

BUSINESS CASE



Development of a Habitat Banking Vehicle

EXECUTIVE SUMMARY

The Executive Summary is a short summary of the Business Case and should be the last section you complete, this will enable you to extract or only the key facts from relevant sections i.e. ‘project on a page’. The summary is a ‘snapshot’ of the business case which will need to tell the story and sell the proposal.

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.

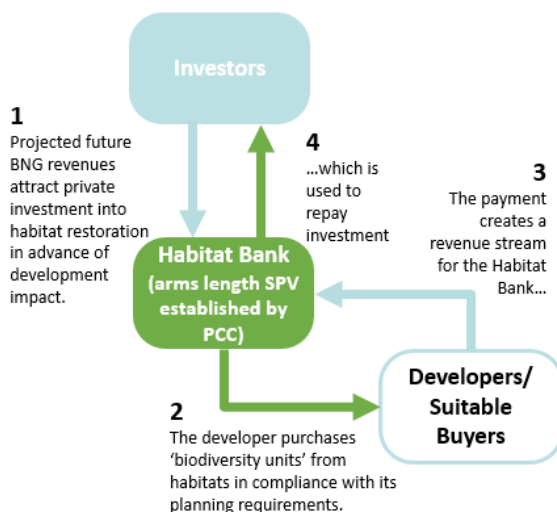


Figure 1 – Proposed Habitat Banking Vehicle model

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.

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.

SECTION I: PROJECT DETAIL

Project Value (indicate capital or revenue)	Establishment costs are covered through grant programmes. Revenue cost = £0.082m	Contingency (show as £ and % of project value)	£0.002m (3%)
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	Target investment: £1.2 million capital investment (to be raised externally)		
Programme	Natural Infrastructure	Directorate	Place
Portfolio Holder	Cllr Bill Wakeham, Environment & Street Scene	Service Director	Paul Barnard (Strategic Planning & Infrastructure)
Senior Responsible Officer (client)	Kat Deeney	Project Manager	Chris Avent
Address and Post Code	NA	Ward	Citywide

Current Situation: *(Provide a brief, concise paragraph outlining the current situation and explain the current business need, problem, opportunity or change of circumstances that needs to be resolved)*

The UK is among the most nature-depleted countries in the world, with 56% of our species in decline and 15% threatened with extinction. In response to this, planning policy has increasingly tightened requirements for conservation and most recently looks to drive habitat enhancement through development activity. Property developments are encouraged to follow the mitigation hierarchy to avoid, minimise, restore and finally offset their impacts on local wildlife. Although offsets are the last stage in the mitigation hierarchy, existing and upcoming policy is expected to generate a market for biodiversity offsets.

Biodiversity offsets are measurable conservation outcomes designed to compensate for adverse and unavoidable impacts of property development on biodiversity, and are intended to supplement the prevention and mitigation measures that have already been implemented.

With the passage of the Environment Act through Parliament, an emerging market for biodiversity offsetting has begun to develop across England. Under the Environment Act, new developments must deliver a 'net gain' for biodiversity of at least 10%. The impact and required offset(s) are measured using a biodiversity metric developed by Defra to quantify this gain. Measured in 'Biodiversity Units', this market is expected to be worth in excess of £200m per year (Defra, 2019).

Furthermore, PCC already mandates that all large projects deliver biodiversity net gain in line with the biodiversity metric under DEV 26 of the Joint Local Plan. The first project to follow this approach is the Forder Valley Link Road ('FVLR'). PCC is seeking to apply the learnings of the FVLR biodiversity offset project to design and create a HBV that takes a pragmatic approach to this emerging market, ensuring that high-quality and strategically located offsets are delivered to maximise environmental and social benefits for Plymouth whilst also retaining the market control and ability to vary rates to accommodate affordable housing.

Proposal: *(Provide a brief, concise paragraph outlining your scheme and explain how the business proposal will address the current situation above or take advantage of the business opportunity) and (What would happen if we didn't proceed with this scheme?)*

This business case proposes the development of a Habitat Banking Vehicle (HBV) to engage with the emerging market for biodiversity net gain (BNG). This business case is modelled against pilot delivery in 3 sites (covering 109 hectares) owned by PCC, so all figures quoted here are relative to that scale. We have identified a further 29 sites (further 269 hectares) that can be included in subsequent phases.

