

Appendix 5

Detailed risks, issues and benefits of each approach

	1. Arms-length	2. In-house	3. Stepped
General	<p>Can generate surplus funds for additional improvements to BCP's green infrastructure.</p> <p>Greater commercial flexibility and credibility with private actors.</p> <p>Off balance sheet operations (being on the balance sheet of the SPV, not BCP itself) reduce risk.</p> <p>Could raise private capital if desired.</p>	<p>Operated site by site.</p> <p>Risk for the council is low.</p> <p>Costs are relatively low.</p> <p>Direct council control over all decisions.</p>	<p>BCP able to immediately begin habitat creation at a selected site.</p> <p>Allows habitat investment within BCP's LPA area to support planning applications, while continuing to explore an arms-length approach and learning from the in-house BNG supply site.</p>
Financial risk before revenue income becomes fully realised	<p>Higher upfront setup costs and ongoing operational costs until revenue streams established.</p> <p>Financial risk is fully limited to BCP's investment only.</p>	<p>Lower financial exposure as costs committed site-by-site based on confirmed demand.</p> <p>Risk sits on BCP Council's balance sheet.</p>	<p>Minimal initial risk exposure while building market understanding and operational capability.</p> <p>As complexity builds, option to move this off-balance sheet.</p>
Commercial activity	<p>External organisation can conduct all relevant trading activity.</p> <p>Corporation tax payable on any profits generated.</p>	<p>BCP Council must demonstrate that it is acting in alignment to the Localism Act 4(2) which restricts local authority trading when not through a company.</p> <p>The vehicle must regularly review pricing to ensure it neither undercuts the market, nor charges beyond its reasonable cost base (to not generate a surplus). There are means to mitigate this impact.</p>	<p>Surplus restrictions can be managed, mitigating some of the challenges faced through annual price and cost reviews by a sufficiently equipped consultant.</p> <p>Over time the arms-length approach provides a means to pursue wider revenue models for BCP and its nature recovery.</p>

Resource and experience needed	<p>Requires input from legal and finance teams at point of establishment.</p> <p>If a decision is made to stop operating, legal involvement will be required to address legal requirements of the conservation covenant.</p> <p>Very comparable staff needs over time to the in-house approach, although some greater flexibility</p>	<p>Lower specialist resource requirement initially.</p> <p>Over time, very similar staffing arrangements to the arms-length approach.</p>	<p>Allows gradual capability building through pilot experience before full-scale operation.</p> <p>Allows for testing before embarking on the arms-length approach.</p>
Potential conflict of interest	<p>Separation from LPA reduces perceived conflicts of interest in the BNG market.</p> <p>Basic conflict management procedures required.</p>	<p>Material conflict with council acting as both LPA and BNG provider.</p> <p>Conflict management can be achieved but additional steps required to manage this (e.g. external pricing / marketing and audit / additional transparency measures).</p>	<p>Initial conflict of interest will need to be carefully managed, in line with option 2.</p> <p>This is then resolved once an arms-length organisation is established, operating as an independent entity.</p>
Managing risks and project liability	<p>Risk can be transferred to the separate entity with appropriate insurance and governance.</p> <p>Off balance sheet approach captures long term risk - liabilities / assets of the SPV not being on the balance sheet of the Council (only the investment in the SPV itself).</p>	<p>All risk sits with council.</p> <p>Ecological delivery failure impacts council directly.</p> <p>Mitigated by the relatively small scale of each site and total capital expense.</p>	<p>Limited risk exposure (due to scale) initially.</p> <p>Allows for learning before scaling up risk profile.</p>
Internal / external control	<p>Control through shareholding.</p> <p>Council must appoint directors (typically members of council staff).</p>	<p>Direct council control over habitat design, delivery, maintenance and unit sales through existing structures.</p>	<p>Council maintains direct control initially while building expertise for potential future arms-length approach, where directors will be appointed.</p>
Ringfencing funds	<p>Natural ringfencing as separate entity with dedicated purpose.</p> <p>Surplus protected for nature maintenance costs over project life.</p>	<p>Additional steps required to ringfence within council structures.</p> <p>Unable to operate on a commercial basis, likely reducing total funds in any case.</p>	<p>Phased approach allows access to ringfencing structure of an arms-length organisation after in-house phase.</p>

Governance flexibility	More flexible governance allowing rapid commercial decisions and market responsiveness required to respond to BNG market demand.	Council must delegate responsibility to allow rapid commercial decision making by officers against pre agreed frameworks. Frameworks to be established.	Provides more direct insight in the short term that, with confidence, can be moved to an arms-length strategy over time.
Speed of delivery	Slower initial setup due to entity creation, legal structures, governance arrangements, bank accounts etc.	Faster initial delivery using existing council structures and approved CIL funding.	Fastest route to market - can commence immediately with approved CIL funding. Further investment in arms-length establishment contingent on success of the in-house arrangement.