Responsible business newsletter

Banking and finance edition 2026

Responsible business | *Empowering sustainable growth*

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Foreword

Funding is critical to delivering projects with social value, and for investors, it's an opportunity to support projects with strong ESG credentials.

Innovative responsible finance and blended finance deals can help reduce the risk for private lenders making funding these types of projects, and in particular social housing projects, more attractive.

Risk reduction naturally includes certainty of returns and delivery of the promised ESG credentials in the face of the FCA's anti-greenwashing legislation.

In this edition of the Responsible Business newsletter, we look at how responsible finance helped Westminster Council not only safeguard a portfolio of properties used for vital temporary housing, but also deliver the resources for essential upgrade work to make them more energy efficient.

We also explore blended finance, how it works and what to look out for to ensure all the terms of the deal are satisfactorily met. By way of an example, Peabody's landmark blended finance deal, put in place to fund sustainability improvements to its vast portfolio of properties, gets dissected.

And finally, we discuss how responsible finance has changed and what to look out for in the sector.

Do get in touch if you'd like to discuss any of the topics featured, explore how we can support your responsible business goals, or share your own initiatives. But in the meantime, we hope you enjoy this edition of our Responsible Business newsletter.

Responsible finance:

How it is viewed and what is next

How has the responsible finance landscape changed and what do businesses need to be aware of? Five of Trowers & Hamlins' banking team sat down to discuss as well as exciting future trends…and what drew them to work in the sector.

How has client demand for ESG integration in banking and finance evolved over the past five years?

Lara Marsden, Senior Associate: When we started five years ago, there was a lot of initial interest, but people weren't exactly sure of how to do it or navigate the reporting standards. But everyone has got more okay with it, and there has been a simplification over time.

Some of the smaller banks have shied away from doing it because it can cost quite a lot, and the margins aren't huge, so it's a case-by-case basis.

Imogen Fisher, Partner: More lenders want to lend specifically into the ESG space. For example, Phoenix Life Limited looks to deploy 50-70% of its funds into ESG products. A deal with Westminster Council to fund the purchase of a portfolio of temporary accommodation (see article) includes social as well as environmental aspects.

What are the most significant regulatory or legislative developments in ESG that businesses need to be aware of?

Jonathan Grosvenor, Partner: The FCA has introduced an anti-green-washing rule, which means if you call something green, it genuinely has to be green. It's the same as if your accounts are fraudulent or if you mislead investors; there are ramifications.

There is also the voluntary European Green Bond standard, which aligns with a whole series of ESG-related EU regulations. It doesn't have to be EU-based, but it means the product is aligned with a tried-and-tested regime. It's like giving it a gold star.

Natalie Singh, Partner: One of the issues around ESG reporting is data aggregation and standardisation, and a sustainability reporting standard has been developed for social housing. The aim is to try to produce a consistent framework under which people can report ESG activities.

Where do businesses most commonly misjudge or overlook ESG risks and opportunities?

Jasna Djurisic, Managing Associate: Within the social housing space, depending on the size of the provider, to gather all the data and see where the opportunities are, you almost need an extra member of the team.

We see quite a lot of loans with a sustainability-linked option, but you have perhaps a year within signing to agree the KPIs and the targets, and they don't, so the whole thing lapses.

So initially, you will have thought, 'that's another sustainably-linked loan (SLL) we've done'. But then, two years later, you see it isn't, because nobody agreed the targets and they fell away.

JG: There is upstream and downstream supply chain risk; if your business holds itself as being ESG-centric, you need to make sure all contractors adhere to it. It can be reputationally bad if you are dealing with a contractor who doesn't pay the living wage, for example. But you can use your bartering power to achieve that down the supply chain.

What inspired you to specialise in banking and finance?

IF: Whether you are acting for the lender or the borrower, everyone is trying to get to the same conclusion. You can't do any of these transactions without the money, so it's important.

NS: I started as a corporate M&A lawyer and ended up doing a couple of transactions that brought about broader change. I set up a social impact VCT fund and started working in social housing, where transactions deliver social good.

JD: Houses I can conceptualise rather than the securitisation of lease income. I like that aspect.

JG: You meet all kinds of people from all different walks of life, in different businesses, different sectors. They're all trying to obtain financing, so there's standardisation, but it's made more interesting by the people involved.

Which innovation or trend in responsible finance do you find most exciting for the future?

IF: When you talk about institutional money, the individual investors in those funds will demand that a portion is spent on ESG. I think that's quite interesting, how when I put money in my pension, I can direct it into things that are good for the environment and the social fabric of society.

NS: It's looking at investment in a more circular or rounded way. It doesn't deliver just one outcome, such as profit, but a range of measurable outcomes that improve social or environmental factors.

LM: Five years ago, a lot of people were wondering whether this was going to be a phase and then abandoned, but sustainable finance and responsible business are being embedded.

