

Report to the Future Melbourne (Environment) Committee

Agenda item 6.4

Urban Forest Fund Proposal

7 June 2016

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Purpose and background

1. The purpose of this report is to seek Future Melbourne Committee's endorsement of the proposed Urban Forest Fund (the Fund).
2. The Fund is proposed to be established in line with Council Plan Action 5.7.3, to '*Undertake the development of both a participatory framework and a financial mechanism to enable community and stakeholder contribution to the urban forest*'. The proposal responds directly to the 'financial mechanism' component of the action.

Key issues

3. Currently, the majority of greening in the public realm is funded by the City of Melbourne. The Fund is a collaborative model that will allow private contributions, either financial or in other forms, to be made that will enable additional greening projects for parks, trees, green roofs, walls and facades to be undertaken.
4. The Fund will allow the City of Melbourne to deliver more innovative and contemporary green infrastructure that responds to the challenges of climate change and the needs of the community. It will also create pathways for partnering with private land holders to achieve superior greening outcomes in the private realm.
5. The Fund is also designed to encourage community engagement with, and ownership of, the urban forest. There is a demonstrated desire through the tree email program to provide support for the urban forest, either financial or through participation and maintenance (for example, over 180 volunteers have joined the Citizen Forester Program). The Fund will provide another avenue for community ownership.
6. A key recommendation from the 2014 People's Panel was that "*as a matter of priority the City of Melbourne allocates necessary increased funding to its plans to address climate change*" including "*tree coverage, drainage, vertical gardens, community gardens and nature strip gardens*". This report also indicated support for Council to seek funds from private entities, stating that "*there are means by which costs can be shared*" for the delivery of essential infrastructure.
7. Evidence shows that there is appetite for private contributions to public greening in Melbourne. For example, the University of Melbourne have recently committed \$2 million towards the redevelopment of University Square, and Federation Square Pty Ltd has entered into a co-operative agreement with Council for tree planting on their private land. The Fund seeks to streamline and encourage these types of partnerships in the future, and build on this interest with more opportunities for stakeholder engagement.

Recommendation from management

8. That the Future Melbourne Committee:
 - 8.1 endorses the establishment of the Urban Forest Fund as a separate general ledger account within the City of Melbourne, which will be reported upon clearly, transparently and separately to the public
 - 8.2 notes management will explore the possibility of a partnership with a third party charity to provide a tax incentive in instances where it is essential for partners.

Attachments:

1. Supporting Attachment (Page 2 of 7)
2. Urban Forest Fund Proposal (Page 3 of 7)

Supporting Attachment

Legal

1. Legal advice will be provided as required in respect to the Fund.

Finance

2. Following advice from Finance, it is proposed that a separate revenue account be established to track amounts received for the Urban Forest Fund from external entities. Council will commit to spend the equivalent amount of money received from external entities on greening projects. Although this financial mechanism is not technically a 'fund', the broader program of fundraising will be known as the Urban Forest Fund for communication purposes.

Conflict of interest

3. No member of Council staff, or other person engaged under a contract, involved in advising on or preparing this report has declared a direct or indirect interest in relation to the matter of the report.

Stakeholder consultation

4. The establishment of the Fund relates predominantly to internal City of Melbourne financial processes, so consultation has been focused on internal stakeholders, such as Finance and Legal.

Relation to Council policy

5. Projects funded through the Fund will work to deliver on the objectives set out the Urban Forest Strategy, Total Watermark Strategy, Open Space Strategy, Urban Ecology and Biodiversity Strategy (currently in draft form), Climate Change Adaptation Strategy and any future strategies that seek to create a greener and more liveable city.

Environmental sustainability

6. The environmental impact of the Fund will be positive. As outlined in the proposal, the funds will only be spent on projects that create a greener and more resilient city. Furthermore the increased support from private stakeholders will allow the City of Melbourne to deliver a higher quantity and quality of green infrastructure, boosting the impact of existing programs and strategies.



Urban Forest Fund Proposal

Delivering on Council Plan Action 5.7.3

Background

The City of Melbourne is currently facing a number of significant challenges, including climate change, population growth and urban heating. These pressures will impact on the built fabric, services and people of the city. To maintain Melbourne's liveability in the face of these challenges, substantial investment in urban forest canopy cover, public open space, green infrastructure, biodiversity and urban ecology is required.

The City of Melbourne has a number of strategies and programs in place to significantly increase the quality and quantity of green across the city in coming decades, from doubling our urban forest canopy cover to greening our laneways and rooftops. Exploring ways to co-fund these projects through partnerships and community participation presents an opportunity to deliver more than what is currently possible.

