Greater Manchester Natural Capital Investment Plan

EXECUTIVE SUMMARY — JANUARY 2019

eftec, Environmental Finance and Countryscape
to
Greater Manchester Combined Authority (GMCA)

This Report

This first Natural Capital Investment Plan (the plan) for Greater Manchester has been produced by eftec, Environmental Finance and Countryscape, making recommendations for the Greater Manchester Combined Authority (GMCA) and its partners to consider. It was commissioned by Oldham Council on behalf of Greater Manchester Combined Authority (GMCA), but represents the views of the authors. This was funded by the Natural Course EU LIFE Integrated Project.

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Disclaimer

Whilst eftec has endeavoured to provide accurate and reliable information, eftec is reliant on the accuracy of underlying data provided and those readily available in the public domain. eftec will not be responsible for any loss or damage caused by relying on the content contained in this report.

More Information

The full plan and supporting evidence review are available at:
https://naturegreatermanchester.co.uk/project/greater-manchester-natural-capital-investment-plan/

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A Greater Manchester Natural Capital Investment Plan

The need to establish and implement a Natural Capital Investment Plan to mobilise existing and new sources of funding was a priority outcome from the Greater Manchester Mayor's Green Summit in March 2018.

This priority arises from the current situation in which the management of natural capital draws upon a relatively limited suite of business models and financing strategies, including: public sector grants, public sector service provision, private developer investment and through community-level action. These are both narrow in scope and vulnerable to future changes to the financial and economic landscape.

The challenge of securing varied and sustained investment in natural capital is common to all cities across the UK. The natural capital investment plan developed for Greater Manchester is an innovative approach which can be replicated.

The Plan

The investment plan looks at the roles for different types of potential investors within the wider picture of the social, economic and governance structure of the city region, and of (local and national) environmental policies and regulations. The plan has three key components:

1. A pipeline of potential project types which need investment;
2. Finance models to facilitate private sector investment and the role of public sector, and
3. Recommendations to put the plan into practice over the next 5 years.

Identifying different finance sources and how they fit within this wider picture can inform how the Combined Authority and other stakeholders can work more efficiently in terms of funding and policy/governance effort. It can also inform the choices between traditional environmental spending and regulation (which remain crucial to sustainable management of natural capital) and innovative financing approaches.

Potential time-bound actions to deliver the investment plan are summarised in Figure 1. The actions are broken down into three key areas: business plans, policy actions, and governance systems. Who could take these actions, and their costs are considered in Table 2 (at the end of this document). This supports the conclusions that **the actions recommended to take this natural capital investment plan forward do not place a large and additional financial requirement on the public sector.**

Figure 1: Summary of Investment Plan Actions

	SHORT TERM	LONGER TERM
Investment Readiness	• Build political appetite • Design and seek external support for Investment Readiness Fund (IRF), potentially through UIA* funding • Commit to enabling policies	• IRF to give technical assistance for business planning and investment start-up • Robust governance and an aligned investment advisor • Implement policy actions
Support	• Publish GM Natural Capital Investment Plan • Learn from social investment market	• Research investment barriers and performance for continuous improvement
Finance Models	• Research Place-based Trust model • Political leadership on biodiversity net gain and carbon reduction • Build on potential UIA* activity for SuDS	• If Trust model suitable, create Special Purpose Vehicle • Setup carbon & habitat credit verification • Develop SuDS contracts

*Urban Innovation Action – Funding TBC

Vision and objectives

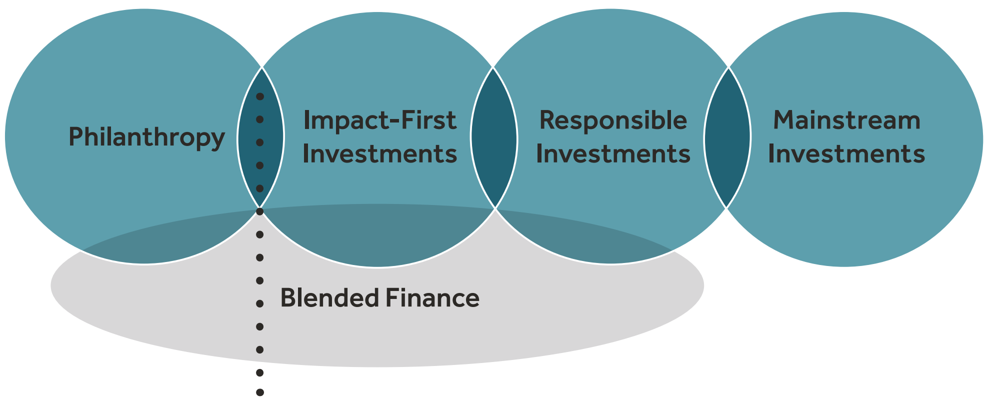
The plan is designed to deliver the vision of:

"A Greater Manchester where investments in natural capital enhance the long-term social, environmental, and economic health and wellbeing of its people and businesses."