Biodiversity offsets are expected to offer a significant new revenue generating opportunity for the natural environment. Importantly they will replace and exceed funding previously received through S106, for green space enhancement. A HBV for Plymouth will provide additional revenues to be used efficiently to deliver on PCC objectives including the JLP and Local Nature Recovery Network (LNRN), with any surpluses made available for distribution for aligned purposes (projects defined by Plymouth’s Green Infrastructure Delivery Plan).

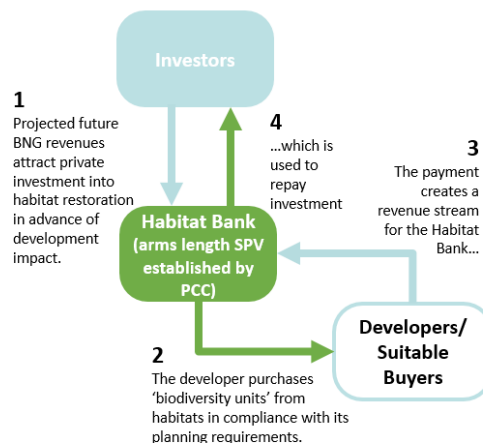
Pipeline biodiversity offset projects within Plymouth are proposed on existing land owned by PCC. The HBV will seek to capitalise an endowment to provide a perpetual income stream for the maintenance of the restored sites. This structure will be designed to ensure that projects do not become liabilities for PCC in the long term.

The lifecycle and processes of the proposed HBV is summarised below.

1. The HBV raises investment from mission-aligned and impact investors to funds habitat creation and/or restoration in advance of local development activity and generate Biodiversity Units (BU). The HBV funds the establishment and maintenance (for a set period, minimum 30 years, or as targeted, in perpetuity) of the habitat.

(NB in the full business case we will be able to present for consideration a scenario for the council to part-fund this opportunity directly.)

2. Local developments with a net negative impact on biodiversity are required to offset their impacts, as defined by the Defra Biodiversity Metric. The HBV engages with local developers seeking to buy Biodiversity Units to offset their impacts. Developers purchase the credits to fulfil planning obligations under the Environment Act and JLP.
3. The HBV uses a portion of the proceeds from selling the biodiversity units to capitalise an endowment for the ongoing maintenance of the habitats created/restored.
4. The HBV distributes returns to investors and donates funds as per founding objectives.



The proposed HBV will be designed as a ‘special purpose vehicle’ (SPV). The preferred structure will be a small company group including both the HBV and a subsidiary SPV. The company structure of the HBV may reasonably be structured as a Company Limited by Guarantee (CLG) or a Company Limited by Shares (CLS). The SPV will be a Company Limited by Shares (CLS). High level external legal advice (funded through the Future Parks programme) has been sought on the structure to ensure it is as simple and as cost effective as possible. The specifics of the company structure will be presented for approval in the Final Business case as per recommendations.

The HBV will raise investment to fund the creation and/or restoration of habitats that can generate biodiversity units. The establishment of the HBV at ‘arm’s length’ from PCC has five main benefits for PCC:

1. Repayment and operational risk falls to the HBV and not PCC
2. Through the contracting arrangements between the HBV and PCC, the Council will generate a forecast net benefit of £175k p.a. (£5.263m over 30 years.) This is forecast to consist of £50k of savings and £125k of income towards existing income targets.

3. The SPV option maximises the potential endowment to fund maintenance after 30 years – estimated £4.6m.
4. It more effectively allows the HBV to raise funds from third party investors, de-risking the council
5. The structure offers a degree of separation, allowing for transparent negotiation with prospective BNG unit buyers.

The considerations of the governance arrangements that will underpin this are set out in the Governance section of this Business Case. The proposed HBV Board would have representatives from PCC, as well as an environmental NGO, and an economic/ finance pioneer. PCC departments responsible for land management would act in collaboration with the HBV Board. The specifics of the governance arrangements will be presented for approval in the Final Business case as per recommendations.

In the event PCC decides not to pursue this opportunity, other organisations are expected to enter the market and may be incentivised to deliver lower-quality, short-term offsets with limited strategic and ecological benefits and of low value to the public. Additionally, without local, high-quality biodiversity units, developers may seek to offset their impacts beyond the Plymouth Policy Area, widening the disconnect between people and nature. Value may be stripped by profit-motivated actors or through a ‘race to the bottom’ led by developers seeking to provide the minimum to fulfil obligations for the maximum financial gain.

