

From: David Wimble, Cabinet Member for (the Kent) Environment

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To: Environment and Transport Cabinet Committee

Subject: Green Finance

Key decision: No

Classification: Unrestricted

Past Pathway of report: N/A

Future Pathway of report: N/A

Electoral Division: All

Summary:

This briefing paper provides Members with an overview of the green finance options available to KCC in order to mobilise private and public investment in environmental projects that support nature recovery, climate adaptation and biodiversity net gain goals with a view to creating a cyclical investment portfolio that delivers financial, environmental, and social returns. The briefing outlines opportunities, risks and implications of adopting each of the green finance mechanisms and invites comments on the next steps towards creating a green finance strategy for the authority.

Recommendation:

That the Environment and Transport Cabinet Committee note and comment on this report.

1. Background

- 1.1. Within the environment field, local authorities across the country are facing a growing gap between their duties, powers and ambitions and their available financial resources.
- 1.2. The Environment Act 2021 and the Environmental Improvement Plan 2023 place new statutory duties on local authorities including the development of local nature recovery strategies and measurable improvements in biodiversity, air and water quality. Delivery against these obligations requires significant investment, which cannot be met through existing budgets alone.

- 1.3. The UK's Green Finance Strategy 2023 and emerging environment, social and governance disclosure standards are driving a shift in investor behaviour. There is growing appetite among institutional investors, corporates and financial institutions to support nature-positive and climate-resilient projects.
- 1.4. KCC has begun foundational work to assess its readiness for private sector green finance. This includes an in-depth literature review, mapping council-owned assets such as land, buildings and natural capital to identify opportunities for commercialisation and investment, natural capital accounting to understand the value of ecosystems and exploring the potential for biodiversity net gain credits and e-mobility infrastructure as revenue generating pilot projects. Feasibility work is underway to assess the viability of several sites for habitat creation. These pilots are intended to demonstrate proof of concept and build internal capacity for more complex investment models.
- 1.5. The next step is to develop a green finance strategy that provides the structure, tools and the partnerships needed to transition from grant dependency to a more resilient and impactful investment approach. The strategy will aim to position the Council in a way that attracts private and community investment whilst aligning with emerging environment, social and governance standards, in order to deliver long-term value for money for Kent's communities and natural environment.

2. Green finance opportunities available

- 2.1. There is a diverse and evolving landscape of green finance mechanisms available to local authorities to support their environmental ambitions. These mechanisms offer varying degrees of scale, complexity and risk, and can be tailored to suit both short-term pilot projects and long-term strategic infrastructure. The following outlines the principal opportunities, supported by case studies and analysis of their relevance to KCC.

2.2. Municipal Green Bonds

- 2.2.1. Municipal green bonds are debt instruments issued by local authorities to raise capital for environmentally beneficial projects. Investors receive fixed interest payments and the funds are earmarked for green infrastructure such as renewable energy, flood resilience or biodiversity enhancement.
- 2.2.2. Anglian Water issued a £250 million green bond to fund nature-based wetland projects, replacing traditional water treatment plants. This approach reduced capital and maintenance costs while delivering biodiversity benefits.
- 2.2.3. KCC could explore municipal green bonds to finance large-scale infrastructure such as district heating networks, flood management schemes or habitat restoration. The UK Municipal Bonds Agency offers pooled issuance to reduce costs and improve access to capital.

- 2.2.4. This type of finance requires strong creditworthiness, regulatory compliance and extensive investor marketing. It may be less attractive than other capital loans unless structured innovatively. However, it does provide opportunities for long term capital investment, alignment with environment, social and governance goals and the potential for collaboration at up to a regional level which lessens the risk directly to KCC.