The demand from our community to deliver critical green infrastructure is strong and has been reinforced by many of the ideas for Future Melbourne 2026. A key recommendation from the 2014 People's Panel was that *"as a matter of priority the City of Melbourne allocates necessary increased funding to its plans to address climate change"* including *"tree coverage, drainage, vertical gardens, community gardens and nature strip gardens"*. Their report also indicated support for Council to seek funds from private entities, stating that *"there are means by which costs can be shared"* for the delivery of essential infrastructure.

There is evidence that people are passionate about creating a greener city, from the thousands of love letters received by Melbourne's trees each year, to the more than 800 public nominations for the Greening in Your Laneways program. This passion translates into willingness to contribute time and money; evident in the 180 registered volunteers in the Citizen Forester Program, the more than 1500 BioBlitz participants and the pledges of funding towards laneway greening from members of the community. This commitment to creating a better city extends to organisations, for example the University of Melbourne contributed \$2 million towards a public greening project in University Square.

There are numerous examples across the world where city governments have created separate funds to enable private contributions to public greening projects (see the extensive list of examples

in the background research paper 'Funding Green Infrastructure in a Transition to Green Growth – A Collaborative Approach' #9496708).

The proliferation of these initiatives suggests it is a successful model for boosting total investment in green infrastructure. For example, comparable programs in New Zealand and Japan have raised \$40 million and 850 million Yen respectively, with the New Zealand example offering no known tax incentives for donors.

Implementing a collaborative funding arrangement for Melbourne will provide an opportunity to further explore community appetite for collaborating on greening projects that would not otherwise be delivered. These may include new small open spaces, green roofs, green facades or biodiversity corridors.

The establishment of the Urban Forest Fund and subsequent promotional campaign will help the City of Melbourne to build on the success of previously co-funded greening projects, such as University Square, and encourage more public-private partnerships. It will further Melbourne's position as a leading city, and foster a culture of co-creation of public assets with their users.

A new approach

To build on the high levels of community and stakeholder interest in Melbourne's urban forest and the success of similar initiatives around the world, this proposal details a collaborative funding model for greening Melbourne: the Urban Forest Fund ('the Fund'). The Fund will deliver on Council Plan Action 5.7.3 to '*Undertake the development of both a participatory framework and a financial mechanism to enable community and stakeholder contribution to the urban forest*'. The Fund will enable contributions from partners and the public to invest in additional urban forest work, over and above existing expenditure for urban forest initiatives.

While the name 'Urban Forest Fund' will be used to promote the program within the community, there are a range of options available to create the internal financial mechanism and structure. In order for the program to be effective, the mechanism must foster community confidence in the Fund and be fully transparent. This would include:

- Being transparent and fully auditable
- Being simple and low-cost to administer
- Allowing for funds to be allocated to projects that meet the objectives of the Urban Forest Fund
- Allowing for flexibility and innovation in fundraising techniques (such as formal partnerships, crowd sourcing, project specific fundraising, sponsorship, donations)
- Give contributors confidence that money will be spent on identified greening initiatives

Options

A range of options have been considered to establish the Urban Forest Fund.

1. A separately identifiable account within City of Melbourne

A separate general ledger account can be established, as a separate revenue item to track amounts received for the fund from external entities. Any expenditure will be tagged in the financial system via the use of a separate activity or project code for auditing purposes. Council will commit to spend the equivalent amount of money received from external entities on projects that meet one or more of the Urban Forest Fund objectives.

Advantages

- Minimal establishment and administrative costs
- Supports a range of contribution options (partnerships, donations, sponsorships)
- Supported by City of Melbourne Legal and Financial Services advisers
- Provides an avenue for direct citizen and stakeholder engagement with Melbourne's urban forest

Disadvantages

- No tax incentives for contributors
- Funds not separated from general Council revenue, so require tracking to ensure transparency
- Allocation of funds must be carried over as part of Council budget process each year

2. Creation of a new separate entity

In order to provide a tax incentive for contributions to the Urban Forest, Council would need to seek Deductible Gift Recipient (DGR) status. This would require the establishment of an entirely separate legal entity that can receive contributions.

Advantages

- Tax deductibility may be an incentive for some donors

Disadvantages

- Council must go through extensive procedures to comply with the *Local Government Act 1989* before establishing a separate entity.
- Obtaining DGR status is a lengthy process that will require substantial investment and may be strongly contested by the Australian Tax Office. Previous experiences in obtaining DGR status have been protracted and expensive with disappointing yields.
- Funds raised through a DGR entity cannot be spent on anything considered to be Council's ordinary business or committed scope of work, which would exclude works in the public realm and relating to existing or future strategies.
- This mechanism may not be suitable for a range of fundraising techniques – such as sponsorship of existing green assets, crowd sourcing or partnerships.
- DGR was only a primary motivator for some contributors, so there arguably limited value in the investment.

- Risk that investment in seeking DGR status will not translate into contributions.
- The entity must appear separate from City of Melbourne in all branding and marketing to maintain legitimate DGR status –this limits the ability to capitalize on the success of the Urban Forest Strategy.