Furthermore, as a result of the BNG legislation under the Environment Act 2021, PCC’s income realised through S106 payments for the natural environment will significantly reduce. Thus, if PCC decides not to pursue this opportunity, it risks a reduction in available funding for green spaces with no replacement. Records show that, on average, PCC currently receives £328k per annum of income through S106 payments specifically related to greenspace contributions.

By contrast, PCC has the potential to set standards for the delivery of biodiversity net gain within the Plymouth Policy Area (PPA), which also deliver maximum social value and can be replicated by local authorities throughout England. The principles and approach behind this have been tested with a range of sector specialists including other LPAs, environmental NGOs, Defra and Environment Agency policy leads and academics. Proposed principles will target the delivery of environmental and social objectives setting a high bar for this emerging market.

Why is this your preferred option: *(Provide a brief explanation why this option is preferred) and (Explain why this is a good capital investment and how this would be an advantage for the Council) and (explain how the preferred option is the right balance between the risks and benefits identified below).*

The proposed HBV option offers a low-cost, low-risk opportunity for PCC to direct the development of the emerging biodiversity offsetting market across the Plymouth Policy Area. The cost of running the HBV over 30 years is £6.38m and the financial risk will sit with the HBV. Through the contracting arrangements between the HBV and PCC, the Council will generate a forecasted net benefit of £175k p.a. (£5.263m over 30 years.) This is forecast to consist of £50k savings and £125k income towards existing income targets in Environmental Planning and Street Scene and waste. Simultaneously, the HBV structure supports the delivery of PCC’s strategic goals, the growth of the local restorative economy, and improved access for people to high-quality natural assets. It will also serve as a proof of concept for a new mechanism that can sustainably fund the long-term creation, restoration, and management of habitats in parks and green space.

Under the proposed HBV approach, PCC will retain a high degree of control over the delivery of biodiversity offsets within and around Plymouth, ensuring that this emerging market yields the best possible outcomes for nature and communities. Importantly it also provides a vehicle which retains market control and ability to work collaboratively to offer packages that accommodate affordable housing provision.

This will entail the need for in-house resource and expertise to support the creation of the vehicle in the near term and strategic oversight from the Environmental Planning division in the long term to ensure alignment to council priorities. This increased capacity requirement is recognised within the

HBV business model and the current modelling shows the vehicle will fund the creation of a minimum of 2 FTE of PCC officers across Finance, Legal and the Green Estate Team to operate the vehicle and its obligations through the pilot phase.

Notably, the HBV will retain existing and deliver new income streams for PCC, with ongoing management and maintenance services in relation to the created/restored habitats contracted back to PCC.

The proposed option for delivering a HBV provides PCC with a means of engaging with and directing the emerging biodiversity net gain market while significantly reducing financial, social, environmental and reputational risks for PCC. The remaining risks and proposed mitigants are further detailed below.

Option Analysis: (Provide an analysis of ‘other’ options which were considered and discounted, the options considered must be a ‘do Nothing’ and ‘do minimum’ and ‘viable alternative’ options. A SWOT – Strength, Benefit, Opportunity, Threat analysis could be attached as an appendix).

Do Nothing Option	PCC does not engage with the BNG market apart from its mandated responsibilities and the HBV is not set up.
List Benefits	None
List Risk / Issues:	<p>In the ‘do nothing’ option, we would expect the outcomes to include:</p> <ul style="list-style-type: none"> ● Delivery of lower-quality offsets by profit-motivated habitat bank providers. ● Reduced benefits for biodiversity through reactive offsets without strategic co-ordination and planning with poor ecological outcomes. ● BNG funding is not used towards the successful delivery of Plymouth’s LNRN. ● Lack of supply of biodiversity units will cause complexity and added cost for local developers, who are likely to seek to offset their biodiversity impacts in further distant regions, leading to an effective leaching of funding for biodiversity from the Plymouth Policy Area. ● In turn this same factor could slow the planning process and development delivery pipeline ● Failure to deliver against JLP and goals for nature. ● PCC has limited/no control over local market development. ● Offsets are structured to prioritise investor profits over long-term financial, environmental and social sustainability. ● PCC fails to contract with HBVs implemented by other organisations, thereby failing to receive additional income streams. ● Habitats are maintained for a minimal period, leading to overall ecological failure. ● S106 payments related to local environmental contributions are discontinued, leaving PCC with no substitute for this £328k annual income. ● No endowment is capitalised, leaving PCC under increased financial pressure in the long-term to maintain the overall quality of habitat across the city.
Cost:	Loss of £328k per annum or £9.87m over 30 years
Why did you discount this option	Significant risk to Plymouth’s natural environment, ecosystems and communities.
Do Minimum Option	Lease land to a Private Third Party Habitat Bank Developer/ Operator who undertakes habitat creation/ restoration.
List Benefits	<ul style="list-style-type: none"> ● Low financial risk to PCC and no capital investment required
List Risk / Issues:	<ul style="list-style-type: none"> ● Lower revenue and investment generation potential and growth compared to preferred option

