



**CAMBRIDGESHIRE  
& PETERBOROUGH**  
COMBINED AUTHORITY

# **Business Case – Nature and Environment Investment Fund**

## VERSION CONTROL

Document version	Publication date	Description of changes	Modified by
1	May 2022	Business Case Template	AC
2	24/05/22	Amendments arising from PARC	AC

# EXECUTIVE SUMMARY

## STRATEGIC CASE

The aim of the programme is to establish a Fund to attract additional investment into nature-based projects, building local capacity in green investment, and deliver projects on the ground across the CPCA area. There is currently market failure in utilising finance for investment in nature and the environment. Government is promoting new approaches to the natural environment that align with a Fund, including monetising ecosystem services (such as carbon credits); the new Environmental Land Management system of payments to the farming sector and Local Nature Recovery Strategies.

The Combined Authority has endorsed Natural Cambridgeshire's Vision for Doubling Nature, and this was reinforced by the recommendations of the Cambridgeshire & Peterborough Independent Commission on Climate, which identified nature as making an important contribution to climate change mitigation and adaptation. The Natural Capital Committee has made clear recommendations on the need to protect, enhance and invest in the natural environment, while the Government's 25-year Environment Plan sets out bold ambitions for nature recovery, and net biodiversity and environmental gain through development.

## ECONOMIC CASE

The £1m fund will test the proposition that there is an appetite for private/third sector investment (whether to achieve market returns or for other considerations) in nature and nature-based solutions to tackle other problems. Through pilot projects the Fund will test the barriers and opportunities to this approach. After an initial set up phase the Fund will seek to scale external funding to a ratio of 3:1.

The nature projects will provide benefits through their enhancements in nature, in line with the ambition to double the amount of Cambridgeshire's rich wildlife habitats and natural green space from 8% to 16%. Depending on the project there could also be job increases attributed to the intervention.

A key purpose of the project is to determine how best to leverage additional funding - private sector investment, philanthropy, public and third sector.

## FINANCIAL CASE

£1m CPCA capital investment matched with £2m external funding. Testing financial models to scale external funding to 3:1.

## COMMERCIAL CASE

There will be a competitive bid process for nature projects.

## MANAGEMENT CASE

Fund to be externally managed by Natural Cambridgeshire.

# INTRODUCTION

The CPCA area has one of the lowest proportions of rich wildlife and natural greenspaces in the UK. However, it does have areas of national and international importance for nature, including distinctive habitats and landscapes, largely managed by a vibrant agricultural sector that is important economically and for food security.

Improvements in land managed for nature on agricultural land, have in recent years, also run alongside significant investment in sites owned and managed by nature organisations. These have included the extension of the Great Fen (WT), Wicken Fen (NT) and Wandlebury Country Park (CPPF), in addition to projects such as the Hanson-RSPB Wetland Project at Ouse Fen, a partnership aiming to transform a working sand and gravel quarry into a nature reserve. While agricultural land managed for nature is often reliant on countryside stewardship schemes and farmers who are ready to embrace the shift towards regenerative agricultural practices, investment specifically in nature sites has largely been reliant on the charitable sector, and in the form of “one-off” grants awarded to individual projects as they have come forward.

Natural Cambridgeshire, as the Local Nature Partnership for Cambridgeshire and Peterborough, recognised this issue and developed the Doubling Nature ambition, adopted by the Combined Authority. Subsequently, the organisation has proposed setting up a Fund to stimulate recurring investment into nature-based schemes. It has identified six priority landscapes across the area where early action can be focused for potentially best outcomes. The Independent Commission on Climate (CPICC) made a recommendation to establish such a Fund.

Government is promoting new approaches to the natural environment that align with a Fund, including monetising ecosystem services (such as carbon credits), the new Environmental Land Management system of payments to the farming sector, Biodiversity Net Gain for new developments, and Local Nature Recovery Strategies. All of these are at very earlier stages of development.

# STRATEGIC CASE

## INTRODUCTION

The purpose of the strategic case is to demonstrate alignment with local, regional and national policy objectives. Specifically, the strategic case should test the project fit with the CPCA's Sustainable Growth Ambition Statement.

## STRATEGIC PRIORITY

The project aligns with objectives of the Sustainable Growth Ambition Statement. The Statement's natural capital objective is:

*"Climate and Nature: restoring the area's depleted natural capital and addressing the impact of climate change on our low-lying area's special vulnerabilities"*

By enhancing the natural areas with public access (and increase beneficial health outcomes), the project will also deliver against the Statement's human capital objective:

*"People: building human capital - the health and skills of the population - to raise both productivity and the quality of life so that that people in our region are healthy and able to pursue the jobs and lives they want".*

The CPCA has set a target to double the amount of rich wildlife area through the 'Vision for Nature'. The CPCA has also endorsed the Environmental Principles for the OxCam Arc, which includes the doubling of nature and other environmental outcomes.

The Fund's broad objectives are to support good projects that benefit the goal of Doubling Nature in the county. However, a particular purpose of the Fund is to learn how to develop the financial capacities of nature project developers and donors, sponsors and/or investors. This will build capacity so that the sector can move from a grants based approach an investment based approach.

Previously, the usual basis of providing capital to support nature projects has involved a "bare" capital grant from public bodies or a "bare" gift from private philanthropists. For example, a "bare" grant will be £100, and the recipient will then spend all the funds on the project. The nature charity or other landowner will then defray annual maintenance/ conservation costs out of other charitable funds or members' subscriptions. The nature charity will then look for further grants to pursue its goals.

The expansion of tree planting has increased the awareness of running maintenance/ conservation costs of nature reserves, typically at around £450 pa per hectare, related to watering, deer/other pest control, thinning and coppicing. As a result, there are now cases where grant providers and donors are open to offer "cost recovery" grants. For example, a "cost recovery" grant would be capital £100, plus £4 pa for 10 years to support the project, thereafter the maintenance/conservation costs would be defrayed by other charitable funds.

