Greater Manchester Environment Fund Overview

September 2020
Executive Summary
Introduction

Purpose of this document

• This document provides an overview of the opportunity to establish a Greater Manchester Environment Fund (GMEF) with information on its purpose, strategy, governance and next steps to launch the fund.

• This document will be used to:
  - Raise the profile of the GMEF;
  - Gather feedback from key stakeholders on the GMEF’s strategic objectives;
  - Gain advice from stakeholders on potential fundraising opportunities;
  - Engage with prospective funders.

Support requested

• We would welcome support with the set up of the GMEF to ensure that it can best support the city region in achieving its environmental ambitions. We are currently seeking advice on:
  - How the Greater Manchester Environment Fund could support delivery of Greater Manchester’s and their respective organisation’s environmental ambitions.
  - Other potential external funders who may be interested in supporting the set up and implementation of the Greater Manchester Environment Fund (such as trusts and foundations, public bodies, corporates or high net worth individuals).

“We are leading the way in the creation of a Greater Manchester Environment Fund to ensure our environment is fit for the future.”

Cllr Western, Green City Portfolio Lead

Acknowledgements

• The GMEF has been designed in consultation with an Advisory Group made up of key local stakeholders, who have kindly provided their time and guidance to support the development of the fund.

• The development of the GMEF has been funded through generous contributions from Peel Group, United Utilities and the Environment Agency.
GM’s environmental ambitions

The Greater Manchester Environment Fund (GMEF), a pioneering regional environmental impact investment vehicle, is seeking funding partners to enable it to begin delivering on its mission to tackle the urgent environmental challenges facing the Greater Manchester (GM) region.

- **GM faces major environmental challenges that threaten the future health and prosperity of the city region**, with dangerous levels of air pollution, degradation of priority habitats and increasing risks from climate change.

- In response, GM launched its 5-Year Environment Plan with the ambitious vision **for a “clean, carbon-neutral, climate resilient city region with a thriving natural environment”** and demanded urgent action to achieve this.

- Recognising that **traditional grant and public funding will be insufficient alone** to deliver the Mayor’s ambitions, Greater Manchester Combined Authority (GMCA) is pioneering a new approach to take on these challenges and safeguard GM’s natural environment for the future.

- A partnership between GMCA, Lancashire Wildlife Trust and Environmental Finance has developed the **Greater Manchester Environment Fund (GMEF)** as an independent vehicle to realise GM’s natural environmental ambitions.

- **The GMEF is the UK’s first regional environmental impact fund**, targeting social, environmental and financial outcomes and seeking to recycle capital back into delivering GM’s vision for the natural and built environment over the long-term.

“**We need to act now to tackle the environmental challenges we face**”  
**Andy Burnham, Mayor of Greater Manchester**
Greater Manchester Environment Fund opportunity

The GMEF is now ready for launch with a developed pipeline of near- and medium-term investment opportunities and is seeking long-term philanthropic funding partners to support its setup.

- The GMEF will be set up as an independent vehicle to:
  - Align existing restricted and unrestricted public funds for strategic use to benefit the environment;
  - “Crowd in” and leverage private and philanthropic capital to catalyse further investment into the environment;
  - Deliver grant funding, capacity building and seed funding for strategic environmental projects and funds, ultimately to help build a self-sustaining local environmental impact investment sector; and
  - Deliver a consistent and transparent governance framework for funders and delivery bodies to set priorities, access funds and deliver accountable results.

- The GMEF is structured as a charitable body, with independence from GMCA and with representation from public, private and third sector stakeholders, enabling it to:
  - Benefit from a diverse range of informed stakeholders while being mission-driven in its chosen activities;
  - Champion local policies and innovations to enable the GM natural environment to flourish; and
  - Coordinate public sector funding efforts with the private and philanthropic sectors to deliver significantly greater benefit.
Background
## Context: GM’s environmental challenges and ambitions

GM’s 5-Year Environment Plan (5YEP) sets out an ambitious vision for a “clean, carbon-neutral, climate resilient city region with a thriving natural environment”, and demands urgent action to achieve this.