The vision defines 'Investment in natural capital' as "***Funding that is intended to provide a return to the investor while also resulting in a positive impact on natural capital.***" Returns are defined predominantly, although not exclusively, in financial terms, and always from the perspective of investors. There are different investor types, which are shown in Figure 2 below.

Outside the public sector, investment in natural capital has traditionally drawn upon philanthropic sources, shown to the left of the dotted line in Figure 2, with grants as the main form of investment. This plan is looking to support investors and investments, shown to the right of the dotted line in Figure 2, for whom some financial returns are necessary, and which will often require some form of blended finance (a combination of funds for risk sharing).

Figure 2: Types of potential investors in natural capital



BUSINESS MODEL	No business model / non-revenue generating activities	Unproven business model / unpredictable cash flow		Robust business model / revenue generating activities
FORM OF INVESTMENT	Grants	Equity	Concessionary debt	Commercial debt and equity
INVESTORS	Trusts & Foundations, NGOs, Lottery Funds	Impact Investors, aligned corporates		Institutional and Retail Investors

The range of potential investor types shown in Figure 2 are described in Table 1 in terms of their form, typical investment size, expectations, and readiness to invest.

Greater Manchester has a relatively well-developed evidence base on natural capital. There are also many existing projects aiming to maintain and enhance the benefits natural capital provides. Full details are provided in the baseline review report that supports this plan. The baseline review identified the following key priorities and opportunities which the investment plan can help achieve, several of which are linked:

a) **Improved health outcomes**, for both physical and mental health benefits of exposure and access to the natural environment, addressing health inequalities;
b) **Improving place**, making the Greater Manchester region a more attractive place to live and work, which, in turn, will play an important role in attracting inward investment, skills and tourism. This also supports an uplift in property values;
c) **Building resilience**, principally addressing climate change and flood risks;
d) **Supporting the local economy**, through regeneration towards (b), and improvement in capacity to supply environmental goods and services;
e) **Conserving and enhancing habitat and wildlife**, valued for its own sake and to increase the resilience (c) and quality of ecosystem services supporting other priorities (a) – (i). Funded via targeted investors, potentially for biodiversity net gain from development;
f) **Sustainable travel** (e.g. walking and cycle routes where natural capital is enhanced) which can contribute to (a) and (b);
g) **Water quality and flood management** (surface water and fluvial), which is linked to (c) and (e), and mental health in (a);
h) **Climate regulation** including carbon storage and sequestration which support mitigation, and urban cooling and building sheltering, which support (c), and
i) **Air quality improvements**, including through (f) and with links to (a).

The evidence base has been used to map existing projects and indicators of opportunities in Greater Manchester.

Table 1: Types of potential investors in natural capital in Greater Manchester

Investor Type	Investors	Form of investment	Typical size	Expected returns	Term	Readiness to invest
Public	• Government/ local authority (e.g. Environment Agency (EA)/ Natural England (NE)/ Forestry Commission (FC) • Health budgets	• Funding technical assistance/ capacity building • De-risking other investors	n/a	• Nil financial returns/ patient equity • Capital value appreciation? • Cost savings • Public goods	n/a or long-term	• Limited outside of current funding
Philanthropy	• Trusts and Foundations • Non-Government Organisations (NGOs) • Lottery Funds	• Funding technical assistance/ capacity building • De-risking investment	£10k-£2m	• No principal repayment or returns expected • Potentially repayable grants/patient equity	n/a or long-term	• High level of interest in exploring repayable models and impact investment • Reduction in grant funding available
Impact investors	• Social investors	• Debt investment or can operate with equity style risk	£150k-£2m	• Principal repayment • 2%-10% returns	3 to 5 years	• Most do not invest in environmental projects - may be restricted to social impact led projects
Corporates	• Water companies • Insurance companies • Infrastructure developers • Other commercial companies	• CSR (Corporate Social Responsibility) Initiatives • Debt or equity investment • Mitigation payments	£100k-£20m	• Principal repayment • 2%-10% returns • Cost savings/ complement grey infrastructure • Offsets	3 to 5 years	• Projects must meet investor return criteria
Institutional Investors	• Pension funds • Financial sector • Green bonds	• Debt or equity investment	£20m+	• Principal repayment • Commercial returns	5-25 years	• Enter when projects are commercially viable, or are de-risked by other investors
Retail Investors	• Individual investors inc. High Net Worth Individuals (HNWI) • Retail bonds • Charity bonds • Crowdfunding	• Debt or equity investment	£500k-£2m	• Principal repayment • 2%-7% returns	5-25 years	• Limited track record • Suitable for asset backed or branded projects