While these "cost recovery" grants defray the running costs of the project for a period, the more advanced nature charities, such as the National Trust, recognise that they can frame projects whereby they obtain "revenue generating" grants. For example, a "revenue generating" grant enables the charity to create a revenue stream from charges for access, parking, interpretation and catering or other activities associated with the project beyond the maintenance/conservation costs – capital £100 + (£10 revenues - £4 costs), producing a revenue surplus of £6 pa. The surplus would then accrue to the charity, which in turn could support other nature activities on a self-financing basis.

As the possibility of "revenue generating" projects has enhanced the capacity to generate self-financing surpluses, some charities can foresee the possibility of "refinanceable" grants or loans. For example, where the scale of revenues is such that the annual surplus is sufficient not only to cover the running costs of the project, but also to pay annual instalments to repay the original capital to the grantor or investors. Generating sufficient surpluses to service external capital beyond grants is therefore an objective of stimulating a sustainable green financing market through the Fund.

The emerging sources of revenues that can support these different types of grants beyond “bare” grants are: service charges for environmental services, typically based on “cost recovery” grants that may defray any initial capital outlay and primarily cover the ongoing maintenance/conservation costs; access charges for visitors to enter a closed site; or revenues created out of associated activities to the project, such as parking, catering, retail income or leisure services.

In terms of sources of capital, smaller philanthropic gifts and sponsorships provide capital on a “bare” grant basis; Biodiversity Net Gain investors are typically willing to provide “cost recovery” grants over extended periods, often capitalising the future cost recovery burden into an up-front extra grant; larger philanthropic gifts are increasingly expecting “revenue generating” grants, as are several public bodies; “refinanceable” grants or loans are emerging amongst green investors, and this may become an increasingly common expectation from public bodies.

Equity investments are usually inappropriate because although investors are willing to receive ongoing dividends from “revenue generating” projects, they also expect to be able to return their initial capital outlay by selling the project to a capital value uplift, which will not usually be allowed by charities reselling their assets. Private nature landowners may, however, be suitable investees.

So far, the focus on this range of capital infusions relates to the performance of individual projects. However, once a project has achieved the position where it can create a sustained financial surplus, it is then possible for the surplus to be amalgamated with other surpluses and other charitable sources to the point where the investee charity can start to consider repaying grants or loans from these broader revenues. To that degree, the amalgamation of “revenue generating” projects to provide repayments may create a less demanding approach than requiring an individual “effaceable grant” for a project, and this is the more likely approach of larger charities.

However, this draws in the issue of the overall borrowing capacity of the underlying charity, and in this regard the Charity Commission requires charities to adopt conservative controls over borrowing. That said, with care, there clearly exists an opportunity of charities adopting “revenue generating” funding to then bundle the surpluses of several projects enabling them to create a general capacity to repay grants or loans, which can be used to increase the overall scale of nature funding.

The Fund will be successful if it both educates nature project developers, landowners and charities about moving from “bare” grants towards “revenue generating” and “refinanceable” grant supported projects and beyond, and thereby also encourages more potential donors, sponsors, and investors to put more of their capital into a wider range of projects and investments.

Beyond these financial objectives, the Fund will align to the key themes of Climate and Nature, and Innovation and Finance. It can also contribute to themes of Reducing Inequalities, and Health (by improving resident access to the quality and quantity of greenspace and nature) and Skills. If the Fund brings forward sites that can be accredited for Biodiversity Net Gain, then there is the opportunity to link to the infrastructure activity of the CPCA.

Co-benefits:

1. Public health and well-being, so reducing the burden on the NHS and absences from work
2. Climate change mitigation and adaptation
3. Improved community cohesion
4. Natural and built heritage assets – so encouraging the visitor economy and the recruitment and retention by business of skilled staff.

## **CASE FOR CHANGE**

The drivers for change are to: (a) stimulate a reverse of the biodiversity crisis and sustain and enhance nature; and to (b) find new ways and sources of stimulating investment in nature projects which do not depend on one-off public sector grants, and which help to develop financially self-sustaining revenue-generating projects, given constraints on public sector finances.

Currently most nature projects depend on repeated public sector or third sector grants. The Fund will

encourage new private donors, corporate sponsors, and particularly new funders, interested in supporting nature projects capable of creating self-sustaining revenues, as well as sustaining nature conservation, or the development by the private sector of new mechanisms for investment. The ability to achieve the latter at present is reduced by avoidance of risk due to lack of proven investment models, and competition from other areas that may have alternative offers, including those overseas.

## **CLIMATE CONSIDERATIONS**

Making investments in nature have a large positive impact on climate issues. There are significant carbon sequestration benefits as new habitats are established, a potential reduction in energy intensive inputs on agricultural land. There can be climate adaptation benefits such as slowing flood water flows, movement of nutrients or mitigating overheating.

## **SMART OBJECTIVES**

Objectives:

- Through generating external additional donations, investments, and income streams, to have tested, assessed and demonstrated new models of investing, that will lead to financially self-sustaining nature projects and that will treble the CPCA's initial £1m contribution, .
- Account can be taken of contributions in kind and of natural-capital benefits such as flood mitigation or carbon storage and sequestration, and a value will have to be placed on these – that value will have to be quantified as part of the concurrent learning, monitoring and evaluation of each project.
- To identify at least three, and up to six, large-scale projects lasting up to three years that will over time enhance the quality and quantity of rich wildlife and nature green spaces in the six priority landscapes. Each will be set the target of matching its grant from the Fund from other sources, with a target of 2:1 leverage rising to 3:1 over time, including the value of any additional natural capital created. It is recognised that projects may come forward in a range of permutations, including a cluster within a landscape. Each project, or cluster of projects, that comes forward will be judged on their own merits, against a set of criteria agreed by the Fund board.
- To deliver a programme of small co-funded projects totalling £100k that stimulate community action on increasing nature, prioritising those areas where there is significant evidence of limited opportunity to access and benefit from nature, while ensuring ongoing nature conservation. Natural Cambridgeshire has developed a toolkit of simple, practical advice to help communities, both rural and urban, take small, co-ordinated steps to help nature recover.