	<ul style="list-style-type: none"> • No endowment generation potential • Possible loss of control over delivery & habitat planning, based on the land and habitat management plan preferred by the private operator • Potential decrease in PCC control over quality of outcomes, based on agreement with private operator • Possible loss/restriction of public access to sites, based on preferred land and habitat management plan • Potential that habitats may fall back to LA management with no associated revenue streams, if the private operator fails and declares insolvency.
Cost:	£1.627m over 30 years
Why did you discount this option	Both economic and biodiversity value for PCC is minimised with value extracted for private gain
Viable Alternative Option	The Council directly operating a ‘Habitat Bank’ - with PCC generating upfront investment and undertaking habitat delivery and management.
List Benefits	<ul style="list-style-type: none"> • PCC retains control over habitat design, delivery, maintenance and BNG unit sale • Economic value and biodiversity is retained within Plymouth
List Risk / Issues:	<ul style="list-style-type: none"> • Highest financial risk to PCC as £9.764m sits on PCC balance sheet • PCC required to hold financial risk of first 10 years of HBV before revenue income becomes fully realised • PCC unable to a suitable rate of investor return (IRR) due to local authority constraints • PCC will need significant in-house resource and experience to support habitat delivery • Lack of credibility for PCC to raise necessary capital investment from private sector
Cost:	£6.237m over 30 years
Why did you discount this option	<ul style="list-style-type: none"> • Significant risks and resourcing pressures for PCC • PCC may appear conflicted in discussions with developers for BNG sales.

Strategic Case:	
Which Corporate Plan priorities does this project deliver?	<p>A green, sustainable city that cared about the environment</p> <p>Reduced health inequalities</p> <p>A vibrant economy, developing quality jobs and skills</p>
Explain how the project delivers or supports delivery of Joint Local Plan/Plymouth Plan Policies (include policy references)	<p>The proposed HBV model will deliver the following objectives of the <u>Joint Local Plan</u>:</p> <ul style="list-style-type: none"> • DEV026 Protecting and enhancing biodiversity and geological conservation • DEV027 Green and play spaces • DEV028 Trees, woodlands and hedgerows • DEV041 Derriford Community Park* <p>The proposed HBV model will deliver the following objectives of the <u>Plymouth Plan</u>:</p> <ul style="list-style-type: none"> • SO1 – Delivering a healthy city • SO10 – Maintaining a beautiful and thriving countryside • SPT12 – Strategic approach to the natural environment

	<ul style="list-style-type: none"> ● HEA7 - Optimising the health and wellbeing benefits of the natural environment ● HEA1 - Addressing health inequalities, improving health literacy ● HEA2 - Delivering the best outcomes for children, young people and families ● HEA7 - Optimising the health and wellbeing benefits of the natural environment ● INT6 - Enhancing Plymouth's 'green city' credentials ● GRO6 – Delivering Plymouth’s Natural Network <p>It will be delivered within the Climate Emergency Action Plan and in line with the Plymouth Charter.</p> <p><i>*Derriford Community Park has already been delivering BNG from the Forder Valley Link Road scheme for habitat enhancement, quantified through the Defra Biodiversity Metric.</i></p>
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Project Scope: *(To avoid scope creep and cost escalation it is important to have an agreed scope of what the project will and will not deliver. List below what is included and not included in the project ‘budget’. Projects should be delivered within scope and budget, but should project change happen then the business case requires revisiting, updating and re-approval)*