A pipeline of potential project types

The plan identifies a wide range of current project types and potential investment opportunities that can contribute to the vision for Greater Manchester. It then assesses the 'investability' of each in terms of: the size and predictability of revenue streams and attractiveness to investors (reflecting risks and returns). While the assessment takes account of the value generated for society, the focus is the returns (financial or other impacts) to the investors.

Figure 3 shows the result of this assessment for a pipeline of potential project types.

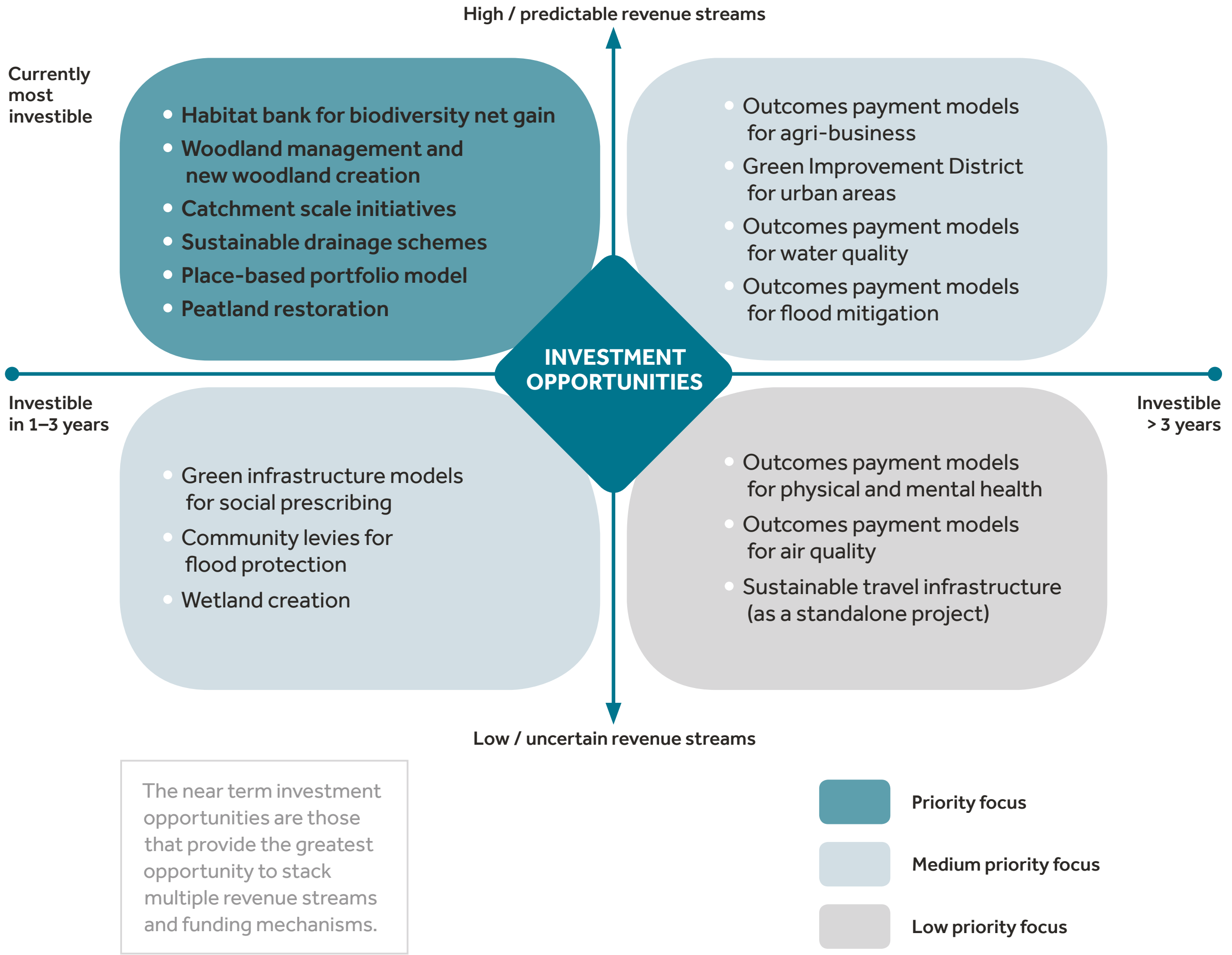


Figure 3: Investability assessment of a pipeline of potential natural capital project types

The highest priority, most investable opportunities in the top left-hand quadrant of Figure 3, provide higher returns and higher certainty, and investments in them could start within three years. Those that deliver lower returns with more uncertainty will take longer to be investable, and so are lower priorities for the investment plan. Drawing in investment (and providing financial and other returns to the investor) is not the solution for financing all Greater Manchester's natural capital priorities.

Therefore, delivering some environmental priorities and outcomes will require continued public and philanthropic funding (see Table 1).

Finance models

This plan aims to broaden the range of potential sources of investment in natural capital. This is challenging because many different parts of society receive benefits from natural assets without paying for them. However, there are ways in which revenues can be generated, and mechanisms can be developed to attract a wider range of private sector and alternative sources of investment. To move forward in developing these, this plan identifies suitable areas of potential investment and which finance models could be used.

Based on the priority project types in the pipeline, the plan also identifies potential sources of investment and natural capital finance models. Finance models are recommended for three investment opportunities on the basis that they:

- Are based on more advanced business cases than the other options, with greater revenue generating capacity and near term investability;
- Have support from local stakeholders;
- Offer best prospects to motivate a significant amount of third-party investment in a reasonable time-scale, and
- Can be progressed by actions that are largely within the powers of GMCA and its partners, and in line with current policy commitments.

However, these priorities do not imply that other potential investment models should not continue to be researched and developed, especially since this is a dynamic area of public policy (e.g. due to reform to land use subsidies and regional infrastructure plans).

