



Environment & Energy Board

Date	21 December 2023
Report title	Local Investment in Natural Capital (LINC)
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Recommendations(s) for action or decision:

The Environment and Energy Board is recommended to:

1. Receive the update on the Local Investment in Natural Capital programme.
2. Provide input to the engagement and outreach process.

1. Purpose

- 1.1 The purpose of this paper is to inform and update the board on the £1 million Department for Environment, Food & Rural Affairs (Defra) funded Local Investment in Natural Capital (LINC) programme. This will be the first of a series of updates that will come at critical points in the project delivery.

2. Background

- 2.1 The UK Government has set a goal to mobilise at least £500 million in private finance to support nature's recovery every year by 2027 in England, rising to more than £1 billion by 2030 (Green Finance Strategy, HM Government, 2023).
- 2.2 The Green Finance Strategy identifies Local Investment in Natural Capital (LINC) programmes as one of the measures to support the transition to a climate resilient, nature-positive, net-zero economy.
- 2.3 The West Midlands Combined Authority (WMCA) has been selected as one of four regions to deliver Defra's LINC programmes. The other LINC programmes are in Cornwall, North Yorkshire, and Northumbria/Cumbria.

- 2.4 The four LINC pilots are innovation programmes which will work in tandem to explore and test new regional-scale approaches to financing and improving our natural capital.
- 2.5 The LINC programme runs until 31st March 2025, and is supported by a £1million grant from Defra. This was secured as part of the Devolution Deal.
- 2.6 Successful delivery will necessitate the establishment of strategic partnerships, governance structures, system architecture, finance/legal models, and a regional pipeline of projects which can aggregate at scale.
- 2.7 The ambitions of the LINC programme, to enable the public sector (and their third sector partners) to become more market-facing with their projects and programmes, align with the collective ambitions set out in the [West Midlands Natural Environment Plan](#)

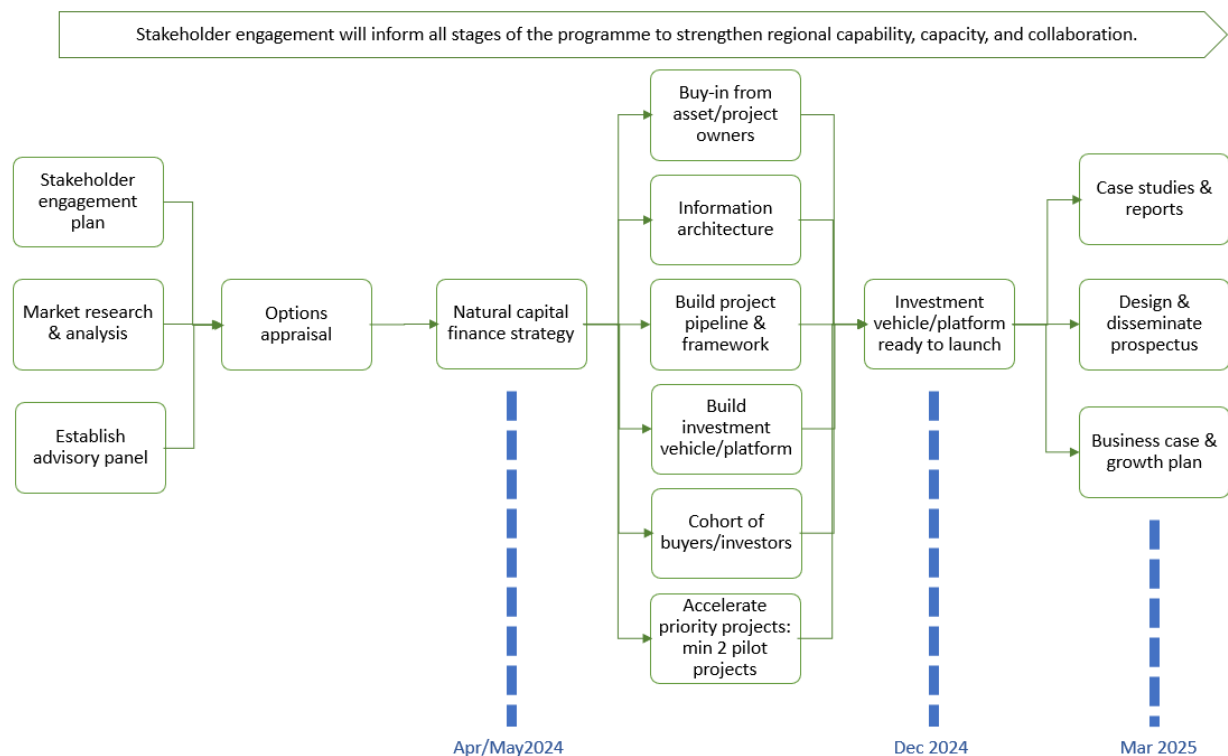
3. Why has the LINC programme been established?