In Scope	Out of Scope
<ul style="list-style-type: none"> ● Review and refinement of financial model for the HBV and long-term site management. ● Finalise appropriate governance structures for the HBV with approval of internal PCC Finance and Legal teams. ● Confirm suitable and strategically significant sites to pilot investment in the creation of biodiversity offsets. For the avoidance of doubt, where biodiversity offsets are delivered on PCC-owned land, ownership of the site is retained by PCC. ● Draft relevant legal agreements including land management agreements, BNG sale agreements and management service agreements ● Undertake investor engagement with impact and mission aligned investors ● Incorporate the HBV and set up core background infrastructure. ● Continue BNG Unit Sales Engagement with local development projects to provide a cost efficient and ecologically strategic solution. ● Share learnings across aligned cities/places through the Future Parks Accelerator and through NEIRF. 	<ul style="list-style-type: none"> ● Establishment of SPV - this will require final Business Case approval ● Identification of sites for inclusion in Plymouth’s Local Nature Recovery Network. ● Raise finance from mission-aligned and impact investors to set up the HBV. ● Undertake habitat restoration and enhancement on chosen pilot sites.

Project Governance:

Governance of this stage of the project is through PCC, with a final Business Case to be presented for Cabinet Decision to commence the establishment of the SPV.

Current thinking around this is presented below for information at this stage.

We propose in addition to mandate at CE Board on 8th November there will be the establishment of an internal 'Green Finance Working Group' with representation from key corporate functions that will be critical in progressing this work. The HBV project will report to this group. This will expand on the project-focused approach taken to date and will oversee the programme of work around green finance initiatives. This will require continued and sustained support from Finance and Legal in particular

Current proposals for HBV Board

The HBV will be established with a Board of Directors to manage decision making for investment opportunities across the portfolio of investment sites and activities. This will have the scope to incorporate further investment routes and Funds around for example carbon and SUDS.

The final recommendation for the appointment of Directors will follow in Final Business Case but regardless of specific recommended entity the board will likely comprise:

HBV Board:

- PCC - Strategic Director of Place
- Environmental NGO Senior Representative e.g. National Trust
- Finance/ economic pioneer to provide credibility to investors

The HBV will be managed by an Executive of officers from Environmental Planning with support from Finance, Legal and other Corporate functions as deemed necessary to ensure effective functioning of the HBV.

In addition the SPV will receive support from a suitable FCA approved fund manager and corporate finance advisor for the Environment sector.

Internal PCC Governance (as land owner/ manager) will be carried out by PCC Service Director for Street Services) and Head of Environmental Operations, Street Scene and Waste.

The following table outlines the key business activities that will be undertaken by the HBV and the corresponding service functions that may be responsible for undertaking them. **All of these activities and service functions have been fully costed in the financial model for the HBV**, with options for keeping these services in-house within PCC or outsourcing them to third party providers where required.

Service Area	Key Business Activities	Service Function
Accounting	Bookkeeping, accounts payable, reconciliation, cash flow monitoring, auditing, management accounts	PCC Commercial Finance / outsourced to 3rd party where possible to minimise resourcing strain.
Governance, Risk and Insurance	Corporate authorisations, record keeping, board meeting preparation, account filing, company house monitoring, insurance procurement & renewal	PCC Commercial Finance / outsourced to 3rd party where possible
Legal	Company incorporation, structure and taxation, drafting and negotiation of relevant contracts, agreements and procurement of licences	External Legal Counsel with support from FCA-regulated Financial Advisor where required
Project Development	Identification and assessment of sites, ecological surveys, BNG assessment, Habitat Management	Project Board & Environmental Planning

& Set Up	Plan development, planning permissions, demand assessment, buyer engagement, financial modelling, cost-benefit analysis, landowner engagement (including preparation of conservation covenant documents)	Team supported by Ecologists, an FCA-regulated Financial Advisor and External Legal Counsel where required
Habitat Restoration & Enhancement	Habitat specific interventions, project management	Project Board & Environmental Planning Team supported by Ecologists where required
Habitat Maintenance & Monitoring	Support verification, registry management, site specific management interventions across project life, preparation of a management and monitoring plan, project management	Project Board & Environmental Planning and Operations Teams supported by Ecologists and Independent Verifiers where required
Operational Management	Sale of BNG units, preparation of marketing materials, buyer due diligence, negotiation of purchase agreements and non-financial reporting activities (including regulatory compliance with bodies such as the FCA and OEP)	Project Board & Environmental Planning and Operations Teams supported by External Legal Counsel, an FCA-regulated Financial Advisor and Credit Brokers where required
Support Investor Engagement	Support investor negotiations, monitor investor due diligence, sign off on investor agreements	Project Board & Environmental Planning Team supported by External Legal Counsel and an FCA-regulated Financial Advisor
Loan Management	Loan compliance, covenant reporting	PCC Commercial Finance / outsourced to 3rd party where possible, Project Board & Environmental Planning Team