Place-Based Portfolio Models, could be created by leasing green and blue infrastructure (or natural capital) assets to Trusts which could then exploit new revenue opportunities, such as through prescribed health activities. They have an existing track record in the UK (e.g. in Milton Keynes, and currently being implemented in Newcastle), and are potentially suitable to Greater Manchester's assets and priorities, but are not widely known amongst stakeholders. There are several existing Trusts in Greater Manchester focused on specific benefits, geographical areas or habitats which are possible vehicles for enacting this model if they can provide adequate scale for delivery. ***A project is required to explore the feasibility of new Green and Blue Spaces Trust structures and develop the business case for it in Greater Manchester***.

Habitat and Carbon Banking sell credits from additional actions that increase biodiversity or stored carbon to organisations who want to compensate for their unavoidable impacts. A requirement for Biodiversity Net Gain (BNG) from land use developments is proposed for Greater Manchester, which would give a regulatory driver for habitat banking. Carbon credit markets remain voluntary, but carbon emissions reduction has political backing by the City-region Mayor. These opportunities have a large cross-over in delivery, so can (with careful regulation) be stacked as revenue sources for projects. Banking can achieve greater returns than existing bilateral trading through economies of scale, use of specialist skills and ex-ante delivery. ***The ecological and planning rules to deliver BNG need to be co-developed with the requirements of the finance model***.

Sustainable Drainage Systems (SuDS) have an established revenue mechanism, through a reduced water company drainage connection charge for developments. A special purpose vehicle (SPV) could deploy appropriate capital at different project stages, allowing SuDS to be deployed and the cash flows aggregated to enable investment to be scaled-up as part of the Water Resilient Cities programme. An SPV can achieve greater returns than existing bilateral transactions through specialist skills and overcoming knowledge gaps. ***Standardised contracting for SuDS works and an extended contractual commitment to the water company charging rates period could improve returns under this model.***

The suggested **key role for the public sector** in the plan is to be **an investment commissioner**, developing a supportive financial environment and business plans for specific investment opportunities. This is as per its role in the potential Urban Innovative Action (UIA) project for producing green infrastructure models (including for SuDS) that are investment-ready. This focus on one key role for the public sector, ideally established with separate accountability and governance arrangements, will avoid diluting effort across many other potential roles and creating actual or perceived conflicts of interest.

