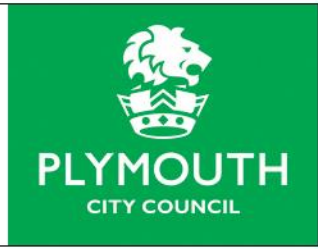


BRIEFING REPORT - PART I

Plymouth Habitat Banking Vehicle



I. INTRODUCTION

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

This detailed business case sets out the detail of PCC investing £0.5m of capital funds to implement the Council’s arms-length Habitat Bank - Ocean City Biodiversity (OCN) - to enhance and maintain the city’s green spaces for people and wildlife and generate a forecast £5.8m revenue for PCC over 30 years.

PCC has established a Habitat Banking company group – Ocean City Nature - in response to the approved Executive Decision from Cabinet on 9th March 2023

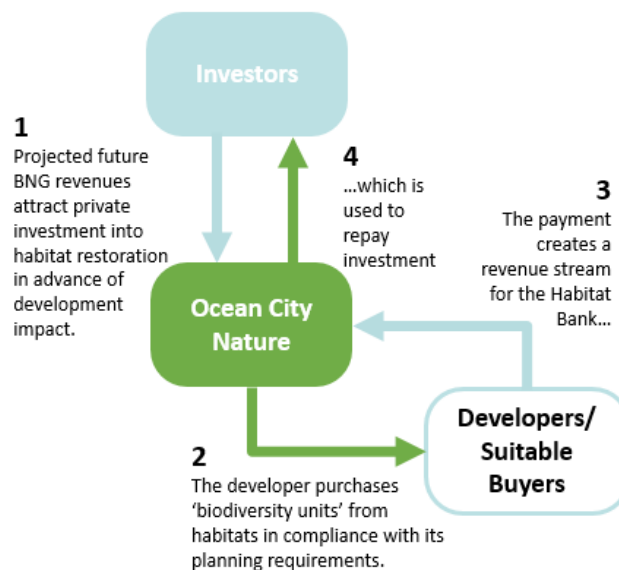


Figure 1 – Plymouth’s Habitat Bank

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 payments** 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. We have established Ocean City Nature to provide a credible and affordable BNG provider in the city. 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.

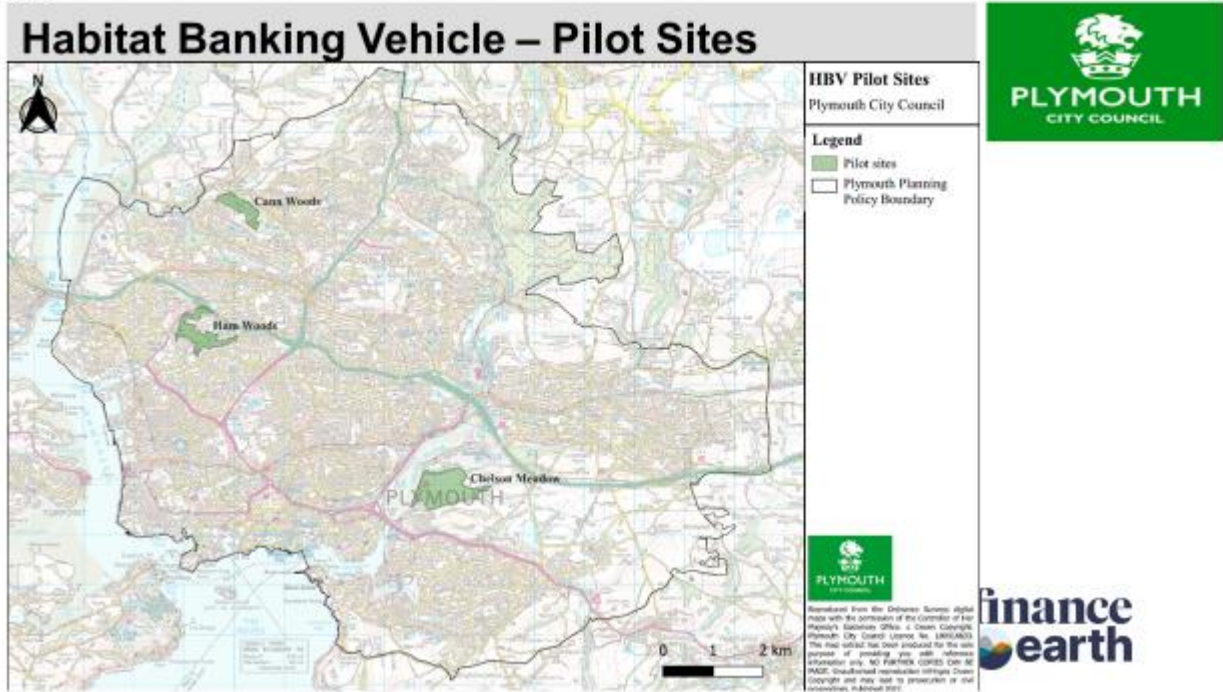
Key points to consider:

- This business case is modelled against pilot delivery in 3 sites (109 hectares) owned by PCC, all figures quoted are relative to that. Post the pilot stage, we have identified further 29 sites (269 hectares) to be included in future phases.
- The £0.5m investment required to establish Plymouth's Habitat Banking will be to Ocean City Nature and will be in the form of a phased loan (Service Borrowing) drawn down over two financial years.
- The £0.5m investment will be repaid over a fixed term of 10 years to the Council but will catalyse revenues of £7.4m over the 30 year lifespan of this investment period for OCN.
- This can result in £5.8m revenues to PCC in payments for management and operation of OCN in addition to the loan repayments over the 30 year period.
- Ocean City Nature is a Company Limited by Guarantee which is owned by PCC. Ocean City Biodiversity is a Company Limited by Shares and is wholly owned by Ocean City Nature (OCN). Both Companies have been structured in partnership with external and internal legal advice and in line with Executive Decision from 9th March 2023. An Executive Board will be structured to invite input from local economic and environmental stakeholders, while retaining council control over decision making.
- Based on the success of this pilot programme, OCN could scale up to generate further benefit for Plymouth, with indicative revenues of £25-30m based on scale up across the Local Nature Recovery Network (LNRN). In addition, Ocean City Nature stands as a pioneer for a group of Green Finance initiatives which have the potential to attract even further investment into Plymouth's natural environment and open spaces.

2. PROPOSAL

This business case proposes the Council invests £0.5m in its newly created Habitat Banking Company – Ocean City Biodiversity – to provide working capital for the Company to undertake activity improving the 3 PCC sites and engage with the emerging market for biodiversity net gain (BNG). This business case is modelled against pilot delivery in 3 sites – Chelson Meadow, Ham Woods LNR and Cann Woods LNR (covering 109 hectares combined) owned by PCC, so all figures quoted here are relative to that scale.

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The proposed investment offers a low-cost, low-risk opportunity for PCC to invest in its own sites and lead the development of the emerging biodiversity offsetting market across the Plymouth Policy Area. The investment generates a forecast revenue of £7.4m over the 31 year period and through proposed contracting arrangements between the OCB and PCC, the Council will generate a forecasted net benefit of £187k p.a. (£5.8m over 31 years) This is forecast to contribute towards existing income and savings targets in Environmental Planning and Street Scene and Waste.

Simultaneously, OCB 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 and support the local development market with a good market product for BNG provision.

The HBV proposal supports the delivery of the Corporate Plan objective to deliver Green Investment as well as the following JLP policies by ensuring that we make the most of new revenue streams and continue to access 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 throughout the city.

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

Finally the proposal supports action to deliver against the City's Net-Zero ambitions. A climate change decision wheel assessment has been conducted for the proposal a summary of which is below and the detail of the assessment within Appendix I. This shows that under all relevant assessment criteria this proposal fully aligns and supports the City's climate ambitions.