Contract Milestones and Dates:

A detailed forward looking workplan is available for review if required

Phase	Start	End
HBV development	July 2021	March 2023
Vehicle establishment	March 2023	May 2023
Fundraising and sales engagement	January 2023	June 2023
Onsite delivery	August 2023	Ongoing

Who are the key customers	<ul style="list-style-type: none"> ● Plymouth residents ● Tourists & visitors to Plymouth 	Which Partners are you	Internally – <ul style="list-style-type: none"> ● Finance – Capital Investment, Commercial
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<p>and Stakeholders</p>	<ul style="list-style-type: none"> ● Plymouth’s natural environment ● Residential and commercial developers ● Plymouth City Council ● Aligned NGOs (incl. National Trust) 	<p>working with</p>	<p>and Treasury Management</p> <ul style="list-style-type: none"> ● SSW/ Environmental Operations ● Environmental Planning ● Legal ● Housing Delivery ● Development Planning ● JLP <p>Externally -</p> <ul style="list-style-type: none"> ● Finance Earth ● National Trust ● Future Parks Accelerator ● Local developers ● External Legal Advisors (TBC) ● Environment Bank ● Esmee Fairburn ● Tax specialists ● Natural England ● DEFRA ● Greater Manchester Environment Fund <p>Seeking to engage-</p> <ul style="list-style-type: none"> ● Environment Agency ● National experts on net gain (academic, commercial and public sector partners)
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SECTION 2: PROJECT RISK, OUTCOMES AND BENEFITS

Risk Register: *The Risk Register/Risk Log is a master document created during the early stages of a project. It includes information about each identified risk, level of risk, who owns it and what measures are in place to mitigate the risks (cut and paste more boxes if required).*

Potential Risks Identified		Likelihood	Impact	Overall Rating
Risk	Investment cannot be raised to capitalise the HBV.	Low	High	Medium
Mitigation	PCC will develop the HBV in partnership with Finance Earth, an FCA-authorised investment advisor and fund manager, who will work with PCC to design the HBV to meet investor needs. Finance Earth will engage with a select group of target impact investors to determine interest and requirements at key points throughout the design process. Funded through NEIRF.	High	Medium	Medium
Calculated risk value in £ (Extent of financial risk)	£0 (no direct PCC expenditure; grant funded NEIRF)	Risk Owner	Chris Avent	

Risk	The Environment Act secondary legislation is delayed or materially changes, affecting the outcomes of the biodiversity net gain market	Low	Low	Low
Mitigation	JLP Dev26.5 states that net gains in biodiversity will be sought from all major developments. As such some demand is expected to continue under local policy. The Defra Biodiversity metric rewards the early delivery of projects through a time discount factor; as such delays will have a reduced impact on the economics of the proposed vehicle.	Low	Low	Low
Calculated risk value in £ (Extent of financial risk)	£0 (no direct PCC expenditure; grant funded)	Risk Owner	Chris Avent	
Risk	The HBV is not designed and structured correctly to meet PCC's requirements and compliance.	Low	High	Medium
Mitigation	External legal advice has been sought under phase 1 of the legal structuring and design of the HBV so that an appropriate governance structure is used. This work will continue into phase 2 for the full business case proposal. Continued dialogue and engagement with PCC Finance and Legal to ensure compliance through next phase. Any surplus from the HBV will be ring-fenced through a possible endowment structure to ensure that it is re-invested to support Plymouth's green spaces in the long-term.	Low	Low	Low
Calculated risk value in £ (Extent of financial risk)	£0 (no direct PCC expenditure; grant funded)	Risk Owner	Chris Avent	
Risk	Repayment risk to investors for external financing raised falls on the HBV.	Low	High	Medium
Mitigation	By utilising the SPV option the HBV is at an 'arm's length' from PCC and thus will be off-balance sheet for PCC. Finance Earth, an FCA regulated investment advisor and fund manager has been procured to advise on this phase of the work. The upfront project development costs are being provided through the Future Parks Accelerator (FPA) program and Defra's NEIRF grant scheme.	Low	Medium	Medium
Calculated risk value in £ (Extent of	£0 to PCC	Risk Owner	Chris Avent	