2.3. Community Municipal Investments

- 2.3.1. Community Municipal Investments are place-based investment tools that allow councils to raise funds directly from residents via regulated crowdfunding platforms. These investments typically support local infrastructure and offer modest returns to investors.
- 2.3.2. West Berkshire Council raised £1 million for rooftop solar, cycleways and flood defences through these investments and Warrington Borough Council used it to fund renewable energy projects with the surplus income reinvested into its investment portfolio to support other public services.
- 2.3.3. Community Municipal Investments could be used to fund small-scale, high-visibility projects such as EV charging infrastructure, solar installations on council buildings or biodiversity net gain pilot sites. They also offer a powerful tool for community engagement.
- 2.3.4. They are limited in scale and most suited to smaller local projects. They are dependent on council financial stability and require strong local connection to the project. They are however relatively low-cost funding making them attractive as pilot projects and are highly transparent with local communities often directly benefitting from the investments made.

2.4. Impact Investment Funds

- 2.4.1. Impact investment funds pool capital to support projects that deliver both financial returns and measurable environmental or social benefits. These funds are particularly suited to revenue-generating nature-based solutions.
- 2.4.2. The Greater Manchester Environment Fund was developed in partnership between the Greater Manchester Combined Authority, Lancashire Wildlife Trust and Finance Earth and blends public, philanthropic and private capital to support strategic natural capital projects. The fund has secured £2million to date from sources such as Defra's Green Recovery Challenge Fund and the SUEZ Community Fund which it has used to provide grants, to build capacity and to provide repayable investment to restore habitats, improve biodiversity and build climate resilience in the Greater Manchester area.

- 2.4.3. Using this model KCC could establish or participate in a regional impact fund focused on biodiversity credits, carbon sequestration or regenerative agriculture. This would enable scalable investment across multiple sites.
- 2.4.4. Risks associated with this model are the high transaction costs, complex structuring and the requirement for robust monitoring and governance. However, the scalability of this model would enable a regional approach to be adopted.

2.5. Payment for Ecosystem Services

- 2.5.1. Payment for Ecosystem Services schemes are a mechanism where individuals, businesses or public bodies, pay landowners or land managers to maintain or enhance natural assets that provide valuable ecosystem services. These services can include clean water, flood protection, carbon sequestration, biodiversity conservation and air purification.
- 2.5.2. In the schemes, beneficiaries of these services, such as water utilities, developers or government agencies, financially compensate those who manage the land in ways that deliver these benefits. For example, a water company might pay farmers to adopt land management practices that reduce nutrient runoff and improve water quality.
- 2.5.3. The Oxfordshire Biodiversity Net Gain credit system functions as a Payment for Ecosystem Services model, creating a financial transaction between those who benefit from ecosystem services (the developers) and those who provide or enhance those services (landowners or conservation organisations). In this system, developers are required to compensate for biodiversity losses caused by their projects by purchasing Biodiversity Net Gain credits. These credits fund habitat creation or restoration projects that deliver measurable ecological benefits.
- 2.5.4. Payment for Ecosystem Services is particularly relevant to KCC in areas like catchment management, biodiversity net gain and nutrient neutrality. It offers a cost-effective alternative to grey infrastructure and can incentivise sustainable land use while engaging the private sector in environmental stewardship. However, the schemes require robust monitoring, clear governance and often face challenges related to regulatory frameworks and equitable benefit distribution. They are also inherently difficult to establish given the complexity of their nature.

2.6. Environmental Impact Bonds

- 2.6.1. Environmental Impact Bonds are pay-for-success instruments where investors fund projects upfront and returns are linked to performance

outcomes. This model transfers financial risk from the public sector to the investors.

- 2.6.2. Currently there are no widely implemented Environmental Impact Bonds in the UK that match the scale or structure of those seen in the United States. However, the concept is gaining interest among UK local authorities and environmental finance organisations.
- 2.6.3. Several UK councils and agencies have explored performance-based financing models and outcomes-linked payments which are foundational to Environmental Impact Bonds. These include pilot schemes and feasibility studies, particularly in areas like flood resilience, biodiversity net gain, and natural capital restoration. The Green Finance Institute and organisations like Finance Earth have been actively promoting the development of such instruments and the UK's broader green finance strategy supports their future adoption.
- 2.6.4. In the United States the DC Water Bond that launched in 2016 was the first of its kind. It was designed to finance green infrastructure projects aimed at reducing stormwater runoff and improving water quality. In this model, private investors that included Goldman Sachs and Calvert Impact Capital provided upfront capital for the installation of green roofs, permeable pavements and rain gardens. The bond's returns were tied to the performance of these interventions: if the environmental outcomes exceeded expectations, then investors received a bonus; if they underperformed then investors accepted reduced returns. This structure transferred performance risk from the public sector to the investors incentivising accountability and innovation. The success of the DC Water Bond has since inspired similar models in other U.S. cities such as the Forest Resilience Bond that supported wildfire protection and restoration in national forests.
- 2.6.5. Environmental Impact Bonds could be used by KCC for flood management, carbon sequestration or biodiversity restoration, particularly where outcomes can be clearly defined and measured but the investor appetite in the UK remains uncertain.