As part of this role, GMCA and partners would need to create an **Investment Readiness Fund** (IRF)[1]. This fund is estimated to require a minimum of £1m from foundations, corporates, Corporate Social Responsibility (CSR) budgets, High Net Worth Individuals (HNWI), and philanthropists to provide specialist finance, legal and other skills to help develop business plans for natural capital projects to improve their presentation to investors. An example of a social IRF unlocked £18 in investment (from private investment, institutional investors, banks, corporates and HNWIs) for every £1 spent by government[2]. The proposed Greater Manchester Environment Fund (GMEF) could

[1] A potential Urban Innovative Action project, that could support this function, is at an advanced stage of development for Greater Manchester, but is not yet agreed: https://www.uia-initiative.eu/en/news-events/discover-22-new-projects-3rd-uia-call-proposals

[2] https://www.sibgroup.org.uk/resources/in-pursuit-of-readiness

provide a governance function for an IRF, such as the potential UIA project (for green infrastructure models, including SuDS).

Several roles in the finance models can be carried out by the private sector (e.g. a trading desk for carbon or biodiversity credits). Actual or perceived conflicts of interest in the public sector can deter outside investment. To avoid this, the involvement of the public sector (e.g. as land use planning authorities, ensuring verification of biodiversity net gain takes place, purchasing of health outcomes) could be managed by **separate bodies with distinct accountability requirements and governance.** It would be useful to have **oversight by GMCA** to ensure there is feedback and the ability to improve the investment models over time.

Actions

The plan outlines how finance models could be applied to three investment opportunities which are considered the most advanced in terms of being able to mobilise investment. Potential time-bound actions to deliver the investment plan are described in Figure 4. Drivers to encourage and manage private sector involvement need to be put in place or strengthened in the immediate term of up to 1 year. In the short term (1 -2 years), business plans could be developed for investments, supported by an IRF. In the medium term (3 - 5 years), delivery, monitoring and verification, and feedbacks would need to take place, led by a suitably independent body.

The order in which milestones can be met depends on the context. For some, without policy actions, there will be no or insufficient investment (e.g. habitat banking). For others, where there are local / national policy incentives already in place, other actions become more urgent. Implementing the roadmap is not a linear process. For example, business plans may need to be drafted and adjusted to reflect developments in policy and governance requirements.

The plan shows the organisations that can take the recommended actions, and the estimated costs of such actions (see Table 2). This includes a range of actions by GMCA, local authorities (some specifically by land use planning departments), and other partners including the wider research community (e.g. Universities).

The majority of actions have low cost implications for the public sector (e.g. publication of this plan, implementing policy actions), with some of these costs already covered by existing project funding (e.g. the Natural Course Project). Significant costs relate to specific actions, such as establishing an Investment Readiness Fund and financing Place-based Trusts. However, external funding can be sought for these, such as through the potential Urban Innovative Action fund. **Therefore, the actions recommended to take this natural capital investment plan forward do not place a large and additional financial requirement on the public sector.**

Immediate (6-12 months)

1. Publish Natural Capital Investment Plan
2. Assess investment appetite for specific finance models
3. Commit to policy actions to drive investment (e.g. BNG requirement)
4. Design Investment Readiness Fund, building on potential UIA funds but retaining broader natural capital remit, to develop business plans against which investments can be made
5. Research and consult on a Trust model taking long-term leasehold of a portfolio of natural capital assets
6. Research approaches to identifying and implementing SuDS opportunities
7. Draw learning from the social investment market

Short term (1-2 years)

8. Implement policy levers to drive or enable investments
9. Confirm governance choices and purpose of other public sector roles, such as on possible Greater Manchester specific investment vehicles (e.g. GMEF)
10. Appoint investment advisor to GMCA with aligned interests
11. Form Investment Readiness Fund:
    a. Create prospectus and carry out fund raising
    b. Provide technical assistance for writing business plans and preparing the appropriate governance structure.
    c. Manage the development of business plans.
12. Establish monitoring and verification of returns on different investments (e.g. carbon or biodiversity credits)
13. Manage project start-up and delivery
14. Research with stakeholders to overcome barriers for opportunities in pipeline, e.g:
    a. In health sector to define returns needed to justify investment in natural capital.
    b. Develop standardised contract form and longer charge reduction periods for SuDS