- 3.1 There is currently a significant funding gap between level of ambition and financing available to deliver the regional natural environment ambitions and projects. Established and emerging nature markets are ineffective at driving finance to green infrastructure to improve our towns and cities.
- 3.2 The ambition of the WMCA Natural Environment Plan requires a regional investment vehicle or fund to unlock the necessary resources for delivery. We also know from engagement with regional stakeholders, including constituent local authority partners, that attracting private investment will support sub-regional initiatives.
- 3.3 Despite this need, there remain a number of challenges:
 - There is a lack of local governance arrangements and delivery frameworks for nature markets.
 - A “missing middle” exists between local markets and national finance and supply chains.
 - Individual natural capital projects lack the scale to attract private sector investment.
 - There is a lack of confidence in emergent nature markets.
 - Models, frameworks, learning, and evidence of ‘what works’ in securing green finance/investment into natural capital projects is not well understood in practice.

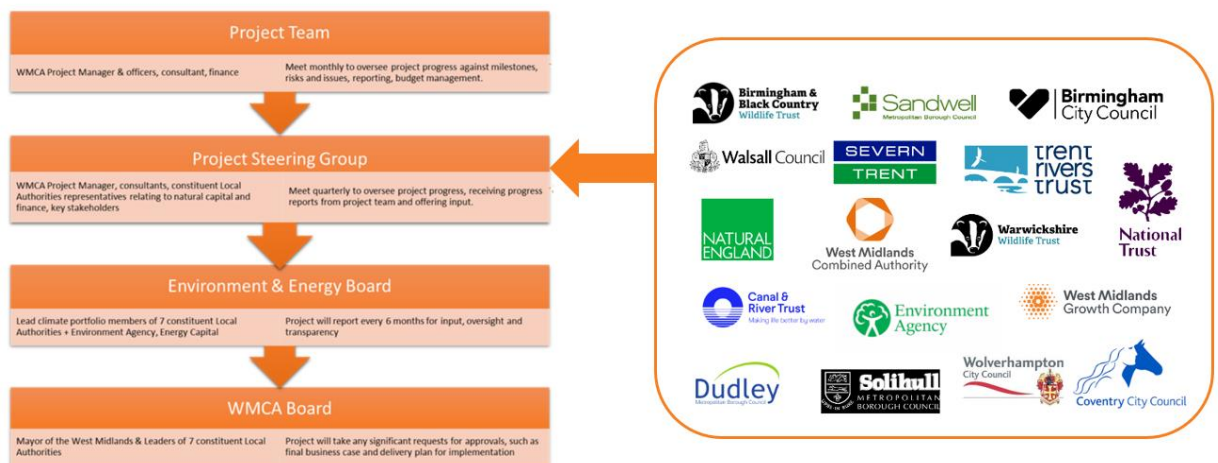
4. LINC Programme Overview

Objectives

- 4.1 **Explore and demonstrate the potential for natural capital investment.** This will contribute significantly to: sustainable growth as part of the ‘levelling up’ agenda, in both urban and rural settings; addressing the priorities for local natural capital improvement identified in Local Nature Recovery Strategies; supporting the role of local authorities as place-makers.
- 4.2 **Build the capacity, effective governance arrangements, and capability of local leaders and partner organisations.** This will enable sellers of monetisable ecosystem services to develop a pipeline of investable projects; and local areas to aggregate and direct finance flows to deliver environmental goals.
- 4.3 **Develop local ecosystem markets and investment vehicles that support the green transition,** facilitating cooperation and shared learning between organisations and sectors, directing investment to cost-effective solutions, and generating nature-related revenue flows.
- 4.4 WMCA, working with its constituent local authorities and other regional partners, will **be in a state of readiness to access and bring in local investment** for natural capital at a strategic level by 31 January 2025.
- 4.5 The bid developed, as part of that process, identified the following work packages that we will be taking forward:



5. Governance



Progress

- 5.1 Since appointing a WMCA LINC Programme Manager in August 2023, we have worked closely with the other LINC pilot areas, the Environment Agency, and Defra to refine the scope of LINC and the programme management/governance.
- 5.2 Through stakeholder engagement, workshops, webinars, and conferences, we are building a network of strategic partners and exploring the emerging challenges and opportunities presented by natural capital, green finance, and nature markets.
- 5.3 Following this period of engagement, research, and input from consultants, we have refined the programme deliverables and milestones. The contract specifications for this innovation programme are currently out to tender.
- 5.4 The £1 million funding for the LINC programme runs until 31 March 2025. To ensure this development phase is a springboard for the future, WMCA will be commissioning the production of an Investment in Natural Capital Business Case and Growth Plan for 2025 to 2030. This will be procured over the next few months.