## **SPECIFIC DELIVERABLES/OUTPUTS**

The Fund will support co-funded projects that:

- Work with charities, landowners, and farmers to deliver up to six large-scale co-funded habitat creation projects in the areas of Natural Cambridgeshire's six priority landscapes (taking account of the priorities of the local nature recovery strategies), specifically projects that can demonstrate how they help nature recover.
- Promote health and wellbeing and support mitigation of, or adaptation to, climate change.
- Work with urban and rural communities across the entire CPCA area to deliver up to fifty smaller co-funded projects that support the doubling nature ambition, sustain conservation of nature, and build on the evidence base provided through the Future Parks Accelerator project. This programme will have a strong focus on building community capacity, including volunteering.

The Fund will be used as follows:

- Up to £850k to support up to six large-scale nature-recovery projects located within the priority landscapes, on either existing or new sites. Each will need to demonstrate at least equal additional co-investment (in cash and/or in kind) from landowners, tenant farmers, donors and investors, and that they would be in a position to start to generate revenue at the end of the funded period. Projects may come forward in years 1, 2 or 3.
- Upto £100k to support up to fifty smaller projects on a 'bare' grant basis, matched by £100k of external donations or sponsorships.
- £50k to support the establishment and administration of the Fund, including legal and financial advice. This will be supplemented as necessary by other resources available to Natural Cambridgeshire.

The large-scale nature-recovery projects will have to demonstrate additional investment/funding, initially on a 2:1 basis given the infancy of the market, showing how this would move towards 3:1 in time, inclusive of natural capital values. Sources of such matched funding could include:

- Long-term commitments of land that will be dedicated to nature recovery
- Environmental funding streams such as Countryside Stewardship, Environmental Land Management Schemes and BNG schemes. (These may not flow through the Fund itself but will have been enabled it. Natural Cambridgeshire will encourage and coordinate different projects to join together in applications, and a cluster of smaller projects working together could form one application.)
- Emerging investors in natural capital projects, perhaps most particularly related to wetland creation that supports flood mitigation or carbon capture
- Corporate sponsors who are keen to support biodiversity recovery and/or community cohesion and volunteering, either through general unrestricted donations or through support for specific charitable projects (i.e., without an expectation of commercial return on investment)
- Grant making trusts who will be approached for support for specific projects. Delivery of six capital investment projects (aiming for one in each landscape priority area) that test and demonstrate investment models that can be replicated

## PROJECT OUTCOMES/IMPACTS

Outcome 1: Proof of concept of a viable financial investment model that attracts private sector/third investment into nature. Specifically that the Fund has shown that other private sector donors or investors are willing to provide funding for nature projects, which are capable of generating self-sustaining revenues. This would provide a recurring mechanism for future investment in nature and nature-based solutions.

Outcome 2: Lead the development of a nature-based-solutions investment sector.

Outcome 3: The demonstrator projects initially funded create green jobs, tackle and build resilience to climate change, and protect and enhance nature.

KEY METRIC: Increase in quality and quantity of rich wildlife or natural green space

KEY METRIC: Number of co-investments, sponsorships and donations secured

KEY METRIC: Scale of self-generating revenues in supported projects vs investment secured

OTHER LINKED METRIC: Increase in carbon sequestration through nature-based solutions

OTHER LINKED METRIC: Improvements to the 'nature network' through linking appropriate habitats

OTHER LINKED METRIC: Significant increase in residents having good access to nature rich green space.

NOTE: Given that natural capital accounting is in its early days, it is envisaged that metrics for e.g. skills and health and wellbeing, and climate change mitigation and adaptation, may be developed and employed as and where appropriate, depending on the individual projects that come forward

## CPCA performance management metrics



The Project will deliver an outcome monitored under **CPCA performance metric 8: Climate and Nature - Land Area Providing Nature Rich Habitat (PNRH) by District**. Allowance will need to be made for the biodiversity outcome to increase over time, as habitats take time to establish.

## DESIGNS

Not applicable.

## RISKS

### Scope risks

1. Cost of measures do not allow 6 large schemes to proceed [Mitigation – softing test during FBC development has adjusted expectations on timing]
2. Lack of private sector match funding [Mitigation – the involvement of CPCA public funding reduces the risk element and as ‘patient capital’ can seek lower RoI on demonstrator projects]
3. Unable to achieve 2:1 leverage [Mitigation – early market engagement to test models]
4. Double counting of public investment if landowners receiving other payments for public goods such as from ELMs (Mitigation – liaison with DeFRA over co-benefits vs double counting)
5. Time lag between investment and nature benefits (Mitigation – CPCA patient capital, long term management requirements can be built into funding agreements)

### Operational risks (excluding standard risks such as project management)

1. Lack of landowner interest due to competing economic returns [Mitigation – does not necessarily require the use of most productive land to uplift nature benefits; this is what the Fund is seeking to test]

### Opportunities

1. Link with Biodiversity Net Gain and other regulatory requirements that drive nature-based investment
2. Market development in green investment finance

## CONSTRAINTS

Nature investments may show returns over longer periods.

## DEPENDENCIES

Progress on government specific requirements for ELM payments and BNG contributions.