3. CONSULTATION & STAKEHOLDERS

The HBV proposal has been developed through work carried out and funded as part of the Future Parks Accelerator programme and DEFRA's Natural Environment Investment Readiness Fund. Development work to this stage has included

- Engagement with internal stakeholders in PCC across departments including significant 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 the Housing Delivery team
- The proposal was part of the PCC 2023/24 budget consultation. The proposal for a Habitat Bank received 19 responses with 16 being positive responses and 3 were neutral and were seeking more information.

4. OUTCOMES & BENEFITS

Financial

- OCN once operational provides a new ongoing income stream to PCC's Environmental Planning and Operations teams for the maintenance of high-quality habitats and offset existing costs. In the short-term an average of £187k p.a. through contracted services for OCN and long-term through the proposed endowment structure. This represents approximately £5.8m of revenue for PCC over life.
- OCN is expected to generate an estimated £7.4million in revenues from the 3 identified pilot sites over 30 years as a minimum.
- Further investment and scale up could see benefits multiply to c.£25-30m.
- It is proposed that any surpluses generated will be used for the delivery of city priority green infrastructure projects.
- If approved, PCC will receive principal and interest repayments on its loan of £0.5m to OCN

Non-financial

- PCC investment in Nature sites complying with strengthened duties under Environment Act to maintain and enhance biodiversity
- Delivery of site enhancement as part of Plymouth's Biodiversity Network as objective of JLP.
- 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. RISKS

A simple summary risk table is presented here.

| Risk summary | Mitigated risk level (Low/ Med/ High) | Suitable mitigation/control in place or planned (Y/N) |
|---|--|--|
| The Environment Act secondary legislation is delayed or materially changes, affecting the outcomes of the biodiversity net gain market | Low | Y |
| Lack of demand for BNG units or an inability to sell BNG units | Med | Y |
| Project operation and maintenance risks e.g. contractor failure | Low | Y |
| Unforeseen macroeconomic events delay project delivery and take-up of services. | Low | Y |
| Implication of requirement for BNG affecting viability of housing development particularly affordable housing (<i>Risk to Habitat Bank not development market</i>) | Low | Y |
| Risk of property issues e.g. existing rights over the land or covenants against using it except for particular purposes, existing designations or conflict with existing rights holders. This could interfere with the principle of granting a lease to OCN for that site | Med | Y |
| Risk that OCN becomes insolvent and obligation to deliver BNG on sites reverts to PCC | Low | Y |

6. GOVERNANCE

Governance arrangements for OCN have been designed with extensive support from external and internal legal counsel. At all times transparency and maintaining PCC control of decision making has guided this work.

Corporate Structure & Governance

The corporate structure consists of two companies, the HoldCo – OCN - and the SPV - OCB.



Figure 2 – Illustration of proposed corporate structure for the Habitat Bank

OCN - The HoldCo

The HoldCo is established as a not for profit company limited by guarantee. OCN has one member, PCC. OCN is established with a board of directors appointed by PCC. Directors of OCN report to the Member (PCC) representative, acting as sole controller of OCN. The board of directors is responsible for strategic decision making, including:

- Sales, pricing and marketing strategy
- Sales of biodiversity units to local buyers
- Review of, and reporting to PCC on the operating performance of OCN and OCB
- Use of surplus generated by OCB, including reinvestment in Plymouth’s green estate. This will include scope to progress further green investment programmes for example in sustainable urban drainage opportunities.
- Respecting other “Reserved Matters” set out in OCN’s Articles of Association/the Shareholders Agreement entered into between OCN, OCB and any third party shareholders to meet agreed PCC requirements.

The OCN board will meet bi-annually and as required once the entity is established.

