

BRIEFING REPORT - PART I

Plymouth Habitat Banking Vehicle



I. INTRODUCTION

A Habitat Banking Vehicle for Plymouth – Delivering biodiversity net gain for the future of green infrastructure in the city.

This report sets out the requirements, opportunity and options available to the Council in relation to Biodiversity Net Gain policy set out under the Environment Act 2021 due to come into force Autumn 2023.

The Business Case sets out the opportunity to utilise the requirement for Biodiversity Net Gain provision to stimulate a sustainable revenue stream and business model, which the Council can establish through private investment and the developer market to enhance and maintain the city's green spaces for people and wildlife.

The options analysis reviews this and the recommendation is that the establishment of a SPV at arm's length to PCC is the preferred approach to achieving the benefits available, at lowest risk to PCC and most viable operating model. The basics of how this model functions is shown in figure 1.

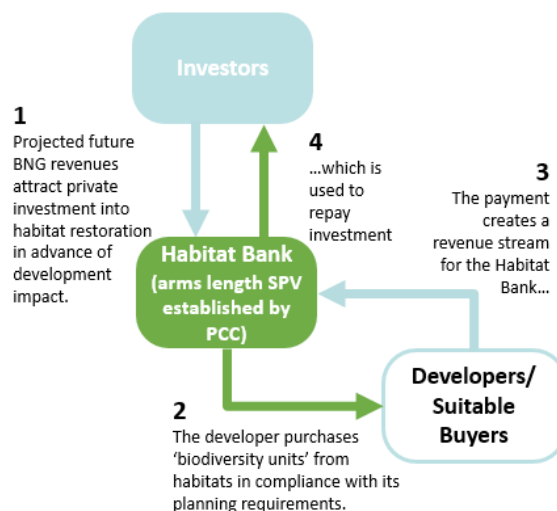


Figure 1 – Proposed Habitat Banking Vehicle model

Habitat banking is one form of green finance. A habitat bank allows investors to finance habitat restoration and creation. The investor receives their original investment returned plus interest and is also rewarded with environmental returns, such as improvements to habitats – woodlands, meadows, rivers etc. – and enhanced access for people.

Habitat banking provides a way for landowners – in this case local authorities – to create or restore a habitat in advance through investment raised and “bank” the resulting biodiversity units. These units can then be purchased by developers seeking to comply with the mandatory 10% net gain. The sale of biodiversity units means the investor who provided the finance gets their initial

investment back with interest and information about the social and environmental impact of their funding. The sale of biodiversity units also provides a critical revenue stream for local authorities to maintain the newly restored or created habitat for a minimum of 30 years and longer through the creation of an endowment.

Key points to consider:

- The business case is modelled against pilot delivery in 3 sites (109 hectares) owned by PCC, all figures quoted are relative to that. We have identified further 29 sites (269 hectares) to be included in future phases.
- Work to date and to point of establishment of the HBV has been and will be funded through external funds raised from Future Parks Accelerator (FPA) and Natural Environment Investment Readiness Fund (NEIRF).
- The HBV project will report to the soon to be established internal 'Green Finance Working Group' with representation from key corporate functions that will be critical in progressing this work, as agreed at CE Board on 8th November.
- From the HBV (under the preferred option) the Council is forecast to generate a net benefit of £175k p.a. (£5.263m over 30 years.) - £50k of savings and £125k income to meet existing income targets **from the 3 pilot sites**.
- The SPV option is preferred because the HBV holds the majority of costs and risks and the financial benefits to PCC are modelled to be more than £2.4m greater over the 30 year period.
- If PCC does not find a new approach to Habitat Banking we put at risk the current S106 payments related to local environmental contributions as developers will be able to purchase Biodiversity Units from any Habitat Bank. This has two risks - leaving PCC with no substitute for this £328k average annual income and no control over where the habitat enhancements are delivered (it could be anywhere in the country).