# ECONOMIC CASE

## INTRODUCTION

The National Audit Office state that good value for money is the optimal use of resources to achieve intended outcomes. This includes ensuring that:

- There is balance of inputs, outputs & outcomes

- ‘optimal’ is the most desirable possible, given restrictions or constraints
- what does good look like? has been answered

The Combined Authority Assurance Framework also states that we must achieve value for money through ensuring all projects contribute to the objectives of the Combined Authority via adherence to the Green Book principles. This means all business cases must demonstrate a strong fit with the strategic objectives of the Combined Authority Board.

This financial case includes a Logic Model, a Green Book Outcome Profile Tool linked to our Sustainable Growth Ambition Statement and either a summary of economic benefits and / or a Green Book Appraisal Summary Table completed to ensure that the value for money question has been answered.

## APPROACH TO ECONOMIC CASE

The Economics of Biodiversity review final report was published in Feb 2021 (The Dasgupta Review). This identified that demands on ‘nature’ far exceed its capacity to supply the goods and services we all rely on, and that this is endangering the prosperity of current and future generations. It recommends adoption of natural capital ‘accounting’ as part of determining wealth, but notes that much work needs to be done to arrive at consistent metrics. This Fund will test different methods of monetising or accounting for nature. In advance of testing those natural capital metrics, the Fund would demonstrate value for money through a target of attracting a minimum of twice the Fund initial contribution over time.

The Dasgupta Review identified that demands on ‘nature’ far exceed its capacity to supply the goods and services we all rely on, and that this is endangering the prosperity of current and future generations. It recommends adoption of natural capital accounting as part of determining wealth, but notes that much work needs to be done to arrive at consistent metrics. The Fund will test different methods of monetising or accounting for nature. In advance of testing those natural capital metrics, the Fund will demonstrate value for money through a target of attracting a minimum of twice the Fund’s initial contribution (including the value of any additional natural capital created).

Examples of co-invested projects could include:

- Capital projects that create site infrastructures from which nature park charities can generate ongoing revenues from public access, such as visitor centres, lavatory and parking facilities, catering facilities, retail facilities and leisure services, such as access to gardens, events, information/lectures, fitness classes, walks, weddings, bike rentals, or glamping.
- Capital projects that provide ongoing environmental services, such as drainage, flood control or other water management services, carbon sequestration, prevention of soil erosion, pest control, or coppicing, which can be provided by landowners, utilities, or public agencies. A mechanism will need to be put in place that estimate their value.
- Capital projects funded by large philanthropic donations or from Biodiversity Net Gain grants from developers, but which need to include ongoing revenues or other funding support to cover the ongoing conservation costs of the project.
- Revenue projects that form part of larger sponsorships of nature projects that provide grants to charities or communities, but which also include ongoing revenues or other funding support to cover the ongoing conservation costs of those projects.

Value for money considerations for this project are covered by the Green Book Supplementary Guidance on 'Enabling a Natural Capital Approach' <sup>1</sup>. Natural capital is focused on natural assets in ecological terms (their quantity, condition and sustainability) and the social and economic benefits that derive from those assets. Most of those benefits are not monetised so this Economic Case uses the outcome profile tool to establish the link to strategic objectives and assess the 'optimal' approach to the project.

## OPTIONS ASSESSMENT

### APPRAISAL SUMMARY TABLE

The Outcome Profile Tool has been used to assess the Business Case. The use of the Appraisal Summary Table will be considered for the individual projects as they come forward.

### OUTCOME PROFILE TOOL

Sustainable Growth Outcomes	Climate and Nature	Health and Skills
Other Programme Outcomes (optional)	Climate Action Plan (CPCA) CPCA Vision for Nature; Local Nature Network; emerging LNRS Cambridgeshire Flood Risk Management Strategy	Draft Health and Wellbeing Strategy 2022-2030
Project outcomes	Increases market for investment in nature Increase in biodiversity Increase in flood resilience Projects deliver wider ecosystem benefits	Increase in mental and physical wellbeing
Project outputs	Test investments model for large scale nature projects Fund up to 6 large scale nature projects Fund match-funding investments in small scale nature projects Increase in residents access to rich wildlife areas	Increase in residents accessing nature
Project measures	Land Area Providing Nature Rich Habitat PNRH Match funding secured Total Carbon Dioxide Emissions No net increase in flood risk	Health Index for England
Limitations	1. Habitat will take time to increase species presences and biodiversity 2. Carbon reduction dependent what habitats schemes are proposed.	Mental health benefits of access to nature are documented. However, attributing any impact of the project will be difficult to distinguish at the local scale due to other socio-economic factors on residents health.

## LOGIC MODEL

### EVALUTATION AND MONITORING FRAMEWORK LOGIC MODEL: FUND FOR NATURE AND THE ENVIRONMENT

*This Logic Model focuses on the position of the project at the time of inception in 2022, and will be revised regularly, and at least annually*

<sup>1</sup> [Enabling a Natural Capital Approach guidance - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/enabling-a-natural-capital-approach)