There are issues with things like how small the margin adjustments can be, or how much benefit you're necessarily getting, but it's obviously something that's going to continue, and the issues will be worked through, rather than it being a phase.

Blended finance / Sustainability-linked loans

Financing any long-term or large-scale project is complex and perhaps especially so for those with the additional element of either delivering a social or environmental impact or those driving ESG improvements via a sustainability linkage. Finding appropriate finance demands innovative approaches. Both blended finance and sustainability-linked loans have emerged as potential alternative methods of funding and the Affordable Housing Finance team at Trowers has seen how these can be a useful additional source of finance for Registered Providers of social housing both in securing more favourable commercial terms and in encouraging companies to embed sustainability into their core strategy.

Blended finance generally refers to the strategic use of public or philanthropic funds to mobilise private investment for projects that deliver social, environmental and economic benefits. By combining capital (from governments, development banks or foundations) with commercial investment (from institutional investors, corporations and banks), blended finance can reduce risk and enhance the attractiveness of projects that might otherwise be considered too risky or low-return.

This approach is particularly relevant for sectors such as renewable energy, climate resilience, healthcare and infrastructure where the need for investment far exceeds the capacity of the public budget alone.

The UN estimates that achieving the Sustainable Development Goals will require trillions of pounds annually. Public funds alone cannot meet this demand, however the public sector can play a significant role in mitigating the risk to the private sector investing in low return or potentially more risky projects by offering alternative solutions, for example guarantees which might make a project more appealing to a private investor.

The public and private sectors are collaborating to fulfil their respective goals in a mutually beneficial way. The public sector can offer support in, for example, the form of guarantees, co-investment or grants and the private sector can align financial returns with social and environmental outcomes.

Sustainability-linked loans on the other hand are a type of loan product where the interest rate (or sometimes other financial terms) is tied to the borrower's performance against pre-agreed sustainability metrics. Sustainability-linked loans can be utilised for general corporate purposes, but the borrower commits to achieving measurable environment, social and / or governance goals and, if they meet or exceed such goals they receive a margin discount. Independent third-party verification is often required to ensure credibility and transparency.

In the UK, sustainability-linked loans and more recently, blended finance have been used to good effect in the affordable housing sector. Registered Providers of social housing face a myriad of complex and long-term funding needs due to regulatory and sustainability requirements intrinsic to the provision of homes that need to be safe, clean and energy efficient. Some of our Registered Provider clients own well in excess of 25,000 properties which gives the reader an idea of the scale of the problem. Different products have emerged in the last five years to help address these needs and one product has been more prominent than others which is the sustainability-linked loan.

Natalie Singh, Banking and Finance Partner says:

"There is a synergy between the charitable social objects of a registered provider and the environmental, social and governance targets of funders to the sector."

Social housing attracts investment from funders because Registered Providers are inherently "sustainable" as they have a clear strong social purpose which is a good fit for the ESG agenda.

We have seen many funders to the sector offering sustainability-linked loans. These offer margin reductions if a borrower meets negotiated ESG targets that can range from the number of apprentices employed in any one year to the number of properties where an energy performance rating is improved to, for example, an EPC category "C" to the number of electric vehicles owned. We have also seen social targets for example ensuring that the board of management meets EDI targets by taking measures to ensure that a diverse group of people represents the community in which a Registered Provider operates, reflecting tenants. Sustainability-linked loans are more than a financing tool – they align with regulatory pressures and net-zero commitments helping Registered Providers future-proof their portfolios as well as enabling them to combine financial resilience with environmental and social impact.

Jasna Djurisic, Banking and Finance Managing associate says:

"Funders recognise that Registered Providers do far more than maintain houses: they are employers, carers and have deep roots in their communities seeking to improve the work, life and health outcomes for their residents. It is natural that funders should seek to offer their products to Registered Providers in order that funders themselves can meet their own targets for sustainability-linked funding."

Other products are available for Registered Providers that are of sufficient size and strength to access the capital markets on their own account and we have advised on green bonds and sustainable bonds. The bond aggregators in the market such as The Housing Finance Corporation (THFC), another of the firm's clients, have continued to provide sustainability-linked funding to borrowers who choose to access funding in this way.

The UK Government has also become involved through the National Wealth Fund (NWF) in supporting the decarbonisation of social housing and has developed blended finance products with Barclays, NatWest, Lloyds and THFC to enable these funders to offer loans for retrofit works that include a fully or partially unsecured funding package, backed by a guarantee from NWF. NWF has committed £1.3 billion in guarantees across these programmes. These guarantees reduce lender risk and unlock additional sources of finance for Registered Providers. This blended finance model accelerates progress toward net-zero targets, reduces energy bills for tenants, and improves living standards, all while safeguarding financial sustainability. Trowers acted on the largest of these loans to date, Peabody's £60 million unsecured facility from Lloyds and has also advised THFC in developing its product with NWF.