In summary the Plymouth HBV will:

- Use private finance to fund nature restoration, minimising risk to PCC, across 3 pilot sites
- Provide new sources of short and long-term revenue for PCC. Short-term through contractual payments to PCC for service delivery for the HBV (forecast £175k p.a.) and long-term through the creation of an endowment fund – estimated to be £4.6m - which will fund the ongoing management of HBV green spaces in perpetuity.
- Deliver high-quality biodiversity offsets across the Plymouth Policy Area and urban fringe that provide maximum social value.
- Deliver an investable, credible and cost effective solution for local developments to meet their obligations under DEV26 and the Environment Act.
- Ensure that PCC retains strategic control over the emerging market for biodiversity net gain in a local context.
- Ensure that the new biodiversity duties do not result in nature and associated benefits being lost from the City by market led schemes that deliver net gain in more rural settings due to land values (as would be the case through Option 2)
- Facilitate joined up, landscape-scale planning, enabling PCC to proactively deliver on its JLP policies and Local Nature Recovery Network strategy ahead of development.
- Provide greater financial sustainability for the long-term maintenance of nature-rich green infrastructure across the city.
- Support the development of the restorative economy and green jobs in Plymouth.
- Solidify Plymouth's standing as a leader in climate adaptation and nature conservation while securing a first mover advantage locally.

2. PROPOSAL

The business case makes four recommendations, that Cabinet:

1. Approves the principle of establishment of a suitable local vehicle to act as a Habitat Banking Vehicle as set out in the Business Case.
2. Delegates to the Strategic Director of Place the approval to work to scope pilot sites and associated background infrastructure required to trial a habitat banking approach as set out in the Business Case.
3. Approves recommendation that details of implementing the HBV including scope of services, final structuring, contracting and governance arrangements (including appointing directors) to be brought back for Cabinet decision as soon as practicable but within 12 months.
4. Approves the Business Case

This proposal supports the following Corporate objectives:

- a green sustainable city that cares about the environment
- a clean and tidy city
- a welcoming city

It also supports the delivery of the following JLP policies by ensuring that we make the most of one off funding opportunities to enhance the urban forest and green space of the city, engage communities with their local natural spaces and amenity trees whilst increasing the biodiversity value of trees throughout the city.

- DEV026 Protecting and enhancing biodiversity and geological conservation,
- DEV027 Green and play spaces,
- DEV028 Trees, woodlands and hedgerows

3. CONSULTATION & STAKEHOLDERS

The HBV proposal has been developed through work carried out and funded as part of the Future Parks Accelerator programme. Development work to this stage has included

- Engagement with internal stakeholders in PCC across departments including input from finance and legal.
- Workshop sessions with external stakeholders including DEFRA, Natural England and other local authorities to identify the standard of approach to be taken to Habitat Banking in an urban context
- Discussions with city housing providers and housing delivery team
- The proposal was part of the PCC 2023/24 budget consultation. To date the proposal for an Habitat Bank has received 19 responses with 16 being positive responses and 3 were neutral and were seeking more information.

4. OUTCOMES & BENEFITS

Financial

Based on detailed financial assessment and modelling, the following financial outputs are expected / are possible:

- The HBV under the preferred option is forecast provide a new ongoing income stream to PCC's Environmental Planning and Operations teams for the maintenance of high-quality habitats and off-set existing costs. This is forecast to generate a net benefit of £175k p.a. (£5.263m over 30 years.) - £50k of savings and £125k income to meet existing income targets **from the 3 pilot sites**.
- It is proposed that any surpluses generated will be used for the delivery of city priority green infrastructure projects.
- The vehicle will seek low-cost investment from aligned impact investors and offer an investment opportunity to PCC itself.

Non-financial

- Delivery of site enhancement as part of Plymouth's Local Nature Recovery Network.
- Creation of principles and approach for biodiversity offsetting and net gain delivery that also provides maximum social value.
- Delivery of an effective offsetting solution for local development projects.
- Safeguarding of public access to high quality nature within the city.
- Creation of new, local jobs within the restorative economy.
- Engagement and collaboration with local eNGOs.
- PCC seen as a leader in adaptation to emerging natural capital markets and climate change.
- Proof-of-concept for further financially sustainable natural environment investment models.

5. FINANCE

Development cost = £82k. This development cost is funded by the budget from external grant funding raised through the Natural Environment Investment Readiness Fund. Therefore there is negligible cost to PCC through some core staff time to inform development. In addition, the establishment of an endowment fund will provide for long-term financial security for Plymouth's green spaces, providing support for ongoing maintenance funding and reducing strain on central funds.

There is therefore negligible financial risk to PCC through the development of an HBV in this way.

From the HBV (under the preferred option) the Council is forecast to generate a net benefit of £175k p.a. (£5.263m over 30 years.) - £50k of savings and £125k income to meet existing income targets **from the 3 pilot sites**.

Procurement

The delivery of works will be procured through the council's procurement team in line with PCC's CSO's.