Policy Context	<ul style="list-style-type: none"> <li>The growing consensus across society that nature (in the form of natural capital and ecosystem services) underpins all other types of capital (i.e. economic and social) and provides the foundation on which the economy, society and prosperity is built.</li> <li>The UK government's Green Finance taskforce in its 'Accelerating Green Finance Report' (March 2018) challenged the prevailing view that managing and investing in nature is a cost "rather than an investment and return" for both nature and business, and maintains that investing in nature upfront is more cost-effective.</li> <li>The UK government's 25 Year Environment Plan (25 YEP) and the Green Growth, Clean Growth and Industrial Strategies set out the Government's approach to safeguarding the environment and future-proofing the economy by ascribing economic value to natural capital, since this is an essential basis for economic growth and productivity over the long term. Specifically, the 25 YEP seeks "to build on the momentum for more private sector financing and drive further progress in the use of market mechanisms that capture the value of natural capital."</li> <li>More recently, the Government, through implementation of the Environment Act (2021) has established key policies, including mandating Biodiversity Net Gain and Local Nature Recovery Strategies. Early learning and action will put Cambridgeshire on the front foot to implement these policies.</li> <li>The CPCA's Sustainable Growth Ambition Statement (January 2022) has sustainability at its core, and includes the themes of: health and skills; climate and nature; infrastructure; innovation; reducing inequalities and finance and systems – this is consistent with HM Treasury's own Green Book principles. This project is aligned to deliver against those themes.</li> </ul> <p>(References: Daly, Dasgupta Review, UK Government's Green Finance Strategy, 25 YEP, Natural Capital Committee)</p>
Programme Objectives	<p>Over an initial 3-year start-up phase, the programme's objectives are to deliver:</p> <ol style="list-style-type: none"> <li>Developing, learning and assessing best practice and building capacity and expertise on green finance and investment.</li> <li>At least three and up to six landscape-scale natural capital projects</li> <li>A programme of community-led nature recovery programmes (natural capital projects at parish scale)</li> <li>Testing of return-on-investment metrics/systems</li> <li>Leverage of additional funding of not less than 1:1, but also establishing markets in ecosystem services that will attract further investment and philanthropic donations</li> <li>Various consequent natural capital benefits and learning on how to value them, for example: tree-planting for flood mitigation; adoption of wildlife friendly farming practices on soil health and farm economics; impacts on health and wellbeing in relation to access to more and better nature rich green and blue spaces.</li> </ol>
Programme Rationale	<p>Cambridgeshire is one of the most nature depleted counties in the country. The ambition to 'double nature' was endorsed and adopted by the CPCA and other local authorities in the area in 2019, with a view to increasing rich wildlife habitats and natural green space from 8% to 16%. We are also one of the counties with fastest growing economies, in addition to being a significant producer of the nation's food. The drivers for this programme are to: (a) stimulate a reverse of the biodiversity crisis and sustain and enhance nature; and to (b) find new ways and sources of stimulating investment in nature projects which do not depend on one-off public sector grants, and which help to develop financially self-sustaining revenue-generating projects, given constraints on public sector finances.</p> <p>Currently most nature projects depend on repeated public sector or third sector grants. The Fund will encourage new private donors, corporate sponsors, and particularly new funders and investors, interested in supporting nature projects capable of creating self-sustaining revenues, as well as sustaining nature conservation, or the development by the private sector of new investment mechanisms.</p> <p>The ability to achieve the latter at present is reduced by avoidance of risk due to lack of proven investment models, and competition from other areas that may have alternative offers, including those overseas. The UK Government believes significant investment from the private sector is possible/available for natural capital projects, and accepts process is still at an early stage but shows huge potential for growth. This presents an exciting opportunity for the CPCA to support the Government's ambition by galvanizing local businesses and investors keen to invest in the local economy, and to be on the front foot in implementing policy (Environment Act 2021).</p>

Delivery		Benefits		
Inputs	Activities	Outputs	Outcomes	Impacts
<b>RESOURCES</b> <ul style="list-style-type: none"> <li>Financial, including CPCA investment and fundraising</li> <li>Pro-bono, including legal and financial advice</li> </ul>	<b>WHAT THE PROJECT DOES</b> <ul style="list-style-type: none"> <li>Sets up, implements and oversees the administration of the Fund</li> <li>Stimulates landscape-scale natural capital</li> </ul>	<b>WHAT THE PROJECT PRODUCES</b> <ul style="list-style-type: none"> <li><b>At least three and up to six large-scale nature-recovery projects</b> are funded, each of which will demonstrate at least equal additional co-investment (in cash</li> </ul>	<b>WHAT THE PROJECT ACHIEVES</b> <ul style="list-style-type: none"> <li>The viability of financially self-sustaining revenue streams from monetised natural capital projects, and the attractiveness of these projects to</li> </ul>	<b>PROJECT'S CONTRIBUTION TO HIGHER LEVEL GOALS</b> <ul style="list-style-type: none"> <li><b>Health and Skills:</b> funded projects will contribute to job creation, skills development and health and well-being.</li> </ul>

<ul style="list-style-type: none"> <li>• Volunteer time, including from trustees, advisors and others.</li> </ul>	<p>projects to come forward.</p> <ul style="list-style-type: none"> <li>• Stimulates green investment and investor markets.</li> <li>• Mobilises and incentivises communities to engage in local nature recovery.</li> <li>• Develops monitoring and evaluation tools, techniques and mechanisms to capture learning.</li> <li>• Employs appropriate information sharing and knowledge exchange systems and processes.</li> </ul> <p>NC Revenue (see separate Logic Model Framework submission)</p>	<p>and/or in kind) from landowners, tenant farmers, donors, and investors. Outputs would include: jobs created, volunteers recruited and trained, nature enhanced and its future secured for the longer-term through revenue generation.</p> <ul style="list-style-type: none"> <li>• Up to <b>fifty smaller parish scale</b> projects with potential to link to neighbourhood plans and local plans.</li> <li>• An independent evaluation report which informs next steps for the project at the end of the initial funding period.</li> </ul>	<p>external donors and investors.</p> <ul style="list-style-type: none"> <li>• Capacity and expertise in developing financially self-sustaining green projects and investment in them.</li> <li>• The benefits of co-investment in nature (such as for climate, health, and prosperity) are better understood and illustrated.</li> <li>• The quality and quantity of rich wildlife and natural greenspaces is increased.</li> <li>• Eco-system services, such as climate-change mitigation and adaptation, are better understood and improved.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Climate and Nature:</b> the project directly aligns with goals to improve the quality and quantity of nature, and reduce the impacts of climate change.</li> <li>• <b>Infrastructure:</b> water and soil are amongst the fundamental building blocks of life; this project will help to improve the health of our waterways and the condition of our soils.</li> <li>• <b>Innovation:</b> by learning how to create self-sustaining nature projects we will attract a vibrant workforce that can enjoy a high quality of life.</li> <li>• <b>Reducing inequalities:</b> targeted support for nature projects, particularly at community level, helps to build social capital, improve skills and increases well-being.</li> <li>• <b>Financial and systems:</b> learning in green finance and investment will inform and assist decision-making and future policy options.</li> </ul>
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Underlying Assumptions	Possible Metrics
<p>That CPCA funds will be available and agreements put in place to draw funds down as projects with appropriate match funding become available; that co-investment, both in cash and kind will be secured; and that suitable projects which deliver the described benefits will come forward to be funded.</p>	<ul style="list-style-type: none"> <li>• KEY METRIC: Increase in amount (quality and quantity) of rich wildlife or natural greenspace area (using, for example, guidance from Natural England or the Treasury Green Book, including ENCA).</li> <li>• KEY METRIC: Amount of co-investments, sponsorships and donations secured for projects to generate self-sustaining revenue streams.</li> <li>• KEY METRIC: Scale of self-generating revenues in supported projects vs investment secured.</li> <li>• OTHER LINKED METRIC: Increase in carbon sequestration through nature-based solutions.</li> <li>• OTHER LINKED METRIC: Improvements to the 'nature network' through linking appropriate habitats.</li> <li>• OTHER LINKED METRIC: Significant increase in residents having good access to high quality nature rich green space.</li> </ul> <p>NOTE: Given that natural capital accounting is in its early days, it is envisaged that metrics for e.g. skills and health and wellbeing, climate change mitigation and adaptation etc may be developed and employed as and where appropriate, depending on the individual projects that come forward.</p> <p>See also: <a href="https://www.gov.uk/guidance/enabling-a-natural-capital-approach-enca">https://www.gov.uk/guidance/enabling-a-natural-capital-approach-enca</a></p>

