

Heart of the South West Natural Capital Demonstration Fund Guidance Note

Introduction

The Heart of the South West is characterised by its outstanding natural environment. This underpins the bedrock industries of farming, food, fishing and the visitor economy but it also supports the health, wellbeing and social cohesion of the population. It is the very essence of why so many people want to live, work and visit the area and they provide important eco-system services – carbon sinks, flood management, pollination, clean air and health benefits which all support economic growth.

The Government's 25 Year Environment Plan identifies that many aspects of natural capital across the country are currently in a poor state, delivering benefits well below what is possible or desirable. Recognising this, the Heart of the South West Local Industrial Strategy published last year prioritises an action to protect and enhancing natural capital and facilitate a new model of natural capital-led growth. As part of its ambition to transform the economy through clean and inclusive growth, the Heart of the South West Local Enterprise Partnership (HOTSW LEP) has committed to lead the delivery of nature-based solutions that provide resilience and support a positive transition to net zero.

Natural Capital Definition

Natural capital is the sum of our ecosystems, species, freshwater, land, soils, minerals, our air, our seas and natural processes. These are all elements of nature that either directly or indirectly bring value to people and the country at large. They do this in many ways but chiefly by providing us with food, clean air and water, wildlife, energy, wood, recreation and protection from hazards.

The value of natural capital is routinely understated. The 25 Year Environment Plan provides the example of England's woods and forests, which are a national asset that, using a natural capital approach, delivers services that can be valued at an estimated £2.3bn. Of this sizeable sum, only a small proportion – 10% – is in timber values. The rest derives from other benefits provided to society, such as human recreation and carbon sequestration – the process by which trees lock-up and store carbon from the atmosphere.

This value is not captured by traditional accounting methods and is too often ignored in management and policy decisions. But when we use a natural capital approach, we are more likely to take better and more efficient decisions that can support environmental enhancement and help deliver benefits such as reduced long-term flood risk, increases in wildlife, and a boost to long-term prosperity.

Natural Capital Demonstration Fund

The HOTSW LEP Board has approved in principle a £1 million Natural Capital Demonstration (NCD) Fund to invest in natural capital demonstrator projects across the Heart of the South West to test their ability to deliver clean growth and wider economic benefits. The funding available is for capital expenditure and would be on the basis of a loan such that the investment is repaid, enabling HOTSW LEP to reinvest in the delivery of other projects across the Heart of the South

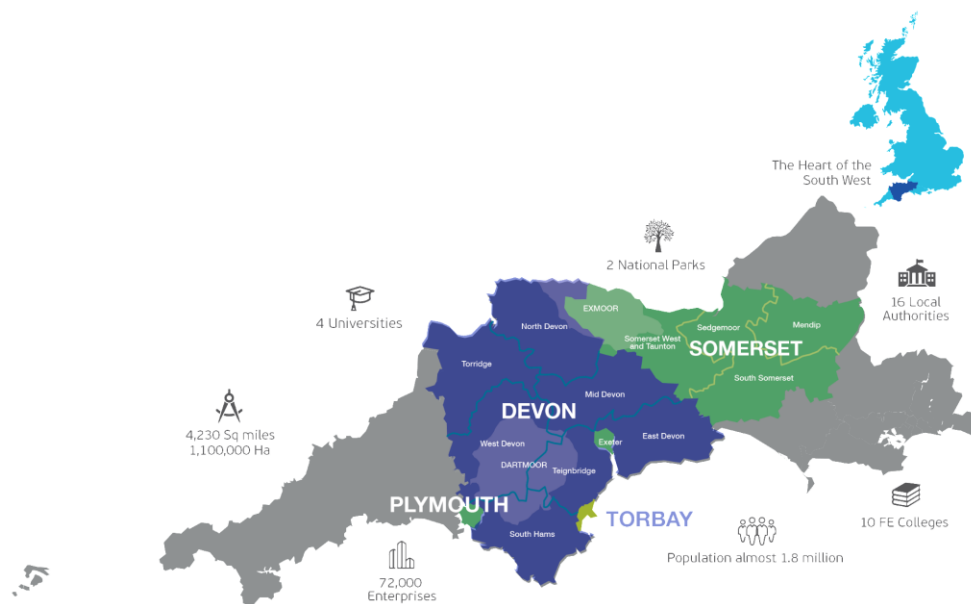
West. This approach has been deliberately chosen to test a new way of financing natural capital projects and to demonstrate mechanisms to attract private finance into environmental projects. Some natural capital investments are likely to generate direct financial returns to project partners that can be used to repay borrowings (e.g. specific environmental ‘products’, reduction in costs), while other categories of natural capital investment are more likely to generate a wider economic return not captured by project partners (e.g. tourism benefits, access to recreation) or create direct “system” savings or benefits which a value can be placed on but not monetised as a financial return (eg carbon capture, waste reduction, nitrate reduction).