financial risk)				
Risk	Lack of demand for BNG units or an inability to sell BNG units	Medium	High	Medium
Mitigation	Engagement with developers is underway to assess market demand for BNG units. A 15% BNG unit redundancy rate has been assumed within the model which acts as a risk buffer in case BNG units are not generated or sold. The chosen sale strategy will have several implications. For example, taking a Habitat Banking sales approach may reduce risk exposure with units being sold only after the target habitat condition is verified.	Low	Medium	Low
Calculated risk value in £ (Extent of financial risk)	£0 (no direct PCC expenditure; grant funded)	Risk Owner	Chris Avent	
Risk	Project operation and maintenance risks e.g. contractor failure.	Low	Medium	Medium
Mitigation	The HBV will sub-contract site maintenance to PCC or an independent 3rd party and to minimise risk, fees will be paid in arrears. Insurances will be obtained by PCC (e.g. professional indemnity) and the HBV (e.g. extreme weather insurance, asset related insurances).	Low	Low	Low
Calculated risk value in £ (Extent of financial risk)	£0 (no direct PCC expenditure; grant funded)	Risk Owner	Chris Avent	
Risk	Covid-19 (or other unforeseen macroeconomic events) delay project delivery and take-up of services.	Low	Medium	Medium
Mitigation	Covid-19 RA in place to manage risk with partners.	Low	Medium	Medium
Calculated risk value in £ (Extent of financial risk)	£10k	Risk Owner	Chris Avent	
Risk	Implication of requirement for BNG affecting viability of housing development particularly affordable housing	Low		

Mitigation	Soft engagement with affordable housing developers and Housing Delivery team already underway to ensure HBV design is complementary and identifies mechanism to control this risk. This cannot be done through Options 1 & 2	Low
Calculated risk value in £ (Extent of ris)	£0	Risk Owner Chris Avent/ Neil Mawson

Outcomes and Benefits

List the outcomes and benefits expected from this project.

(An **outcome** is the result of the change derived from using the project's deliverables. This section should describe the anticipated outcome)

(A **benefit** is the measurable improvement resulting from an outcome that is perceived as an advantage. Benefits are the expected value to be delivered by the project, measurable whenever possible)

Financial outcomes and benefits:

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

- Indicatively, a pipeline investment of c.£10m into a HBV could catalyse the creation and/or restoration of c.1,500-2,000ha of habitat across PCC and the surrounding area but we would be looking for a first phase investment of around £1.2million.
- The HBV, if established, would 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. In the short-term an average of £175k p.a. through contracted services for the HBV and long-term through the proposed endowment structure.
- The HBV is expected to generate an estimated £10million in revenues from the 3 identified pilot sites over 30 years.
- 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 outcomes and benefits:

- 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.

SECTION 3: CONSULTATION

Does this business case need to go to CMT	Yes	Date business case approved by CMT	15 November 2022
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		(if required)	
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Have you engaged with Planning Department. (If no, please state the reason)		Yes
If yes, summarise the planning requirements. (If PP is required ensure you engage with planning prior to seeking approval of this Business Case)	No planning requirements but engagement work has focused on ensuring that the HBV aligns with existing policy on BNG and updates to JLP. NI Planning team acting as advisors. Planning will be consulted on any pilot activity as required.	
Is the budget cost reflective of planning requirements	NA	
Who is the Planning Officer you consulted with.	Mike Oxford & Jo Lee	
Planning Consent Date	NA	

Have you engaged with Building Control. (If no, please state the reason)		No
Is the Building Control pre-application registered	NA	
What is the pre-application number	NA	
Is this classed as a HRRB building	NA	
Is this building classed as 'high risk'	NA	
Who is the Building Control Case Officer	NA	

Low Carbon	
What is the anticipated impact of the proposal on carbon emissions	The purpose of the proposed HBV is to support investment into the strategic delivery of habitat creation and/or restoration across the city. The HBV will accelerate habitat creation and/or restoration in advance of development impacts, and will seek to fund the long-term or perpetual maintenance of restored sites through a capitalised endowment fund. While the carbon benefits of habitats will not be measured as part of the project, we are confident that the net impact will be beneficial and there will be opportunity to generate future revenues from this.
How does it contribute to the Council becoming Carbon neutral by 2030	The proposed HBV will contribute to the Council becoming carbon neutral by 2030 by: <ul style="list-style-type: none"> • Supporting the early delivery of habitat sites with a net carbon negative impact. • Supporting the growth of the restorative economy and expertise within Plymouth. • Ensuring that public access to nature is protected and enhanced, improving awareness of and connection to nature, leading to positive behaviour change and environmental action.

