

Green Finance (also known as impact investing / social investment)

The overarching term used to refer to direct financial flows to support the delivery of the [UN's Sustainable Development Goals](#), alongside a financial return e.g. renewable energy schemes bring a clear return on investment via selling units of energy to consumers.

Natural Capital

Investing in the natural environment is not as straightforward as selling units of energy. Investment markets look to the presence of codes, standards and methodologies to gain confidence in impact and future incomes (see image 1).

Biodiversity Net Gain




[Biodiversity Net Gain](#) (BNG) is planning policy that requires development projects to result in a measurable improvement in biodiversity, leaving the natural environment in a better state than it was before. At least a 10% net gain is mandated under the Environment Act 2021 in England.

The [Statutory Biodiversity Metric](#), published by Defra, is used to calculate Biodiversity Net Gain (BNG) by quantifying the change in biodiversity value of a site before (baseline) and after (target condition) a [development](#) or [land management change](#). It calculates the value of habitat in terms of "biodiversity units" based on factors like habitat type, condition, size, and location.

Development site (demanding offsite BNG units)

The Biodiversity Mitigation Hierarchy sets out a list of priority actions. First, avoidance of adverse impacts on onsite habitats. Where avoidance is not feasible, measures should be applied to minimise the impact. Where onsite habitats are still negatively affected by development, compensation must be provided in a prioritised sequence:

1. Enhance existing onsite habitats → 2. [Create new habitats offsite](#) → 3. If necessary, purchasing statutory credits

ON-SITE (UNITS)	OFF-SITE (UNITS)	STATUTORY CREDITS*
		
Delivered through habitat creation/enhancement via landscaping/green infrastructure	Delivered off-site through habitat creation/enhancement, including via habitat banks, with public and private landowners	Delivered through large-scale habitat projects delivering high value habitats which can also provide long-term <u>nature-based solutions</u>
		<small>*Credits will be made available for purchase in the future. They are intended for use only where BNG cannot be delivered on-site or off-site via the market, as a last resort.</small>

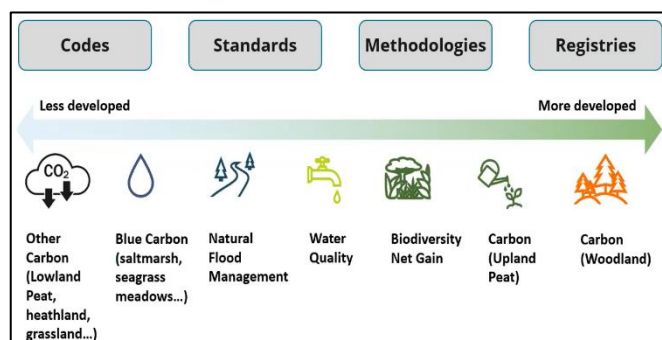


Image 1 – illustration of how well-developed various markets are

Land management change site (supplying off-site BNG units)

Landowners have the option to manage their land in ways that enhance its value for nature, making it more supportive of wildlife. This approach is known as habitat banking, where areas are improved to generate BNG units. These units can then be sold to developers who require offsite compensation for their [development](#). A Biodiversity Gain Plan and Habitat Management and Maintenance Plan (HMMP) will provide information about how biodiversity gains can be established at the site and this data is inputted into the metric which then calculates the BNG units which could be created.

BCP Council's Financing Nature work to date

Future Parks Accelerator (FPA)

An initiative set up to secure the future of the UK's urban parks and green spaces (funded by the National Lottery Heritage Fund, National Trust and the Department for Levelling Up, Housing and Communities). BCP was one of eight urban areas selected to be part of the FPA programme. BCP focused on creating a new green infrastructure strategy for the area, designed to improve development for people and nature. Plymouth were also involved in the programme, their involvement focused on [green finance](#) opportunities from which they created [Ocean City Nature](#).

Urban Greening Development project

A continuation of the FPA programme which included BCP exploring a [green finance](#) opportunities assessment, learning from Plymouth's experience and working with industry experts [Finance Earth](#) (FE) to understand the scope of [natural capital](#) within BCP.

Natural Environment Investment Readiness Fund

£21 - 53 billion of investment is needed, by 2032, to deliver England's nature-related ambitions¹. One scheme which has helped grow the nature / conservation investment market is the Defra funded [Natural Environment Investment Readiness Fund](#) (NEIRF).

National Urban Nature Fund, 2023/24

BCP Council partnered in a NEIRF project, led by National Trust (NT) and working with FE. The project delivered baseline ecological survey data and proposed habitat management plans for five Council-owned potential [BNG supply sites](#). This information provided an estimate of the potential BNG units each site could generate, forming the foundation of a business case for BCP Council to establish a financial mechanism to enable investment in BCP's natural environment, enabling a [paper to be presented to Cabinet in September 2024](#).

Aggregated investment model for farmers to secure Stour Valley's nature recovery, 2024/25

The [Stour Valley](#) is a strategically significant river corridor with strong potential for ecological restoration. To explore ways of unlocking investment in nature-based solutions, BCP Council led a NEIRF funded project (including partners NT, FE and five farmers with different land types, sizes, and ways of farming). The project increased farmers' understanding and readiness to participate in the BNG market, while also identifying the BNG potential of their individual farms. Additionally, legal advisors [Freeths](#) provided information to BCP Council about the implications of the Localism Act on creating an in-house [Habitat Banking Vehicle](#) (with regards to generating surplus funds for added value work).

