

Report subject	Financing Nature
Meeting date	4 September 2024
Status	Public Report
Executive summary	<p>This report sets out the opportunity available to BCP Council following the recent introduction of Biodiversity Net Gain (BNG) planning policy, set out under the Environment Act 2021 and implemented through BCP Council's forthcoming Local Plan.</p> <p>BNG policy requires development sites to deliver a biodiversity net gain of at least 10%. This presents an opportunity to enhance BCP Council owned green spaces for people and wildlife, funded by a sustainable revenue stream and business model, established through the property developer market. Establishing a mechanism for selling offsite BNG units will also ensure the Council can meet its own BNG obligations that might arise to develop its own land.</p> <p>Access to nature for people and local communities is essential to their health and wellbeing. Increasing investment in BCP's natural environment will support peoples' access to high-quality green space and help to mitigate against the local effects of global climate breakdown.</p> <p>Creating a mechanism for financing nature could help deliver BCP Council's environmental objectives, aligned with the Corporate Strategy, and enable equitable access to nature for our communities.</p>
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <ul style="list-style-type: none"> (a) approves the principle of creating a mechanism to enable BCP Council to sell BNG units from Council owned land (preferred option of the 3 options detailed in the cabinet report). (b) approves the use of up to £400,000, with a flexible drawdown arrangement, of Community Infrastructure Levy (CIL) to the Environment service to make biodiversity enhancements to Council-owned sites in advance of the sale of units. (c) approves that this project 'Financing Nature' be brought back to Cabinet as soon as practical but within 9 months, with a detailed implementation plan.

Reason for recommendations	<p>The Financing Nature working group are exploring options for developing a mechanism to attract funding to enhance BCP Council's green infrastructure for the benefit of people and nature. This exciting and innovative project, which is supported by several national organisations such as Natural England and the National Trust, would put BCP Council at the forefront of nature restoration in England. It would also support an efficient and impactful BNG policy in line with national requirements and the forthcoming BCP Local Plan.</p> <p>The purpose is to ensure that development mitigation be directed to strategic sites for greatest benefit and, as the mitigation will be delivered in advance of impact, provide a cost-effective offer to developers to meet BNG obligations with maximum benefit for BCP Council. It also:</p> <ul style="list-style-type: none"> • Provides an opportunity for BCP Council to direct the development of the emerging BNG market across the planning policy area. • Supports the delivery of BCP Council's corporate strategy, the growth of the local green economy, and improved access to high-quality natural assets. • Supports the aims and principles of the adopted Green Infrastructure and Urban Forest strategies. • Serves as a proof of concept for a new mechanism that can sustainably fund the long-term creation, restoration, and management of habitats. <p>Doing nothing presents significant risk to BCP's natural environment, ecosystems and communities and missed income for green space improvements. It also presents a significant risk for housing delivery in the region, especially affordable housing. This would mean that BCP's green net would not deliver the benefits it has the potential to deliver for the people of BCP. Along with this, the condition of BCP's green spaces would likely continue to erode and cause a greater maintenance and financial burden on already stretched services and revenue budgets. Additionally, it might also impact on the ability and cost associated with the Council seeking to develop its own sites, where it's not possible to deliver onsite BNG.</p>
Portfolio Holder(s):	Councillor Andy Hadley – Portfolio Holder for Climate Response, Environment and Energy.
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Wards	Council-wide
Classification	For Recommendation / Decision