Through this NCD Fund, the HOTSW LEP aims to support a combination of these categories of natural capital investment in each of the supported projects. It is envisaged that funding will be provided for a portfolio of 3 to 4 innovative demonstrator projects that together, will provide methodology that could be replicated in other areas and potentially be scaled up.

Project proposals should be based around a range of outputs and outcomes and will need to demonstrate the business case for achieving a sufficient uplift to repay the loan at the end of the project. This should be within 4 years and potentially survive beyond that point to become self-financing.

Objective and Selection Criteria

The Key Objective of this NCD Fund is to test a new way of financing the protection and enhancement of the Heart of the South West’s natural capital. Projects within the green/purple area on the map below are eligible to apply for this funding, which incorporates the strategic local authorities of Devon, Plymouth, Somerset and Torbay. The area also encompasses the seas (up to 12 miles)



The selection criteria are set out in more detail in Annex 1 of this document; in summary, these are basic conditions that all applications must meet. These are:

1. Location:
2. Deliverability
3. Business Model
4. Finance
5. Outcomes

Applications for Funding

There is a two stage application process for the NCP Fund:

Stage 1: Expression of Interest

Interested Applicants need to provide key information in respect of their project proposal by completing the Expression of Interest form attached. HOTSW LEP will review proposals and score them in accordance with its Selection Methodology, set out at Annex 2 of this document. The highest scoring projects will be shortlisted.

It is possible that shortlisted Applicants will be able to secure a grant of up to £5,000 to help develop their business plan. Applicants should specify in their Expression of Interest form whether they are applying for this and, if so, how much and what the funding would be used for.

Stage 2: Full Application and Business Case

Those Applicants shortlisted will be invited to submit a Full Application and Business Case, in which their proposals are fully refined and include detailed evidence in respect of the matters set out in their Expression of Interest. Significant changes from the Expression of Interest to Full Application, particularly in respect of outputs and outcomes, will not be acceptable unless a clear case has been made to justify the changes. The application will need to be supported by a business plan as well as evidence in respect of other funding sources and loan guarantors. HOTSW LEP will review applications and appraise them in accordance with its Selection Methodology set out in Annex 2 of this document.

Deadline for Submissions

Please return the completed Expression of Interest form by email in the first instance to amspalding@somerset.gov.uk by **5pm on the 8th April 2021**.

Shortlisted Applicants will need to submit their Full Application and Business Case by **5pm on the 30 June 2021**.

Any queries should be directed to Anne-Marie Spalding, Place Theme Officer for HOTSW LEP:

Tel: 07977 413113

Email: amspalding@somerset.gov.uk

Annex 1: Natural Capital Demonstration Fund Selection Criteria

At this Stage 1 of the application process, the HOTSW LEP will assess each Applicant's responses to the questions in the Expression of Interest form against each of the Essential Requirements in order to develop a shortlist of projects that will be invited to progress to Stage 2 of the process and submit a Full Application and Business Case.