## **ECONOMIC BENEFITS**

The projects funded will deliver significant biodiversity benefits. Biodiversity is a core component of natural capital with multiple effects on social and economic welfare. Biodiversity:

- is core to the ecological condition and quality of ecosystems that support the services provided to people
- directly benefits people through species existence, through nature-based solutions and by enriching other benefits (like nature-based recreation)
- underpins the resilience of ecosystems to shocks and can provide insurance value

## **DISPLACEMENT AND DEADWEIGHT**

The Fund is exploring additional investment in nature and nature-based solutions. An assessment will be made at project level of any deadweight from investments that would have happened over time as part of business as usual. Past evidence suggests that this will only be limited impact on benefits.

## **ECONOMIC COSTS**

The potential economic costs have been informed by the Doubling Nature Scoping Study, discussions with Greater Manchester Combined Authority (who have a previous EU-funded similar scheme) and inputs from government agencies and nGO environmental bodies who have experience of managing and operating existing nature-based projects.

## **NON-QUANTIFIABLE BENEFITS**

The programme will support nature-based projects. These will have a range of benefits beyond biodiversity, including air quality, ecosystem services, and greater access to nature residents. There are corresponding benefits to physical and mental health through access to nature. The projects may deliver habitat change that contributes to flood resilience benefits.

## **SUMMARY**

The project shows a clear link from the strategic objectives of the CPCA (and councils own priorities) on biodiversity to the Fund solution proposed. There are significant non-quantifiable benefits arising from the project.



# COMMERCIAL CASE

## INTRODUCTION

The objectives of the commercial case is to set out the commercial objectives and constraints for the project mainly relating to procurement.

The Programme will be delivered via Natural Cambridgeshire, a registered charity.

## PROCUREMENT OPTIONS

The Fund will operate with competitive bidding rounds for the large-scale projects, via guidelines it will produce for applicants.

The small grants will operate as a lighter-touch direct application process, albeit that the Fund would still wish to see ongoing revenues or other funding support to cover the ongoing conservation costs of those projects. Opportunity will be taken to align with existing programmes operating at District Council level. Expertise to guide/assess impact on nature and the appropriateness of proposed activity will be given.

The Fund will also operate as a one-stop shop for those interested in making investments in natural capital, helping them decide the best investment choices. This covers philanthropic grants or commercial investments, and whether the funder wanted to ring fence their contribution to deliver specific outcomes.

## DELIVERY OF THE PROJECT

The Fund will be overseen by Natural Cambridgeshire, the local nature partnership for Cambridgeshire and Peterborough, which is a registered charity. It will promote the types of projects and sources of funding described above and stimulate interest in investing and donating to nature projects. CPCA will be a funding partner, with other co-investors, corporate sponsors and philanthropists.

It is expected that proposals will come from nature organisations, landowners, or farmers.

Advantage will be taken of available expertise in the two universities. Volunteers will be encouraged to participate in all projects, where appropriate.

Any Natural Cambridgeshire trustee, or other person, having an interest in a project shall not participate in deciding on its support or its evaluation.

Two examples of the types of projects that the fund might support are:

### a) Wetland Creation

A consortium of landowners commits to take thirty hectares of land close to a river for the creation of wetland and wet woodland. The land value is assessed at £150k. The Fund commits up to £150k for initial capital works, including public access footpaths, bird hides and fencing, and purchase of machinery to enable the long-term management of the land. The land is entered into a Countryside Stewardship Scheme which will migrate into the new ELM scheme and will generate an annual revenue. There will also be a small income from visitor facilities. Additional capital funding is provided by the Environment Agency, recognising the flood mitigation outcomes of the project.

### b) Access to Nature

A partnership of charities, landowners and private investors develop a project to increase public access to land near one of the county's market towns. This will involve the creation of visitor and educational facilities, new permissive access paths and opportunities to view and learn about nature. It will also involve significant habitat creation, particularly wetland and woodland creation, and include demonstrator projects for wildlife friendly farming. Produce from the farming will be sold to visitors at a new farm-shop facility. The partnership invests £300k in the project. The Fund provides an upfront soft loan of £100k to help with capital costs and also identifies a private investor who will invest £100k and expect a return.