2.7. Landscape Enterprise Networks

- 2.7.1. Landscape Enterprise Networks bring together businesses, landowners, farmers and environmental organisations to co-invest in the health and resilience of shared natural assets such as soil, water and biodiversity that underpin local economies and supply chains. The model works by aggregating demand from multiple businesses that rely on ecosystem services (e.g. food retailers, water utilities, insurers), pooling their investment and directing it toward targeted environmental interventions like reforestation, floodplain restoration or soil

improvement. They create economies of scale and shared governance that reduces the individual risk to each party.

- 2.7.2. A notable example of a Landscape Enterprise Network in the UK is the pilot project launched in Cumbria in 2017. This initiative brought together major stakeholders including Nestlé, United Utilities and First Milk to co-invest in nature-based solutions that would improve the resilience of the local landscape. The project focused on reducing phosphorus levels in rivers, enhancing biodiversity and improving soil health and flood management through interventions such as hedgerow planting and regenerative farming practices.
- 2.7.3. Kent's agricultural and water catchment areas could benefit from Landscape Enterprise Networks involving food retailers, insurers and utilities. This model supports soil health, flood resilience and biodiversity.
- 2.7.4. While coordination can be complex with multiple stakeholders, immature markets and high monitoring costs, this offers a powerful mechanism for mobilising private capital and aligning environmental outcomes with commercial interests, making them particularly relevant for regions like Kent with strong agricultural and water resource sectors. Landscape Enterprise Networks strengthen supply chains and provide long-term investment opportunities.

2.8. Green Improvement Districts

- 2.8.1. Green Improvement Districts are a place-based financing model adapted from the Business Improvement District concept. In a Green Improvement Districts, property owners within a defined area agree to contribute financially, typically through levies or assessments, to fund environmental improvements that benefit the local community and economy. These improvements can include green roofs, tree planting, permeable pavements, sustainable drainage systems and other climate-resilient infrastructure. Green Improvement Districts are democratically governed often requiring a formal vote among stakeholders and are designed to empower communities to take collective action on environmental priorities. They offer a mechanism for supplementing public funding, enhancing property values and fostering local engagement, though they can face challenges related to equity, coordination, and funding limitations.
- 2.8.2. The Leeds Climate Innovation District used local levies to fund low-carbon buildings and flood-resilient infrastructure with over 500 energy-efficient homes built to near Passivhaus standards alongside offices, leisure spaces, a care home and a primary school. Whilst not formally designated as a Green Improvement Districts, the community funded green roofs, permeable pavements, sustainable drainage systems and pedestrian-friendly infrastructure through a series of levies and the

community continue to govern the long-term maintenance of the infrastructure.

- 2.8.3. Green Improvement Districts could be piloted in Kent in highly populated urban centres such as Maidstone or Canterbury to support green streets, tree planting and the expansion of sustainable drainage systems with localised decision-making leading to enhanced property values. However, they do have funding limitations alongside equity concerns and this leads to complex governance requirements.