6. Next steps

- 6.1 Consultants to support LINC will be appointed in January/February 2024. The WMCA and consultants will carry out stakeholder engagement and market research to understand the supply and demand-side opportunities for nature markets in the region.
- 6.2 An options appraisal and Investment in Natural Capital Strategy will be developed in April/May 2024. This will be brought to the Environment & Energy Board for review and approval.

7. Financial Implications

7.1 There are no immediate financial implications within this paper. The programme is currently on target towards its delivery milestones.

8. Legal Implications

8.1 There are no legal implications directly resulting from this paper. However, in establishing a regional finance vehicle there will be associated legal implications. These will be presented to the board for consideration upon completion of the necessary documentation on or before 31 December 2024.

9. Equalities Implications

9.1 Across the WMCA geography there is a correlation between the least advantaged areas (highest IMD score) and climate related risk factors, poor access to green space, and poor air quality. A regional natural capital strategy and supporting finance vehicle could help address some of these inequalities by channelling resources into nature-based solutions where they will have the highest social impact.

10. Inclusive Growth Implications

10.1 This programme links to the WMCA's inclusive growth priorities and key activities. The LINC programme will directly support delivery of the following inclusive growth objective:

- We will drive growth by developing regional strategies and plans focussed on priority clusters, boosting innovation, and securing investment.

11. Geographical Area of Report's Implications

11.1 The LINC programme covers all constituent local authorities. There is also potential to extend beyond these boundaries where opportunities for natural capital investment will benefit communities within the WMCA constituent geography.

12. Other Implications

12.1 None.

13. Schedule of Background Papers

13.1 Appendix 1: LINC one-page flyer.

13.2 Tables below: Gantt chart and logic chain.

Objectives

Explore and demonstrate the potential for natural capital investment (based on a sound understanding of assets and opportunities). This will contribute significantly to: sustainable growth as part of the 'leveling up' agenda, in both urban and rural settings; addressing the priorities for local natural capital improvement identified in the Local Nature Recovery Strategy; supporting the role of local authorities as place-makers.

Build the capacity, effective governance arrangements and capability of local leaders and partner organisations. This will enable sellers of monetisable ecosystem services to develop a pipeline of investable projects, and local areas to aggregate and direct finance flows to deliver environmental goals.

Develop local ecosystem markets and investment vehicles that support the green transition, facilitating cooperation and shared learning between organisations and sectors, directing investment to cost-effective solutions, and generating nature-related revenue flows.

WMCA, working with its constituent local authorities and other regional partners, will be in a state of readiness to access and bring in local investment for natural capital at a strategic level by 31 January 2025.

WMCA will produce and share a body of learning as part of a community of practice by 31 March 2025.

Activities

Market research (demand and supply side of nature markets)

Governance, legal, and financial model research & development

Stakeholder engagement – events, workshops, communications

Build place-based value chains around natural capital themes and investment propositions

Research and identify sources of private & public finance (appropriate to local area)

Collaborative working with strategic partners, LINC cohort, & arms-length bodies

Engage specialist investor advisory panel

Research & development of aggregation frameworks for regional nature markets

Identify information architecture for investment vehicle and project pipeline

LURS research & development

Outputs

Investment vehicle established with legal/governance models

Natural capital investment options appraisal

Natural capital investment strategy

Pilot project case studies and end of programme report

Market research & stakeholder engagement report

Natural capital investment prospectus & comms plan

Regional project pipeline of investable projects

Investment in natural capital growth plan

Investment/project metrics and aggregation framework

Spatial evidence of natural capital assets and opportunities

Outcomes

Aggregated supply and demand at scale and quality to attract private finance.

Integrated pathway connecting natural capital investment opportunities with wider environmental strategies/policies.

Capacity and capability in place to engage the market with confidence

Stakeholders feel included & committed

Private investors and buyers have better quality data and information for investment choices and decision making.

Investment quantum and characteristics identified and understood.

WMCA in a state of readiness to leverage private finance flows

Empowered local leaders, stakeholders, and communities

Rational allocation of resources and capacity on place-based priority basis.

Finance blended to reflect priority needs and required pace of access to finance.