Projects will need to have adequate biodiversity benefits, practical implementation, financial viability and fit with Natural Cambridgeshire's and CPCA policy goals. The Fund will have to build up experience on how to decide on financial viability: the fact that the external co-funders will be providing finance will ensure that they also are engaged in the appraisal, but both parties – the fund and the co-funders – will have to make up their minds on commercial and financial viability.

The performance of the Fund will be assessed regularly by the Board of Natural Cambridgeshire, which also will approve annual reports.

### **PROCUREMENT STRATEGY**

A grant agreement will be entered into with Natural Cambridgeshire. The project fund will be run by Natural Cambridgeshire through a competitive process. Expenditure on projects would need to comply with public sector procurement principles specified by Natural Cambridgeshire and agreed with the CPCA as part of the Prospectus and would need to meet the target match funding objective.

### **WIDER CONSIDERATIONS**

None.

## **FINANCIAL CASE**

### **INTRODUCTION**

The purpose of the financial case is to assess the financial implications of the options as laid out within the strategic case and consider financial risk.

Financial case based on the preferred option of the Fund, using the appraisal set out in the Strategic and Economic Cases.

### **APPROACH TO FINANCIAL CASE**

The Fund has been designed on the basis of focusing on a limited number of larger projects. This reflects the need to work closely with prospective bidders and investors to develop these new markets, and that investors want to work at scale. Achieving six large projects across the area over time provides opportunities for each priority landscape area to bid into the Fund.

### **FINANCIAL OPTIONS ASSESSMENT**

The initial commitment is be on a 2:1 basis, reflecting the immaturity of the market and level of risk investors may perceive. Further levels of commitment would depend on the success of the first tranche and on the range and types of projects that the co-investors come forward with, but the aim is to leverage future private sector commitments towards a 3:1 basis.

Most of the external funding of projects are likely to involve individual donations, corporate sponsorships, or "policy" contributions from developers, all of which will involve "once-time" funding commitments. However, some projects should be capable of creating a regular source of revenue, ongoing revenues or other funding support to cover the ongoing conservation costs of those projects such as environmental services like flood mitigation payments. Others might create sufficient additional revenues to repay the co-investors, such as building visitor catering or parking, or charging admission fees for curated nature sites, such as the example of Cambridge University Botanic Garden. Unsecured long term loan schemes for developing nature visitor attractions could also be considered, such as have been launched in Alnwick, Northumberland and elsewhere.



In the first instance, the Fund is most likely to be used to match “once time” grant co-funded proposals, but if a sustained flow of income-generating projects is built up the Fund would consider whether it can offer a further contribution on the basis of receiving a dividend, interest coupon or eventual repayment alongside the other co-funders rather than just making its contribution by way of capital grant.

The rate at which spend will be achieved will not be known until the project timelines have been agreed and so the split in amounts shown in FY 23/24 and FY 24/25 is tentative. This is a variation on the MTFP, which provided for the £1m in FY 22/23.

Large projects, especially if they rely on nature surveys and planting seasons, may extend in terms of completion beyond 24/25. Appropriate arrangements would be made to ensure continuity of payments.

Natural Cambridgeshire will provide day-to-day management, from its other CPCA funding in FY 22/23 to 24/25 and beyond that from the £50k provided for administration in this application (for capital accounting compliance rules this is to be drawn from the private sector contributions). It would draw upon CPCA legal expertise to avoid/reduce costs in terms of project grant agreements..

## PROJECT COSTING TABLE

Financial Year		2022-23	2023-24	2024-25
Project Costs	Revenue	0*	0*	50
	Capital (£'000s)		750	2200
	Total	0	750	2250

Financial Year		2022-23	2023-24	2024-25
Funding Stream	CPCA		250	750
	Private sector / Other match funding / Natural capital enhancement	0	500	1500
	*PM revenue costs covered via separate Nat Cambs Project for 22/23 and 23/24			

## PROJECT COST BREAKDOWN TABLE

Sources	Value	Uses	Value
Combined Authority	£1m	Large Project Costs	£0.900m
		Smaller Project Costs	£0.100m
External co-funding	£2m	Operating Costs and Management Fees	£0.05m
		Large Project Costs	£1.850m
		Smaller Project Costs	£0.100m
...			
<b>Total Sources</b>	<b>£3.0m</b>	<b>Total Uses</b>	<b>£3.0m</b>

## **AFFORDABILITY ASSESSMENT**

The Fund is developing a new financial model to increase investment in nature. This will test affordability assumptions as part of the project bidding process. A further aspect to be considered will be how the co-investment might be split between the fund and the co-investors: co-investors could prefer the Fund contribution to be by grant, while they obtain preference in returns or repayments. The Fund will need to develop experience in negotiating inter-creditor arrangements, usually on a pari passu (equal footing) basis, but because initially part of the policy role of the Fund will be to encourage new sources of external finance, some flexibility may be required from the Fund. Once more robust sources of finance arise and more viable projects are created, the Fund will evolve its policy with the expectation that most co-funding will be on a pari passu basis.

## **CHARGING MECHANISM / CLAIM/INVOICE PROCESS**

Based on “once time” grant co-funding, the £1m capital commitment will be disbursed on an “as needs flow” basis from CPCA to the fund administrator, alongside similar co-investment flows which meet the match funding target ratios. Because the recipients of the funding may be charitable entities, and the funding of projects will involve at least two funders and the recipients (and quite often stage payments and other conditions), there will be an administrative need to oversee the disbursement of funds.

At such point where overlapping financial flows would involve larger stocks of funds, long term commitments, such as BNG 30-year monitoring or where personal legacies might create longer term charitable endowments, the administrative requirements would escalate and would be sought to be recovered through a management fee.