BCP Council Cabinet approval, September 2024

The [Cabinet report](#) presented the opportunity of creating a mechanism (see image 2) to enable BCP Council to sell BNG units from Council-owned land. Approval was received from Cabinet for this to be explored further and for a detailed implementation plan to be presented at a future Cabinet meeting, with a preferred option for delivery (in-house / arm's length organisation).

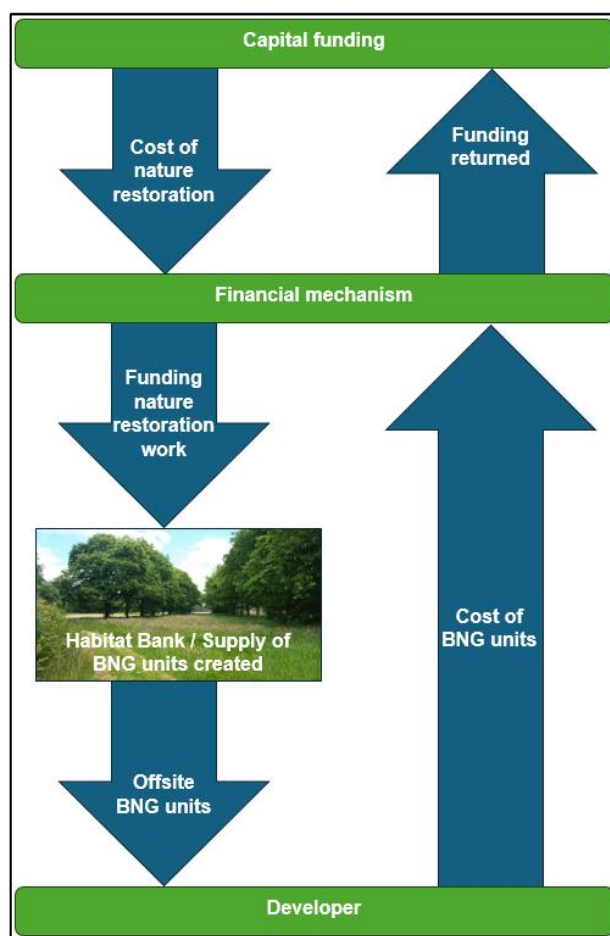


Image 2 – illustrative model

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

What is a Habitat Banking Vehicle (HBV) and why do we need one in BCP?

An HBV is an entity that creates, restores, and enhances nature to generate BNG units. These BNG units are then sold to development sites with planning permission granted and with a requirement to meet mandatory BNG. The HBV uses the funds generated to cover the upfront costs of habitat restoration and provides long-term funding for maintenance (minimum 30 years). A BCP Council HBV would provide:

- Support for BCP Council schemes demanding BNG units (e.g. social housing and infrastructure projects), strategic goals and, as part of the [local nature recovery strategy](#), habitat connectivity and high-quality biodiversity.
- Joined up landscape-scale planning.
- Assurance that developer BNG spend from BCP can find a home within BCP rather than beyond our boundaries.
- Greater financial sustainability for long-term maintenance of nature rich green infrastructure.
- 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 (most private habitat banks do not offer public access, this is a key benefit of a public sector led approach).
- A response to the [Climate and Ecological Emergency, declared by BCP Council in 2019](#). Selling BNG units would contribute towards BCP adapting to unavoidable impacts of climate change, increasing local nature and climate resilience.
- Fractions of BNG units which will be beneficial for developers. Much of the development in BCP is on small sites and requires the developer to buy fractions of BNG units.
- Can also finance other local conservation initiatives, if operated at arms-length (local authority HBVs are subject to restrictions on income generation, a feature of the Localism Act's restrictions on commercial activity).

Future aspirations/opportunities

- BNG ecological assessments on more BCP Council-owned sites.
- Mapping of BCP's natural capital estate and collaborating with the BCP colleagues to avoid conflicts e.g. using a field for a solar farm or habitat creation / enhancement.
 - sites could be used for both setting up a solar farm and delivering BNG with public access allowed on parts of the site. This is a viable model since the solar farm itself will have some BNG demand.
- Explore emerging markets in addition to BNG (see image 1).
- Stakeholder training and engagement.

Further reading / useful resources

- UK Government guidance – <https://www.gov.uk/guidance/green-finance>
- Green Finance Institute – <https://www.greenfinanceinstitute.com/>
- Good Finance - <https://www.goodfinance.org.uk/understanding-social-investment>
- Global Impact Investing Network - <https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing>
- Big Society Capital - <https://bigsocietycapital.com/latest/uk-social-impact-investment-market-swells-to-a-record-64-billion-in-year-of-the-pandemic/>
- Planning Advisory Service BNG FAQs - <https://www.local.gov.uk/pas/topics/environment/biodiversity-net-gain-local-authorities/biodiversity-net-gain-faqs>
- [A guide to setting up an Urban Habitat Bank](#)