developed under the Action Plan.