Essential Requirements

To be eligible for investment from the Natural Capital Demonstration Fund, all projects must meet the following five essential criteria:

1. **Location:** The project and investment must be wholly or in part in the LEP area (please refer to the map on page 1 of this document).
2. **Deliverability:** The project must be able to commence as soon as possible after commitment of any NCD Fund investment, planned by the end of September 2021. Applicants which are selected to take part in Stage 2 will be required to produce evidence of any Necessary Consents and the commitments to the project from partners.
3. **Business Model:** The project must satisfy the HOTSW LEP's Key Objective for this fund, to test a new way of financing the protection and enhancement of the Heart of the South West's natural capital. Applicants selected to take part in Stage 2 will be required to submit a business plan with evidence of match funding and any proposed security for the HOTSW LEP's investment. A proposed repayment mechanism will also be required.
4. **Finance:** The investment required must be for capital expenditure only.
5. **Outputs and Outcomes:** The project must deliver natural capital outputs and outcomes. This could be supporting or improving biodiversity, reduction of degraded land, supporting the condition of marine habitats, sustainable use of materials, reduction in emissions from e.g. deforestation, protection from flooding, peatland restoration and/or tree planting. It could also be the creation of a natural capital system that values environmental assets or charges for non-renewable degradation of those assets. Any expected economic outputs such as job creation, improved productivity and/or increase in earnings will also be assessed.

Annex 2: Selection Methodology

The Selection Methodology will be used to evaluate the Expression of Interest. Projects shortlisted and invited to submit a Full Application and Business Case will be required to provide further information requested on a project-specific basis.

The underlying principle of the Selection Methodology is to select the projects that meet the Essential Requirements and will make the largest contribution to the fulfilment of the Key Objective of this Natural Capital Demonstration Fund.

The weightings to be applied to each question set out in the Expression of Interest Project Proposal are indicated by the marks available for that question set out in the right hand column, which accord with the Essential Requirements and Key Objective.

The table below sets out the way in which responses to questions in the Expression of Interest form will be assessed and scored:

Score	Acceptability	Applicant response demonstrates
0	Unacceptable	The information required by the question is either not provided or is fundamentally unacceptable, for example the entirety of a project is located outside HOTSW LEP's area.
1	Poor	There is insignificant evidence that the Essential Requirements can be met. There are significant omissions from the information required to be provided.
2	Fair	Responses cover the basic information requested in many respects but are unsatisfactory in others. There may be some minor omissions or areas which indicate that the Essential Requirements may not be met and/or the Key Priorities will not be achieved.
3	Good	The information submitted meets the Essential Requirements and Key Objective. There are no major concerns.
4	Very good	The information submitted provides good evidence that the Essential Requirements can be met. The Expression of Interest inspires HOTSW LEP's confidence in the project and the achievement of the Key Objective.
5	Outstanding	The information submitted exceeds expectations that the Essential Requirements can be met, giving HOTSW LEP no concerns in respect of its investment. The Expression of Interest inspires HOTSW LEP's confidence that its Key Objective will be achieved.