Background

1. “The UK, like most other countries worldwide, has experienced a significant loss of biodiversity...and as a result, the UK is now one of the most nature-depleted countries on Earth” (State of Nature Report, 2023). Investment in BCP’s own nature is needed to support national and international biodiversity targets.
2. It has been identified that between £21 – 53 billion of investment is needed, by 2032, to deliver England’s nature-related ambitions¹. Clean Water, biodiversity, flooding and climate mitigation are some of the primary nature-related outcomes that require future funding.
3. The Environment Act 2021 aims to halt and reverse decline in UK biodiversity through several measures including BNG, a mandatory obligation on most new development, to be secured through the Local Planning Authority. BNG will be delivered either on the development site, or off-site on biodiversity gain sites.
4. BNG aims to make developers provide an increase in natural habitat and ecological features over and above that affected by a development i.e. to leave nature in a better state than they found it, by a value of 10% or more. In fulfilling this mandatory obligation developers will have to quantify their anticipated impact on habitats as part of their planning application, and produce a long-term plan that can deliver, monitor and maintain an area of habitat. In doing so they may need to deliver net gains off-site and can rely on other landowners, with land in need of nature recovery, to provide BNG to meet the required 10% net gain.
5. These factors present an opportunity for BCP Council to attract investment in its natural environment via the creation of a Habitat Banking Vehicle (HBV) to enable the sale of BNG units.
6. We have been working with industry experts [Finance Earth](#) to understand the scope of natural capital within the BCP area. Finance Earth previously worked with Plymouth City Council to create a finance model for biodiversity and recently created [Ocean City Nature](#), the first local authority in the UK to roll out this model.
7. A Habitat Banking Vehicle in BCP could provide:
 - a. BNG sites to support housing development, strategic goals and, as part of the local nature recovery network, ensure habitat connectivity.
 - b. Public access on high-quality nature sites, and ensure they are close to development impact, as well as situated next to historically marginalised communities / neighbourhoods.
 - c. Surplus funds for the delivery of added value projects that cannot attract other type of funding, supporting base budgets.
 - d. A response to the climate emergency and enable BCP to adapt to unavoidable impacts of climate change.
 - e. Contributing to the maintenance costs of natural habitat / green space sites providing savings on severely limited maintenance budgets.
 - f. Ensuring that developer BNG spend from BCP can find a home within BCP rather than drifting beyond our boundaries.

¹ Report published by the Green Finance Institute (GFI) called ‘The Finance Gap for UK Nature’.

Work to date

8. BCP Council's Strategic Green Spaces team, with support from the Planning Policy team, have undertaken project development as part of a National Lottery Heritage Fund grant for an Urban Greening project; and a DEFRA funded National Urban Nature Fund project that explored the potential for establishing a Habitat Banking Vehicle in BCP. Via these projects we currently have access to support and advice from industry experts [Finance Earth](#).
9. The project funding has allowed the creation of an investment case, reviewing potential sites for BNG based on detailed ecological assessments. BNG reports have been prepared by ecologists following site visits in June 2023 and costings provided by BCP Council's Neighbourhood Services team used to calculate costings for the management prescriptions outlined in the BNG reports.
10. Where necessary, BCP Council will ensure that the primary purpose of the land is not prejudiced by any BNG proposal.
11. Due to existing complications e.g. lease arrangements and strategic site management, potential sites have been considered for the purpose of presenting a viable investment case. Criteria such as high integrity and high BNG impact, potential community co-benefits, distribution of sites, viability and habitat make up were used.
12. BCP Council's investment case presents a minimum viable option based on BNG opportunities and an upfront investment of approximately £400,000 would enable the Council to commence nature restoration work on up to 3 potential sites included in the investment case.
13. Further exploratory work is required to produce a comprehensive list of BCP Council owned sites to be strategically identified as biodiversity gain sites.

Potential value of a Habitat Banking Vehicle

14. Based on ecology assessments and estimated maintenance costs over 30 years to get to the required habitat condition, an 11% operating margin means that the 3 potential pilot sites would expect to generate a £1.47mn surplus for BCP to reinvest in urban green spaces, after meeting the costs for BNG habitat improvements and long-term maintenance costs on the 3 potential pilot sites.
15. As per the investment case, the breakeven average BNG unit price is £24k, depending on habitat type (current market pricing estimates £15-35k/unit), this is for the most common unit types. Higher prices are associated with urban areas, some prices are as high as £300k/unit for certain habitat types as per Defra's Statutory Credit prices.
16. The financial model includes a redundancy buffer which assumes that 10% of the BNG units are either not produced or are not sold due to reasons such as a lack of demand, habitat failure etc. It is also important to note that the obligation to maintain a site for 30 years only crystallises at the point of sale.
17. Establishing a mechanism for selling BNG units could open the opportunity to explore other nature markets, within the same operating model.
18. Finance Earth's advice on these estimates:
 - Green space 'assets' should be seen as financially and economically beneficial for the Council if kept within their ownership, rather than selling off sites as a short-term solution to meet current budgetary gaps.

- These sites will also be key in ensuring that the local housing market is not adversely affected by providing developers with cost-effective BNG units available locally to meet their BNG obligations. The additional community and public access benefits are also significant.