### Threats facing GM’s natural environment...

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<th>Threat</th>
<th>Description</th>
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<td>Land management</td>
<td>GM accounts for 3.6% of annual UK CO2 emissions</td>
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<td>Water environment</td>
<td>Over 90% of GM’s waterbodies fail to meet legislated objectives; increasing frequency of flooding</td>
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<td>Biodiversity</td>
<td>Planning approach of no net loss; lack of green space and ecological networks</td>
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<tr>
<td>Investment in the natural environment</td>
<td>Insufficient funding to protect GM’s natural environment; lack of business models to attract alternative sources</td>
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<td>Natural environment engagement</td>
<td>Lack of recognition of benefits that nature can deliver for the economy and society</td>
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### ...5YEP ambitions

- Plant 1m trees by 2024, 3m by 2035
- Restore 50-75% of GM’s peatlands by 2040
- Carbon neutral city region by 2038

- Improve GM waterbodies to achieve legislative requirements by 2027; shift to more nature-based solutions for flood alleviation schemes
- Embed biodiversity net gain for developments and deliver a GM Nature Recovery Network
- Develop a GMEF to broaden the range of funding sources; deliver investment readiness support and proof-of-concepts
- Widen engagement through volunteering and employment opportunities; build on evidence base to promote benefits

The Covid-19 pandemic has only increased the importance of delivering on these ambitions as soon as possible to boost the local economy, create jobs, increase climate resilience and enhance the wellbeing of GM’s residents.
Funding need for the environment

A significant amount of additional funding is needed to deliver GM’s environmental objectives and develop and deploy local Nature-Based Solutions (NBS), much of which will need to come from non-public sources. Delivering NBS will lead to green jobs, greater wellbeing and economic resilience.

Funding gap for natural capital projects in GM

- Public and philanthropic capital is insufficient alone to meet the funding needed to protect GM’s natural environment.
- Public funds that are available are segregated and managed independently preventing strategic allocation for target projects.
- Nature-Based Solutions (NBS) such as ecological restoration and urban green infrastructure draw upon limited funding resources.
- NBS project developers tend to suffer from a lack of:
  - Viable business models to access private investment;
  - Project scale and aggregation opportunities;
  - Arrangements for accountability and governance;
  - Detailed understanding of the value of NBS benefits; and
  - Capacity to innovate and develop new funding opportunities.
- There is an urgent need to attract new sources of funding such as impact investment to protect the city region’s natural environment, and to deploy existing sources more strategically.

GM is uniquely placed to act as a pioneer in the NBS investment sector thanks to its devolved status and recognition by its leadership of the importance of protecting nature for future generations.
Greater Manchester Environment Fund Opportunity
### GMEF opportunity

Extensive consultation with GM-wide stakeholders and project developers has demonstrated the considerable need to create the GMEF in order to mobilise the additional funding and investment required to deliver GM’s ambitions of becoming a leading green city.

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<th>Status-Quo</th>
<th>GMEF Opportunity</th>
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<td><strong>Project developers</strong></td>
<td><strong>Donors and Investors</strong></td>
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<td>• Funding pressures – ad-hoc and typically short-term grants available from disparate sources for NGOs to protect and restore the environment, facing greater pressure due to Covid-19.</td>
<td>• Reduce funding pressures – provide a coordinated approach and governance framework involving public, private and third sector stakeholders to source and channel funding.</td>
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<tr>
<td>• Capacity constraints – limited capacity to create investable propositions to secure new sources of investment.</td>
<td>• Increase capacity – deliver funding for technical assistance and capacity building to enable organisations to access blended finance opportunities.</td>
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<td><strong>Growing interest in environmental initiatives</strong> – funders are seeking new opportunities to deliver environmental impact alongside financial returns.</td>
<td>• Develop investable business models – deploy funding strategically to develop investable business models that can attract private investment.</td>
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<td>• Lack of investable projects – limited robust business models at sufficient scale to attract new sources of investment.</td>
<td>• Aggregate and leverage new funding sources – provide a transparent mechanism to align public and private funds and to use repayable finance where appropriate to free up grant resources for high impact but non-investable projects.</td>
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The GMEF provides a transparent framework for funders and delivery organisations to set regional priorities and facilitate projects that can deliver substantial local social and environmental impact.
GMEF: A trailblazing environmental regional development fund

GM is pioneering new approaches to investing in the environment. The GMEF has been designed to attract and leverage capital to facilitate investment into environmental projects across the GM region.

- In 2018, GM was granted “Urban Pioneer” status by DEFRA, tasked with trialling new methods to funding natural capital to inform the delivery of the Government’s 25-Year Environment Plan.

- GM pioneered the creation of the first Natural Capital Investment Plan (NCIP) for a UK city region to establish GM’s natural capital baseline accounts and secure sustainable investment into its natural capital assets.