Total capital spend								

Provide details of proposed funding: Funding to match with Project Value								
Breakdown of proposed funding	Prev. Yr. £m	23/24 £m	24/25 £m	26/27 £m	27/28 £m	28/29 £m	Future Yrs. £m	Total £m
Total								

REVENUE COSTS AND IMPLICATIONS

Cost of Developing the Capital Project (To be incurred at risk to Service area)

Total Cost of developing the project	£71k for Legal and Tax Structuring Advisory Support. £11k for Technical and Financial Advisory Support. These costs are funded via the Future Parks Accelerator Programme and NEIRF.
Revenue cost code for the development costs	2153
Revenue costs incurred for developing the project are to be included in the capital total, some of the expenditure could be capitalised if it meets the criteria	N/A
Budget Managers Name	Chris Avent

Ongoing Revenue Implications for Service Area

(Inflated values)	22/23 £	23/24 £	24/25 £	25/26 £	26/27 £	27/28 £	Future Yrs. (Ongoing, Annual)
Service area							

revenue cost							
Legal fees	0.069	0	0	0	0	0	0
Financial support	0.011	0	0	0	0	0	0
Contingency	0.002	0	0	0	0	0	0
Service area revenue benefits/savings							Ongoing, Annual
External grant funding	0.082	0	0	0	0	0	0
Which cost centre would the revenue pressure be shown	2114			Has this been reviewed by the budget manager		Yes	
Name of budget manager				Chris Avent			
Loan value	NA	Interest Rate	NA	Term Years	NA	Annual Repayment	NA
Revenue code for annual repayments				N/A			
Service area or corporate borrowing				N/A			
Revenue implications reviewed by				Emma White			

SECTION 5: MONITORING PERFORMANCE & POST PROJECT REVIEW

To conclude, the purpose of a business case is to outline the business rationale for undertaking a project and to provide a means to continually assess and evaluate project progress throughout delivery. It is the responsibility of the project manager to ensure the project remains on time and within budget during delivery and to monitor the project throughout and provide a Post Project Review on completion.

Investment Team Monitoring:

The Investment Team are required to report on completed projects and what they have achieved. To do this information will need to be captured during delivery and on completion of the project from your Post Project Review including:

- Did the project deliver the intended outcomes and benefits as stated in the business case?
- Which company was the contract awarded, is this a local company?
- How many jobs did this project provide?
- How much income from Council Tax and NHB will be collected?
- How have the carbon emissions been mitigated and how much did this cost?
- Was the project delivered on time and on budget (including contingency)?

Finance Monitoring :

- It is essential for Capital Finance Team to monitor the financial element of projects during delivery for reporting purposes. Monthly spend profiles against budget, matching with finance profiles will be collected monthly during delivery and on completion of the project.

Version Control: (The version control table must be updated and signed off each time a change is made to the document to provide an audit trail for the revision and update of draft and final versions)

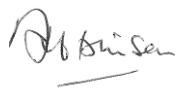
Author of Business Case	Date	Document Version	Reviewed By	Date
Kat Deeney	15/09/2021	v 1.0		
Chris Avent	01/10/2021	v 2.1	Green Estate Board – Paul Barnard & Philip Robinson	07.10.2021
Chris Avent	22/10/2021	v 3.0	Green Estate Board – Paul Barnard & Philip Robinson	04.11.2021
Chris Avent	14/02/2022	V3.1	Mo Sajjad, Hannah West, Mel Haymes, Anthony Payne	14.02.2022
Kat Deeney	17/02/2022	V4		
Chris Avent	20/09/2022	v5	Mo Sajjad, Emma Jackman, David Northey, Philip Robinson, Paul Barnard, Anthony Payne, Kat Deeney	20/09/2022
Chris Avent	15/11/2022	V6 Final	Updated after CMT feedback	15/11/2022

SECTION 6: RECOMMENDATION AND ENDORSEMENT

Recommended Decision

It is recommended that the Cabinet:

1. Approves the principle of creating a Habitat Banking Vehicle (HBV) 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.

[Name, Portfolio]		Service Director	
Either email dated:	<i>date</i>	Either email dated:	<i>date</i>
Or signed:		Signed: 	
Date:		Date: 30/11/2022	
		Service Director	
		<i>[Name, department]</i>	
Either email dated:	<i>date</i>		
Signed:			
Date:			