3. Partnership with a third party charity

Partner with an external charity that has DGR status on mutually beneficial greening projects.

Advantages

- The City of Melbourne will not need to seek DGR status or create a new legal entity.
- An opportunity to collaborate with other organisations.
- Contributors may be eligible for tax deductibility.

Disadvantages

- The City of Melbourne will not have full administrative control of the funds.
- The City of Melbourne may not have the freedom to select greening projects independently and will be subject to the funding conditions of a third party. This additional consultation on a project-by-project basis may increase the administrative burden.
- Limited opportunity to capitalise on the success of the Urban Forest Strategy (more complex to 'brand' and celebrate City of Melbourne involvement).

4. A stand-alone City of Melbourne sinking fund without DGR status

The stand-alone, sinking fund can be created to sit as part of the Urban Sustainability budget and any contributions will be made directly into this account. The funds will sit in the separate account until allocated to a project that meets the objectives of the Fund.

Advantages

- Highly transparent and easily trackable
- Minimal establishment and administrative costs
- supports a range of contribution options (partnerships, donations, sponsorships etc)
- Provides an avenue for direct citizen and stakeholder engagement with Melbourne's urban forest

Disadvantages

- No tax incentive for contributors
- This approach is not supported by City of Melbourne's Chief Financial Officer because of its administrative complexity of managing a separate fund.

5. Continue forming ad-hoc partnerships

If no financial mechanism is created for the Urban Forest Fund, partnerships with private entities can continue to be established on an ad-hoc way.

Advantages

- No new establishment work or expenditure required.

Disadvantages

- Council Plan Action 5.7.3 will not be addressed.
- No streamlined process or formalised process for partnerships, which may result in missed opportunities.
- No direct means for citizen financial contribution to the urban forest.

Recommendation

It is proposed that the Urban Forest Fund is established as a separate general ledger account within the City of Melbourne, and the investments made through the fund along with the total sum invested will be reported upon clearly and transparently to the public. It is also recommended that we explore a partnership with a third party charity to provide a tax incentive in instances where it is essential for partners.

This option presents a simple, low cost, low risk approach that will allow us to determine ongoing stakeholder demand in the local context and refine our fundraising approach, if required. This option also provides an avenue for direct citizen and stakeholder engagement with Melbourne's urban forest and will allow Council to further build on the high levels of interest in the Urban Forest Strategy.

Following legal and financial advice, it is not proposed that DGR endorsement is pursued because it is a high cost and time consuming option for which there is no documented demand. Importantly, DGR status would significantly limit the City of Melbourne's ability to spend the money on public greening projects. However, it is proposed that the City of Melbourne also explore a partnership with a closely aligned charity so that tax deductibility can be arranged if it is essential for contributors.

Program review

The Urban Forest Fund is an innovative program and reviewing its success will be essential. It is proposed that the program be reviewed annually from its public launch, focusing on adjusting and improving the initiative. Recognising that new modes of funding and delivery can take time to become established, the review will consider measures of success beyond total monetary gain. This might include:

- Number of stakeholders and citizens responding and engaging with the Fund
- Total contribution to green assets/spaces
- Funds raised or pledged

- Community benefit
- Feedback from stakeholders and citizens

Risk

As with any Council program or activity, there are inherent risks associated with establishing the Urban Forest Fund. Risks will vary depending on which financial mechanism option is pursued.

A full risk assessment and mitigation strategy will be developed as part of the Fund establishment.

ARUP Further research

Urban Sustainability is currently working with ARUP to conduct research into community appetite for collaboration on financing urban green infrastructure outside of conventional models. It is anticipated that a range of financing models such as crowdfunding and Environmental Upgrade Agreements will be explored. Completion of the research is anticipated in late-2016 and will inform the review and refinement of the Fund in year two.

Proposed Action

In order to establish the Urban Forest Fund, the following actions are proposed:

1. Establish the separate revenue account and separate revenue code for the purpose of receiving financial contributions from external parties towards City of Melbourne greening projects.
2. Develop a contributions framework that supports and encourages donations, partnerships and sponsorships towards greening Melbourne in line with the below framework.
3. Explore a partnership with a closely aligned charity so that tax deductibility can be arranged if required by contributors.
4. Create criteria for the Urban Forest Fund for receiving and spending the funds (for example, new greening projects or maintenance of green assets)
5. Create a tailored communications plan to promote the Urban Forest Fund and actively seek participants that includes a public launch and media campaign.
6. Evaluate the success of the Urban Forest Fund after the expiration of 12 months and following the ARUP research and assess partner and community appetite and participation against the program review outlined below.
7. Expand the Urban Forest Fund to include a Flagship Program and other fundraising opportunities.