Annex 3: Important Notices to Applicants

1. It is each Applicant's responsibility to ensure that HOTSW LEP is not misled in any way. The information provided by each Applicant in its Expression of Interest will be relied upon and taken to be complete, true and accurate. If it is subsequently determined that any information supplied was inaccurate, incomplete or untrue and was relied upon for selection purposes, HOTSW LEP reserves the right to exclude the Applicant from any further selection stage.
2. Nothing in this document is or shall be a promise or representation as to the future conduct of HOTSW LEP or is intended to or shall be taken as constituting a contract, agreement, warranty or representation between HOTSW LEP and any other party.
3. None of HOTSW LEP's officer, agents or advisors make any representation or warranty as to, or accept any liability or responsibility in relation to, the adequacy, accuracy, reasonableness or completeness of the information included in this document or any other document or information provided in respect of the NCD Fund. HOTSW LEP does not accept responsibility for any pre-contractual representation made by it or on its behalf.
4. The issue of this document in no way commits HOTSW LEP to select any project for investment. HOTSW LEP is not bound to accept any Expression of Interest whether in whole or in part. HOTSW LEP, in its sole discretion, may withdraw from this selection process or cancel the selection process. HOTSW LEP reserves the right to vary or amend this selection process in general.
5. Applicants must keep HOTSW LEP informed of any changes and developments that affect the information in their Expression of Interest. HOTSW LEP reserves the right to keep such matters under review and to exclude any Applicant from further participation in the selection process where any such change adversely affects a project's suitability for the NCD Fund investment as judged against the Selection Criteria and the Essential Requirements.
6. The copyright in this Expression of Interest form and all other documents issued by HOTSW LEP is vested in HOTSW LEP and their advisors, where appropriate, and their content may not be reproduced, copied or stored in any medium without the prior written consent of HOTSW LEP. Such documents are and shall remain the property of HOTSW LEP and must be returned on demand. Any intellectual property rights created as a result of the investment in any project will be licensed to HOTSW LEP on a royalty free, perpetual and irrevocable basis.
7. HOTSW LEP is subject to the FOIA and the Environmental Information Regulations. Applicants must therefore identify any information which they consider should not be released if a request under the FOIA or Environmental Information Regulations is received.
8. Requests for information to be treated as commercially confidential should accompany Applicants' responses and must include a clear justification together with a time limit after which such information may be disclosed. Any information considered to be confidential must be clearly marked as such.
9. If HOTSW LEP receives a request under the FOIA or the Environmental Information Regulations for the release of information which has been provided by an Applicant, it will use reasonable endeavours to consult the relevant Applicant as soon as practicable where it considers that disclosure of the requested information may include exempt information relating to that Applicant. Where the Applicant is consulted, the Applicant must respond within five working days, so that HOTSW LEP can comply with its obligations to answer a FOIA or Environmental Information Regulations request for disclosure within the relevant time limit. If an Applicant does not respond within the required timescales, the HOTSW LEP shall deem that the Applicant does not consider the information requested to be exempt from disclosure.
10. The decision of what is, or is not, exempt information shall be determined by the HOTSW LEP, having considered the representations of the Applicant. Applicants should note, however, that ultimately the decision as to whether or not the HOTSW LEP will have to release certain information may be made by a body other than HOTSW LEP.

11. Any Applicant which, in connection with this selection process:

11.1 offers any inducement, fee or reward to any Board member or officer of the HOTSW LEP or any person acting as advisor to any of these organisations in connection with this selection process;

11.2 does anything which would constitute an offence under the Bribery Act 2010; and/or

11.3 canvasses any of the persons referred to above in connection with this selection process, will be disqualified (without prejudice to any other civil remedies available to HOTSW LEP and without prejudice to any criminal liability which such conduct may attract).

Annex 4: Glossary

Word	Meaning
Applicant	means the single organisation, prime contractor, consortium or syndicate on whose behalf the Expression of Interest Project Proposal is submitted;
Environmental Information Regulations	means the Environmental Information Regulations 2004'
Essential Requirements	means the requirements set out in Annex 1 of this document;
FOIA	means the Freedom of Information Act 2000;
Full Project Appraisal	means the second stage of the selection process when Full Applications received from shortlisted Applicants will be subjected to a detailed appraisal;
Full Application and Business Case	means the application form and business plan provided by shortlisted Applicants at the second stage of this selection process;
Information Commissioner	has the meaning given in the FOIA;
Key Objective	means HOTSW LEP's key objective for the Natural Capital Demonstration Fund, as set out in Annex 1 to this document;
Natural Capital	is the sum of our ecosystems, species, freshwater, land, soils, minerals, our air, our seas and natural processes that either directly or indirectly bring value to people and the country at large by providing us with food, clean air and water, wildlife, energy, wood, recreation and protection from hazards.
Necessary Consents	means all necessary planning permission or reserved matters approvals and all other consents, licences, permissions, certificates, authorisations and approvals whether of a public or private nature as shall be necessary or required for the delivery of a project;
Expression of Interest	means the information provided by Applicants in response to this document at the first stage of the selection process;
Expression of Interest Assessment	means the first stage of this selection process;
Selection Criteria	means the criteria set out in Annex 1 of this document;
Selection Methodology	means the methodology set out in Annex 2 of this document; and
SMEs	means small and medium sized enterprises