OCB - The SPV

OCB is established as a company limited by shares. The company is established with a sole shareholder - OCN - but is designed so that PCC may sell the majority stake (up to 74.9%) in the company to a third party, without divesting control which will be protected by a list of “reserved

matters” which can only be decided upon with OCN (and, therefore, PCC) approval as key shareholder, giving OCN "Golden Share" status. The board of directors of OCB has a limited role and is limited to operational items including:

- Negotiating and approving spend on operational contracts
- Negotiating sale of Biodiversity Units
- Approving spend on reactive site maintenance

Directors of OCB report to the shareholders, the OCN and any third party equity investors in OCB (if any). Directors will consist of an executive of PCC officers, and may also include investor representation in time if OCN choose to follow this route

PCC Governance

The Member Rep through OCN will have course to direct the activities of the habitat banking vehicle through a series of reserve matters defined in the articles of OCN. Proposed Reserved matters detailed in the proposed company articles will limit the ability of OCN and OCB to act without PCC approval, these restrictions include:

- Raise funds
- Employ personnel
- Enter into lending or guarantee arrangements
- Sign new lease agreements
- Sell BUs to unapproved purchasers
- Change approval and governance procedures.

Such restrictions allow PCC to retain a high degree of control over company operations at arms-length. The appointed PCC Member Rep will have authority to make decisions on behalf of OCN up to “Key Decision” level (as defined in the Council’s Constitution). This appointment is set out in the recommendations.

Due to the innovative nature of this set-up, it is also proposed to include a Cabinet Member act as an ex-officio Director for assurance on key matters (e.g. sign-off of accounts) and to act as a Champion of the Company.

Governance of Land Ownership and Contractual arrangements

PCC will be a counterpart to OCB in commercial contracts for the provision of services (including for land restoration works and provision of administrative services to OCN by PCC) and under the terms of a Lease to OCB of the Habitat sites meeting S123 LGA 1972 requirements. These duties fall to the Member Rep.

7. FINANCE

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Habitat Banking Vehicle – Briefing Summary



- Proposal – PCC is the first 'Investor' in the HBV providing £500k of funding to deliver BU on three sites.
- The loan will be paid back over 10 years at commercial rate of 6.75%

| CAPEX | | |
|-------------------------|-----------------|------------------|
| Item | Costs (Loan) | Costs (External) |
| Project Development | £99,391 | |
| BU Delivery | £372,476 | |
| Vehicle Development | | £61,867 |
| Development Contingency | £28,133 | |
| Total | £500,000 | £61,867 |

| OPEX | |
|----------------------|-------------------|
| Item | Cost |
| Project Maintenance | £5,014,549 |
| Infrastructure cont. | £427,427 |
| Total Loan Servicing | £703,683 |
| PCC Management | £335,429 |
| External services | £219,293 |
| Insurance and Audit | £313,311 |
| Corporate Tax | £387,321 |
| Total | £7,401,011 |

| Income generated. | |
|-------------------|-------------------|
| BU No. 277 | @ Average £25,000 |

Development cost = £161k. This development cost is funded by the budget from external grant funding raised through the Natural Environment Investment Readiness Fund and Future Parks Accelerator programme and £99k of the loan value. Therefore there is negligible cost to PCC other than 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 included in the pilot, providing support for ongoing maintenance funding and reducing the pressure on central funds.

OCN once operational provides a new ongoing income stream to PCC's Environmental Planning and Operations teams for the maintenance of high-quality habitats and offset existing costs. In the short-term an average of £187k p.a. through contracted services for OCN and long-term through the proposed endowment structure. This represents approximately £5.8m of revenue for PCC over life.

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

Procurement

Any Procurement required with the delivery of works by external agencies will be procured in compliance with procurement law.

8. RECOMMENDATIONS

The Executive Decision makes two recommendations, that Cabinet:

1. Approves the Business Case and approves £0.5m loan to Ocean City Biodiversity for the delivery of the Habitat enhancement activities across the 3 pilot sites and operation of the Company.

2. Confirms that the appointed PCC Member Rep – David Northey as Interim Director of Finance – will be responsible for implementing the loan agreement at suitable point in time and for reviewing and monitoring the repayments from OCB to PCC.

Appendix I – Climate decision wheel