Options Appraisal

19. Option 1) Do nothing

Risks / issues:

- Low quality BNG delivered outside of BCP's boundaries, by profit motivated providers.
- No strategic co-ordination / planning meaning environmental, social and economic outcomes not maximised.
- No local (within BCP) supply of BNG units would add cost for local developers.
- Slowing housing development delivery pipeline adding pressure on the LPA.
- Nature restoration funds not being invested in BCP's green estate, housing development impact within BCP but nature restoration funded outside BCP causing the degradation of BCP's green estate.
- Failure to deliver against Dorset's Local Nature Recovery Strategy and BCP's Local Plan.
- Limited / no control over local BNG market development.
- BCP Council's own development projects are halted / become unviable (e.g. FCERM).

Benefits:

- Resource time not needed to progress this work.

20. Option 2) Lease land to a private third party who undertakes habitat creation / restoration

Risks / issues:

- Low revenue and investment generation potential.
- Loss of control over delivery and habitat planning, based on the land and habitat management plan preferred by the private operator.
- Potential decrease in 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 BCP Council management with no associated revenue streams, if the private operator fails and declares insolvency.
- Legal admin costs.

Benefits:

- Low financial risk to BCP Council.
- No capital investment required.

21. Option 3, preferred) BCP Council creates a mechanism for selling BNG units. This could be in-house or via an arms-length organisation

Risks / issues:

- Council wide resource needed to create mechanism.
- Uncertainty of housing market and demand for BNG units and therefore levels of income, currently being estimated.

Benefits:

- Deliver high-quality biodiversity across the BCP area that provide maximum social value.
- Investable, credible and cost-effective solution for local developments to meet planning obligations.
- Ensure BCP Council retains strategic control over the emerging market for BNG in a local context.
- New biodiversity duties do not result in benefits being lost.
- Facilitate joined up landscape-scale planning.
- Enables BCP Council to deliver on the Local Nature Recovery Strategy ahead of development.
- Provide greater financial sustainability for long-term maintenance of nature-rich green infrastructure.
- Economic value and biodiversity retained within BCP.

Considerations for deciding whether to opt for in-house or arms-length:

- Financial risk before revenue income becomes fully realised from payments.
- Ability to establish suitable rate of investor return (local authority constraints).
- Significant resource and experience needed to support BNG delivery.
- The organisation's credibility to raise necessary capital investment from the private sector.
- Potential conflict of interest of BCP Council roles in the case of an in-house mechanism e.g. planning and monitoring.
- Managing risks and project liability.
- Internal / external control over habitat design, delivery, maintenance and BNG unit sale.
- Ringfencing funds for nature restoration and green space development work.
- Governance flexibility.

Next Steps

22. Explore, in detail, the creation of a mechanism (in-house or arms-length).
23. Consider and understand potential options of including The Parks Foundation, or other community partners, in the model.

Summary of financial implications

24. Up to £400k of CIL funding allocated to the Environment service to make biodiversity enhancements to Council-owned sites in advance of the sale of units. These funds will be recovered if BNG units are bought.
25. Not creating a BCP Council mechanism for selling BNG units would mean missed income for green space improvements as BNG will bring potential funding forward at some point, from development within BCP.
26. Progressing the development of a mechanism for selling BNG units has no capital cost implication at this stage, staff time is the only requested resource.

Summary of legal implications

27. No identified impact currently.
28. The next stage of presenting in-house or arms-length mechanism will require legal input in the design and establishment.

29. Estates input required to help identify land.
30. If an arms-length mechanism is progressed, the following documents would need to be considered:
 - Corporate and commercial documents
 - Articles of Association and Shareholder / Members Agreement
 - A Management Services Agreement (covering the supply of such services from the service provider to the company)

Summary of human resources implications

31. No identified impact currently.
32. The next stage will provide understanding and detail of HR input required to create a mechanism to sell BNG units from BCP Council owned land.

Summary of sustainability impact

33. At this stage there are no identified sustainability implications.
34. BCP Council have declared a climate and ecological emergency. Having a mechanism to enhance BCP's green infrastructure would contribute to the Council's climate change targets.

Summary of public health implications

35. Having a mechanism to enhance BCP's green infrastructure would contribute to improving the quality of life for the people of BCP through enhance access to nature and potential investment in green spaces.
36. Not progressing this project could result in BCP's green estate degrading which would have a detrimental impact on public health in the area.

Summary of equality implications

37. The current report seeking approval from cabinet relates to high-level / over-arching requirements to ensure future work packages and project deliverables are well managed and provide benefits for all. Approval of the report recommendations will not positively or negatively impact on anyone's equality. Further EIAs will be undertaken for specific work packages throughout the delivery phase of the Financing Nature project.

Summary of risk assessment

38. At this stage the only risk to the Council is staff time required to undertake further exploratory work.

Background papers

None