- The NCIP identified a critical need for project developer capacity building and technical assistance to facilitate the development of investable business models.

- The GMEF provides a mechanism to develop and implement these opportunities and unlock new and existing investment sources.

- The GMEF seeks to provide both “top down” and “bottom up” support to the natural capital sector in GM, in the form of:
  - Alignment of existing restricted public funding streams (e.g. landfill tax, clean air fund etc.) to leverage private investment for strategic deployment;
  - Repayable finance to crowd in private sector capital and fill significant project resourcing gaps; and
  - Capacity building and technical assistance support to increase the amount of investable projects across GM.

The GMEF aims to align public and private sector funding to provide the capital needed to achieve GM’s environmental ambitions over the long-term.
Greater Manchester: The Urban Pioneer

Through its journey of building political and stakeholder ambition that has culminated in the GMEF, GM is at the forefront of the nascent environmental impact investment sector – unifying public, private and third sector efforts.

**Building political and stakeholder support**

2016-2018

- GM Natural Capital Group provides environmental leadership
- Raising awareness of environmental issues and benefits
- GM selected as the “Urban Pioneer” by Defra tasked with testing new tools for natural environment investment

2018 - 2019

- Baseline natural capital accounts
- Development of evidence base to inform strategic priorities
- Events promoting connection with nature
- Start demonstrator projects to evidence benefits and test new approaches

- Mayoral commitment to GM Green City and set up of GMEF
- Securing resources to trial new approaches

- Environmental priorities
- GM 5 Year Environment Plan
- Investment opportunities
- Resourcing and capacity building requirements
- Natural Capital Investment Plan

**Strategic plan**

2020

- Design and implement the GMEF
- Appoint GMEF Manager
- Set up charitable structure and governance
- Identify pilot projects
- Pump-priming grants and implementation funding

**Design of delivery model**

2021

- Launch GMEF
- Implement pilot projects
- Monitor and showcase success
- Scale up funding

To build a structure of this scale, pump priming grants are required to bring in much needed development capacity to launch the GMEF, implement pilot projects and showcase the benefits that GMEF has to offer.
GMEF structural overview

The GMEF is a unique approach taken by a UK city region to strategically aggregate and leverage funding through an independent governance vehicle to deliver its environmental ambitions.

Overview of GMEF Approach

- GMEF is a charitable vehicle managed by Lancashire Wildlife Trust (LWT).
- LWT provides technical expertise, local network and experience in running charitable vehicles for fund deployment.
- GMEF will collate range of non-restricted funds from public and philanthropic sources to strategically channel into delivering GM’s environmental priorities.
- GMEF will use funding for:
  - Strategic direct project support; and
  - The creation of specialist sub-funds focusing on natural capital business models that unlock restricted funding streams and mobilise private capital.
- Returns beyond those due to other investors will be recycled back into the GMEF to support its environmental aims.

The GMEF provides a transparent mechanism to collate funding sources and provide a governance framework to house further vehicles designed to fund specific natural capital projects in GM.
Specific Funding Opportunities
Investment opportunity analysis

In Spring/Summer 2020, Environmental Finance engaged with a wide range of stakeholders in the city region to support the design of the GMEF and assess funding and investment opportunities.

Investment model prioritisation and assessment

- Over 50 natural capital projects in development in GM were reviewed to identify potential revenue streams that could be generated to meet the project funding need estimated at over £100 million.
- Major opportunities were identified to mobilise private investment in habitat creation and restoration through biodiversity net gain and carbon income streams.
- The establishment of a Habitat Banking Funding Facility and Carbon Offsetting Facility was prioritised for further assessment based on the revenue opportunity review.

- Nearly 50 stakeholder conversations were held with 26 organisations across the private, public and third sectors.
- The process found that the GMEF presents a significant opportunity to better align public and philanthropic funding sources and expand private investment into GM’s natural capital.
- The results were used to refine the proposed investment opportunities and tailor the design of the GMEF towards the distinct attributes of the GM region and the needs of its stakeholders.
## GMEF funding opportunities horizon

Liaison with a broad range of GM stakeholders and a dedicated GMEF Advisory Group has evidenced the significant opportunity for the GMEF to raise public, philanthropic and private funds to deliver a thriving natural environment in GM and become self-sustaining over the long-term.