Medium term (3-5 years)

15. Manage project delivery
16. Monitor and verify returns to investors and society
17. Further investment readiness funding to develop business plans for opportunities in pipeline
18. Raise targeted funds to deliver and scale investment opportunities
19. Gather learning from research and improve approaches

Figure 4: **Timeline of actions to start and manage the Greater Manchester Natural Capital Investment Plan**

Table 2: Actions to implement the Natural Capital Investment Plan, lead organisations and estimated costs

Actions	Specific actions by timescale *Italics indicates lead organisations* **Immediate (6 – 12 months)**	**Short (1 – 2 years)**	**Medium (3 – 5 years)**
Supporting actions:			
Communications	1. Publish Plan Costs: low - internal *GMCA*	Further communications Costs: low - internal *GMCA*	
Research	7. Learn from social investment market - research project to support Action 4 Costs: moderate £40,000 (drawing from the potential UIA activity and/or external research funding – see action 14) *Public sector partners and research bodies*	14. Research to overcome barriers Costs: TBC. *Mainly externally funded - connect to existing developments (e.g. Defra Urban Pioneer) and research programmes (e.g. Economic and Social Research Council)*	16 Monitor and verify returns 19 Gather learning & improve approach Costs: TBC. *Wider society/ existing research community and funds*
Investment preparation actions:			
GMCA Policies		8. Implement Policy levers, and 9. Confirm governance choices Costs: low - internal *GMCA, LAs and partner costs*	

Actions	Specific actions by timescale *Italics indicates lead organisations* **Immediate (6 – 12 months)**	**Short (1 – 2 years)**	**Medium (3 – 5 years)**
	2. Assessment of investment appetite Costs: low - internal *GMCA* 3. Commit to policy actions Costs: low – internal *GMCA, LA and partner* costs	10. Appoint aligned investment advisor Costs: TBC, ongoing *Public sector and partners costs / incentives (e.g. could be supported by potential UIA activity, or Defra Urban Pioneer).*	
Investment Readiness Fund (IRF)	4. Design the IRF (includes potential UIA activity) Costs: moderate £50,000 - £80,000 to setup, and plan raising capital *Public sector, partners & external funders – e.g.* drawing from existing Natural Course project and could be supported by potential UIA activity	11. (a) provides technical assistance and (b) manages development of business plans. Costs: significant for *IRF* – seek £1m + from a variety of external sources (e.g. potential UIA activity, philanthropic sources) 13. Manage project start-up and delivery Costs: moderate for *IRF* – could be supported by potential UIA activity	17. Further investment readiness funding to pipeline Costs TBC. *IRF and a variety of external sources, building on 11 (b)* 15. Manage project delivery Costs: moderate for *projects*

Actions	Specific actions by timescale *Italics indicates lead organisations* Immediate (6 – 12 months)	Short (1 – 2 years)	Medium (3 – 5 years)
Finance model actions:			
Place-based Portfolio Model	5. Research and consult on Trust leasing natural capital assets Costs: moderate £40,000 for research – could be supported by 3rd party funding such as the Future Parks Accelerator, public sector health and environment policy research Internal consultation - low costs for *public sector and partners*	Depending on (5), establish special purpose vehicle Costs: high (approx. £1m – *Public sector and partners* to seek 3rd party funding, e.g. from public health budgets, philanthropic sources)	
Habitat/Carbon Banking Model	(Actions 2 & 3) Costs: low - internal *Public sector and partners* costs, drawing from existing workstreams	(8) Costs low – internal *Public sector and partners* 12. Establish independent monitoring and verification body Costs: moderate *Public sector and partners*	16. Independent monitoring & verification of returns Cost: moderate *(potentially a new monitoring & verification body)*
SuDs Model	Potential UIA activity under (Action 4) Costs: low - internal *Public sector and partners* costs, possible to fund within potential UIA activity	14. (b) Develop standard SuDS contract and longer period Costs: moderate potential funding from *RICE project or UIA activity*	

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