# **MANAGEMENT CASE**

## **INTRODUCTION**

The purpose of management case is to test that robust arrangements are in place to manage the delivery of the project.

General oversight by Natural Cambridgeshire Board, with programme responsibilities entrusted to a sub-group, to include a representative of CPCA and the Director of Natural Cambridgeshire. No member of the group, or of the Board, who has any interest in a project shall participate in decisions on its support or in its ongoing evaluation as it progresses.

Natural Cambridgeshire will provide day-to-day management, from its other CPCA funding in FY 22/23 to 24/25 and beyond that from the £50k provided for administration in this application

## **PROJECT TIMELINE**

From the June decision to approve business case:

1. By end September 2022, agree governance and arrangement for bids appraisal.
2. By end September 2022 issue applicant guidelines for both large and small projects and advertise for expressions of interest for large projects and bids for small projects
3. By end December 2022, agree potential list of large schemes and invite full applications from them by end March 2023, during which time there will be dialogue with the bidders to guide them.
4. By end of September 2023 contract with at least three large and five smaller projects, to include timelines for the payments of money from the Fund.

5. By end May 2024 at least three large projects under way.

Repeat the project process every 3 months to deploy Fund.

## EXIT STRATEGY

The Fund is designed to test methods for attracting investment in nature projects and showing landowners that they can create ongoing revenues or other funding support to cover the ongoing sustainment costs of those projects. The Fund will also encourage additional sources of capital for projects that can become self-sustaining through ongoing revenues.

## CHANGE MANAGEMENT

Project will establish a change management process and tolerances that are compatible with the CPCA's 10-point guide and Risk Management Strategy.

## PROJECT MANAGEMENT

General oversight by Natural Cambridgeshire Board, with programme responsibilities entrusted to a sub-group, to include a representative of CPCA and the Director of Natural Cambridgeshire. No member of the group, or of the Board, who has any interest in a project shall participate in decisions on its support or in its ongoing evaluation as it progresses.

Natural Cambridgeshire will provide day-to-day management, from its other CPCA funding in FY 22/23 to 24/25 and beyond that from the £50k provided for administration in this application

**External Senior Responsible Lead:** Chair of Natural Cambridgeshire Board

**External Programme Director:** Natural Cambridgeshire Director [new post being recruited to]

**Internal Programme Manager:** Adrian Cannard, Strategic Planning Manager

<div><div>R = Responsible</div><div>A = Accountable</div><div>C = Consulted</div><div>I = Informed</div></div> <div>Decisions/Activities</div>	Organisational Role	Internal Senior Responsible Officer	Internal Programme Director	External SRO	External Programme Director	Nat Cambs Board	Applicants
Project initiation		C	A	C	C	I	
Delivery of the project		I	C	C	R	A	C
Changes to cost and programme		I	C	C	R	A	
Compliance and assurance of operational data		I	I	I	A	I	R
Evaluation		I	C	I	R	A	
Project closure		I	C	C	R	A	
[Include more or delete decisions as appropriate]							

## RISK MANAGEMENT STRATEGY

Risks and Opportunities:

Scope risks

1. Cost of measures that do not allow six large schemes to proceed [Mitigation – to soft test during development - can adjust the number of schemes]

2. Lack of private sector match funding [Mitigation – the involvement of CPCA public matching funding reduces the risk element and encourages new sources of ‘patient capital’ and can seek lower returns on investment or more favourable terms on demonstrator projects]

3. Double counting of public investment if landowners receiving other payments for public goods such as from ELM (Mitigation – liaison with DEFRA over co-benefits vs double counting)

4. Time lag between investment and nature benefits (Mitigation – CPCA patient capital, long term management requirements built into funding agreements and regular reporting on project milestones)

Operational risks (excluding standard risks such as project management)

1. Lack of landowner interest due to competing economic returns [Mitigation – does not necessarily require the use of most productive land to uplift nature benefits; this is what the Fund is seeking to test]

2. Lack of interest from nature charities in adopting financially self-sustaining approaches to projects, in place of current expectations of once-time capital grants.

Opportunities

1. Link with Biodiversity Net Gain, Local Nature Recovery Strategies, and other regulatory requirements that drive nature-based investment

2. Market development in green investment finance

## STAKEHOLDER PLAN

Natural Cambridgeshire is the recognized Local Nature Partnership for the area. It has substantial stakeholder links through its membership of the Board, its policy forum and experience of working in the area. It regularly engages with landowners and developers to promote enhancements in nature. It will work with its members and CPCA to publicise the prospectus for the Fund and target potential investors.

## ASSURANCE

Natural Cambridgeshire is a charity and is bound by the requirements of the Charities Commission. An appropriate assurance process will be agreed with CPCA as part the grant agreement.

## SUPPLY SIDE CAPACITY AND CAPABILITY

Project development capacity can be an issue in the nature sector, whether that is private landowners or environmental organisations. However, the large environmental nGO's are involved with Natural Cambridgeshire and can provide experience of similar project development.

## KEY CONTRACTUAL AGREEMENTS

CPCA will agree grant conditions with Natural Cambridgeshire as delivery body.

## MONITORING AND EVALUATION

The Project will contribute to an outcome monitored under **CPCA performance metric 8: Climate and Nature - Land Area Providing Nature Rich Habitat (PNRH) by District**. Allowance will need to be made for the biodiversity outcome to increase over time, as habitats take time to establish.

The Programme will also deliver an outcome monitored under **CPCA performance metric 6: Total Carbon Dioxide Emissions**.

There will be an interim evaluation of effectiveness of the programme management in 2023/24; There will be post completion evaluation of programme outcomes. As the Fund is a demonstrator there will be ongoing evaluation of the impact of the Fund on demonstrating robust investment models (opportunity for a link up with one of the Universities on this).