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<th>Non-repayable funding sources</th>
<th>Repayable investment funds</th>
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<tr>
<td><strong>Short Term (&lt;1 year)</strong></td>
<td><strong>Medium Term (1-3 years)</strong>*</td>
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<tr>
<td>Pump-priming public and philanthropic grants</td>
<td>Clean Air Zone</td>
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<tr>
<td>Enforcement undertakings</td>
<td>Ambition to launch a Clean Air Zone by 2021 to reduce emissions through taxation</td>
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<tr>
<td>Habitat Bank Funding Facility</td>
<td>Sustainable Drainage Scheme (SuDS) fund</td>
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<td>Carbon Offsetting Facility</td>
<td>Private investment mechanisms for SuDS are in development through the EU-funded IGNITION programme</td>
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<td>Environmental Impact Bonds</td>
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<td>Results-based payment models are being explored to finance NBS</td>
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<td><strong>Long Term (3-5 years)</strong>*</td>
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<td>Corporate sponsorship and individual giving</td>
<td>Landfill tax</td>
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<td>Secure levies through retail partnerships and / or Business Improvement District legislation</td>
<td>Transparent mechanism to deliver surplus landfill tax charges to environmental schemes</td>
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<td>Plastic bag / waste levies; business levies</td>
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**Within 5 years, the GMEF could accumulate sufficient funding, levies and private investment to become a self-sustaining funding source to deliver GM’s environmental ambitions**

*Funding opportunities are indicative based on an initial review and stakeholder engagement – further analysis is required to assess the opportunity to incorporate medium/long term funding sources within the GMEF. Other funding opportunities may also be available.*
**Investment model opportunity 1: Habitat Bank Funding Facility**

GM plans to lead the delivery of strategic habitat creation by setting up a dedicated Habitat Bank Funding Facility to provide funding to deliver local Biodiversity Net Gain (BNG) projects.

**Emerging BNG policy provides opportunities for funding habitat creation**
- New BNG policy anticipated through the upcoming Environment Bill will require all new developments to provide biodiversity gains of at least 10%.
- The new policy is expected to generate c.£200 million revenues for habitat creation / restoration per year from developers in England (Defra, 2019).
- There is a major opportunity for GM to lead the way in attracting repayable finance to create and restore habitats at a city region scale, building on approaches that are proven overseas, with the US alone seeing $4 billion of habitat credits transacted annually (Conservation Finance Network, 2020).

**A dedicated Habitat Bank Funding Facility could...**
- Enable districts in GM to access upfront financing to create and restore strategic habitats in advance of development impacts and accelerate the delivery of a GM-wide Nature Recovery Network.
- **Streamline development in GM** by enabling the development of habitat banks, providing developers with “off-the-shelf” options for offsite BNG.
- **Facilitate a co-funding approach for projects with multiple outcomes** (e.g. match funding with flood defence budgets).
- **Centralise development and verification costs** across habitat projects to deliver more conservation impact from funding available.
- **Empower local NGO delivery bodies** to diversify their income sources and build their capacity and resilience.
- Enable the GM region to **fulfil its potential as a pioneering market** for BNG and allow it to balance its economic and environmental objectives.


**Investment model opportunity 2: Carbon Offsetting Facility**

With GM’s ambition to become carbon neutral by 2038 and rising demand for local carbon credits, the GMEF is creating a Carbon Offsetting Facility to accredit and monetise carbon credits from natural assets.

**Significant GM carbon opportunity**

- The GM region has **huge potential for restoration of peatland and creation of woodland habitat** which would provide a range of ecosystem services.
  - GM’s **17,500 ha of nationally important peat resource** should be storing vast amounts of carbon, reducing flood risks and providing key habitats.
  - Instead, **98% of GM’s lowland peat bogs have been destroyed** with the remaining peat being degraded and emitting huge amounts of CO2.
  - Restoring these peatlands to their natural state could **reduce emissions by in excess of 200,000 t CO2-eq per year** and reduce public health risk.
  - As part of the Northern Forest initiative, GM is **seeking to plant 1 million trees by 2024** to lock up carbon and alleviate air pollution and flood risk.
- There is an **urgent need to establish new funding mechanisms to restore these landscapes and create new habitats to deliver GM’s carbon ambitions**.
- **Corporate appetite for local carbon mitigation is increasing** as a result of policy and consumer pressure, providing new funding opportunities.