2.9. Enterprise-Based Models

- 2.9.1. These models generate revenue through ecotourism, sustainable product sales and conservation leasing. They offer market-driven approaches to financing nature-based solutions. These models rely on the economic value of ecosystem services and aim to create self-sustaining income streams that support long-term environmental management. For example, landowners may lease land for eco-friendly activities, sell nature-based products like biochar or timber or charge access fees for recreational use.
- 2.9.2. The Newcastle Parks and Allotments Trust is a charitable vehicle created to manage the city's parks estate independently from the local authority. Under this model green infrastructure assets are transferred to the Trust via long-term leases and the Trust raises funds through an endowment and enterprise activities. Revenue generated from investment income and sustainable operations is used to maintain and enhance the parks, including those that do not generate direct financial returns. This approach ensures the long-term financial sustainability of the parks by protecting the public green spaces from budget cuts whilst supporting ecosystem services such as biodiversity, recreation and climate resilience.
- 2.9.3. Kent's natural heritage and tourism potential as well as the countywide management of parks and green spaces by local authorities make this highly relevant. Opportunities include nature-based recreation, regenerative agriculture and biodiversity-linked products. While these models offer adaptability to various landscapes and local economic benefits such as job creation, they also carry risks such as market dependency, environmental trade-offs and regulatory challenges.

2.10. Blended Finance

- 2.10.1. Blended finance combines public, philanthropic, and private capital to de-risk investments and attract institutional finance. It is particularly useful for early-stage or high-risk projects such as biodiversity restoration, carbon credit generation or regenerative agriculture, where traditional investors may be hesitant to engage. By layering different types of funding, for example, using grants to absorb initial risk or

offering guarantees to protect investor returns, blended finance makes projects more attractive to private capital.

2.10.2. The Natural Environment Investment Readiness Fund (NEIRF) is funded by Defra and managed by the Environment Agency. The fund provides grants of up to £100,000 to support the creation of scalable, revenue-generating models based on ecosystem services such as carbon sequestration, biodiversity net gain, nutrient neutrality and natural flood management. The fund helps project developers identify ecosystem services and engage with landowners and buyers to build financial models that demonstrate long-term viability. The Natural Environment Investment Readiness Fund acts as a form of blended finance by using public funding to de-risk early-stage projects and stimulate private sector interest. It has supported over 120 projects across England since its inception.

2.10.3. Blended finance could support pilot projects in biodiversity, carbon credits or regenerative farming by enabling the deployment of limited public funds in the form of grants in a way that leverages larger-scale investment thus reducing risk and enabling early-stage projects to get off the ground. This would support market development whilst facilitating scalable, long-term environmental impact. However, this model requires careful structuring and robust governance to ensure transparency and alignment with strategic goals.

3. Next steps

- 3.1. This comprehensive suite of green finance mechanisms, if deployed, could offer KCC the flexibility to match different funding models according to project types, risk appetite and strategic ambition.
- 3.2. In order to move forward, the next stage of work will require KCC to define its approach in five separate areas:
 - Timeframe: Short-term pilots (2–5 years) vs. long-term infrastructure (20+ years).
 - Investment Size: Small (£1–5m) vs. large (£10–100m) projects.
 - Scope: KCC estate only vs. cross-boundary or regional collaboration.
 - Partnership: None vs. private/community investors, joint ventures, or energy performance contracts.
 - Project Type: Renewable energy, retrofit, heat networks, transport, nature recovery.
- 3.3. Exploration of these parameters will be undertaken alongside a more detailed assessment of the deliverability of the various models set out in the report.
- 3.4. Further discussions with Members will take place as the Green Finance Strategy continues to develop.

4. Financial Implications

4.1. There are no financial implications of this briefing note.

5. Legal implications

5.1. There are no legal implications of this briefing note.

6. Equalities implications

6.1. There are no equalities implications of this briefing note.

7. Governance

- 7.1. This briefing note is informed by requests from the Environment and Transport Cabinet Committee. Any future green finance strategy will follow the expected governance routes as required in order for decisions to be taken forward.

8. Conclusions

- 8.1. Green finance could present a transformative opportunity for KCC to meet its environmental goals while unlocking new funding streams.
- 8.2. However, all of the models discussed in the report are complex and further work and subsequent decisions will be needed to progress toward the development and implementation of a green finance strategy.

9. Recommendation

<p>The Environment and Transport Cabinet Committee is asked to note and comment on the report.</p>
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10. Contact details:

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