The natural fit of these various products for both funder and borrower will hopefully mean continued interest and it may transpire in the coming years that it is no longer an option but a mandatory imperative as government requirements including Decent Homes 2 demand ever stringent improvements and efficiencies from Registered Providers.

Innovative funding deal helps safeguard temporary accommodation homes

Nick Haverly

Strategic Finance Manager, Westminster City Council

Oliver Swallow

Senior Portfolio Manager - Private Markets, Phoenix Group

Westminster City Council, like most local authorities, has a high number of households in temporary accommodation waiting to be assessed for social homes and found permanent places to live.

When the landlord of a portfolio of homes the council was using for temporary accommodation indicated that they needed to sell, there was a risk of losing the properties and the much-needed accommodation. A radical and rapid solution was required.

The central London local authority has 4,500 households in temporary homes, of which it owns only 350. The rest are leased from third-party landlords of varying sizes, and this particular portfolio of 368 homes belonged to housing association A2Dominion.

"We modelled how significant the financial impact would be on the Council having to put everyone in alternative nightly booked accommodation, which would have been the only alternative,"

says Nick Haverly, Strategic Finance Manager, Westminster City Council.

"There was a need to find a solution that worked for everyone because we didn't want to lose access to the portfolio."

The portfolio of properties would have cost a substantial sum to buy, and the Council looked at a number of options including funding from the Public Works Loan Board (PWLB) and public-private funding deals with institutional investors.

PWLB is the traditional way of funding council projects and is easy and quick to access, but the repayment profile isn't very flexible.

A loan from an institutional investor would involve a more complex arrangement but, if structured in the right way, could offer greater flexibility and a better alignment with the asset cashflows.

Having the right support and an existing financial relationship with Phoenix Group proved pivotal in finding a funding solution and securing a deal.

Westminster City Council was able to acquire the portfolio through an innovative funding structure, incorporating a loan guarantee, a Credit Tenant Lease, a capex budget and sculpted cashflows all within a tax efficient structure.

The funding structure enables the Council to fully repay the loan used to purchase the properties over a term of 42 years.

"This wasn't just about the legal and property matters, but also the tax implications. Had we not had the right support and advice, we may have been worried about what we were letting ourselves in for, given the tight timescale we had to turn the deal around"

says Nick Haverly. An established relationship with Phoenix Group was also helpful in securing the deal.

"This is a great example of a modern public private partnership funding structure "

says Oliver Swallow, Senior Investment Manager, Phoenix Group.

"It works because we are open and transparent about our funding returns. In addition, being an insurance company with a long term buy-and-hold outlook creates a strong alignment of interest with the asset stakeholders."

Crucially, the deal with Phoenix Group had the flexibility that money from the PWLB wouldn't. Phoenix created a flexible cash flow bespoke to the borrower, enabling it to "align the cash flows much better to the underlying assets and to the borrower's requirements", explains Oliver Swallow.

On paper, initial projections might make the index inflation-linked debt deal look like an expensive option over time compared to PWLB. However, Nick Haverly says doing a proper NPV analysis showed it worked out a lot cheaper than other forms of finance.

The index-linked rent also has a cap to mitigate against high inflation should this rise significantly again.

An additional £33.5 million lump sum was included within the funding to help the Council with its capex costs for the portfolio which will facilitate improvements across the portfolio. The loan includes a covenant to upgrade and improve the assets to an EPC 'C' rating by 2030.

ESG was an important consideration for Phoenix. The firm deploys around £2 billion a year into the illiquid markets, of which Oliver Swallow says 50-70% should be sustainable.

"We publish a list of what that means on our website under our Sustainable Finance Classification Framework for Private Markets" he says.

"What was really attractive here was targeting that EPC 'C' rating and facilitating the delivery of refurbished homes which are more productive and efficient."

Having control over the condition of the properties was also critical to Westminster.

"It allows us to make the homes more affordable, energy efficient and just somewhere nice to live for the health and financial well-being of those tenants," says Nick Haverly.

"Most temporary accommodation tenants are on housing benefit, which doesn't cover heating costs, so anything we can do to reduce those costs is a benefit to them."

The structure of the deal also allows flexibility for how the homes are used in the longer term.

Nick Haverly doesn't anticipate a reduction in temporary housing numbers for some time, but controlling the portfolio means the option to use them as long-term social housing in the future is there.

While complex, the structure of this funding deal can be replicated to help other local authorities facing similar challenges.

"It's a very scalable proposition. We've been speaking to a number of different local authorities and housing associations about doing something similar," says Oliver Swallow.

Had Westminster not had this form of funding, it would have cost the local authority approximately £200 million to buy the portfolio.

"We are looking at doing acquisitions in a similar way that doesn't require us to find that significant sums of money up front, but instead take a long term commitment,"

The demand for and cost of temporary accommodation has risen substantially in the last few years, exacerbating the demand on local authorities to deliver housing for the people in their communities who are in need. Finding ways to safeguard homes and ensure they are comfortable and efficient to run is only going to become more critical.

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