**A GM Carbon Offsetting Facility could...**

- **Secure offtake agreements with corporates** with carbon targets to enable mitigation of residual emissions in return for verified carbon credits.
- **Attract private investment** into carbon sink projects with funding needs, allowing GM to **meet its carbon targets** through restoring its natural assets.
- **Provide local project aggregation to achieve higher and more consistent carbon prices and reduced set up and verification costs**.
- **Act as a regional hub for information sharing and capacity building** for local partners developing carbon capture projects.
GMEF governance structure

The GMEF will be structured as a charitable company limited by guarantee using a similar model as the Lancashire Environment Fund, which LWT designed and has managed effectively over the last 20 years.

Indicative Governance Structure

- GMEF is set up as a charitable company, with LWT contracted as its manager.
  - LWT’s experienced Programme Team monitors project delivery and compliance.
- An independent Board of Trustees provides strong governance and oversight to ensure the GMEF delivers GM’s environmental ambitions.
  - Includes members from GMCA, GM Natural Capital Group Chair, business representatives and other local stakeholders to provide a wealth of diverse knowledge and experience.
- An independent project Steering Group provides strategic oversight and potential access to funding streams.
- Grant Advisory Groups support the Trustee Board with project due diligence and verification for specific funding streams.
- Specialist financial and legal experts can be brought in to support as required to implement new investment sub-funds.

Structure subject to further review and assessment by the project team and Steering Group
GMEF Founder: Greater Manchester Combined Authority

GMCA is working together to improve the lives of people in Greater Manchester.

- GMCA is made up of the ten GM councils and the Mayor, who work with other local services, businesses, communities and other partners to improve the city region.
- GMCA’s vision is to make GM, home to more than 2.8 million people, one of the best places in the world to grow up, get on and grow old.
- As a devolved city region, GMCA gives local people more control over issues that affect their area. GMCA enables the region to speak with one voice and can make a strong case for resources and investment to help the entire north of England achieve its full potential.
- GMCA recognises that the natural environment in the GM region is fundamental to the health and wellbeing of the residents and the foundation of the local economy.
- GMCA has set out bold plans to create a city region that is fit for the future and will lead a new environmental revolution in the UK.
- GMCA is working to ensure that immediate environmental leadership and action will tackle the scale of the environmental threats facing the region and secure a cleaner and healthier environment for all.

#GMGreencity
GMEF Manager: Lancashire Wildlife Trust

Lancashire Wildlife Trust has over 50 years of experience in managing large-scale projects, partnerships and funding programmes to protect and enhance the natural environment, build a strong voice for wildlife, and inspire people to connect and engage with nature.

LWT’s Experience

- Core values, ambition, commitment, determination, belief, independence, principles
- Expertise in natural environment – prioritisation, evidence, advocacy, campaigning, land management, landscape scale, partnerships, knowledge
- Programme management, wider stakeholder engagement, consultation and communication
- Fundraising, experience in new and more diverse income streams and fund distribution
- Managing large scale projects – annual turnover £5million and £1m trading arm, £1m landfill distribution:
  - Chat Moss - major lowland peat land acquisition, restoration and habitat creation
  - Bickershaw Country Park - natural flood storage
  - Wigan Flashes - land reclamation and transformation into what is now proposed as the country’s first National Nature Reserve
  - Great Manchester Wetlands Partnership - areas designated as a Nature Improvement Area. Strong partnership that has demonstrated how collectively we can secure significant resource.
EF is the UK’s leading environmental impact investment boutique, offering corporate finance advisory and fund management services across the natural and built environment.

EF’s Experience

- EF has the leading UK track record of designing combined environmental and social impact funds.
- EF currently manages over £50 million of blended or aligned social and environmental impact funds.
- EF’s team has designed over £200 million of impact investment structures.
- EF has strong stakeholder relationships with leading environmental organisations.
- EF has extensive experience in both innovative financing and natural capital asset management.
- EF is a wholly employee-owned social enterprise, with 51% of profits being delivered to on-mission activities and investments.

EF’s Clients

- Fund Management
  - CORE Partners
  - PICNIC

- Fund Advisory and Creation
  - Department for Environment, Food & Rural Affairs
  - REAL TRUST
  - BIG SOCIETY CAPITAL
  - Environment Agency

- Investment Advisory
  - National Trust
  - power to change
  - WOODLAND TRUST
  - GMCA
  - sky OCEAN RESCUE
  - WWF
  - Greater Manchester Combined Authority
  - RSPB
# GMEF development programme

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<td><strong>GMEF Investment Strategy</strong></td>
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<td>Funder engagement and fundraising – pump-priming and pilot investments</td>
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