

Habitat Banks: generating dividends for people, place and nature

Plymouth City Council
Friday 24 May 2024

Summary

Plymouth City Council is the first local authority in the country to create a habitat bank. This new 'bank' for nature will be managed through an arm's length company which allows the council to take advantage of new 'Green Finance' revenue streams as part of the new requirements for Biodiversity Net Gain (BNG). The bank aims to provide affordable and high-integrity biodiversity units in Plymouth to help nature thrive across the city - on land and sea.

Councillor Tom Briars-Delve, Cabinet Member for Environment and Climate Change, says:

"This is a simply incredible piece of innovation and I'm so proud of all the work that the teams here have put in so far. As funding challenges for all services get tighter and tighter, this comes as a breath of fresh air. Plymouth is already a green city, but we want to make it greener for the benefit of communities and nature for many, many, many years to come."

The problem

National context

The UK is one of the most nature-depleted countries in the world. Pushed to the brink by relentless human expansion and climate change, research shows that large swathes of precious habitats have been destroyed or degraded, resulting in 41% of all UK species declining in numbers since the 1970's ([State of Nature Report, 2019](#)). Further information may be found in UK100's 2023 report '[Powers in Place: Nature](#)'.

Government policy has historically been inadequate for protecting the environment. In 2021, the Environment Act became law. The Act contains provisions to strengthen and improve the duty on public bodies to conserve and enhance biodiversity. A key cornerstone of the new act was the mandatory 10% Biodiversity Net Gain requirement for all new development. This means that any new development should result in more or better quality natural habitat than before.

Local context

Plymouth City Council were early adopters of BNG having included a requirement in their 2019 Local Plan, ahead of national regulations. This local policy requirement helped the council secure BNG contributions on a number of

sites. However as a local policy the process for securing developer contributions (via S106) was always in the 'planning balance', meaning that it entered into viability discussions and inevitably led to some erosion of the impact of the policy. With the introduction of the mandatory legislative BNG requirement (enacted in February 2024), this risk was largely eliminated.

However, the council quickly identified that the new national BNG requirements could see the local area lose out on this much-needed source of income to support local nature projects. The problem is that while the BNG requirements favours on-site solutions first, they also allow developers to purchase registered offsite biodiversity credits. These credits can be bought anywhere in the UK and are not geographically tied to the local authority in which the development is happening. This meant it would be possible for developers to purchase off-site BNG credits in other parts of the country where land is cheaper, as opposed to Plymouth where land values are comparatively higher. This means the areas most impacted by new development are not guaranteed a net gain in local biodiversity at all. As such it was imperative something was done to ensure the benefits were retained locally.

Simultaneously, the council budget was under significant pressure. It was identified that new alternative financing approaches were needed to help secure the long-term management and future investment in local nature.

The solution

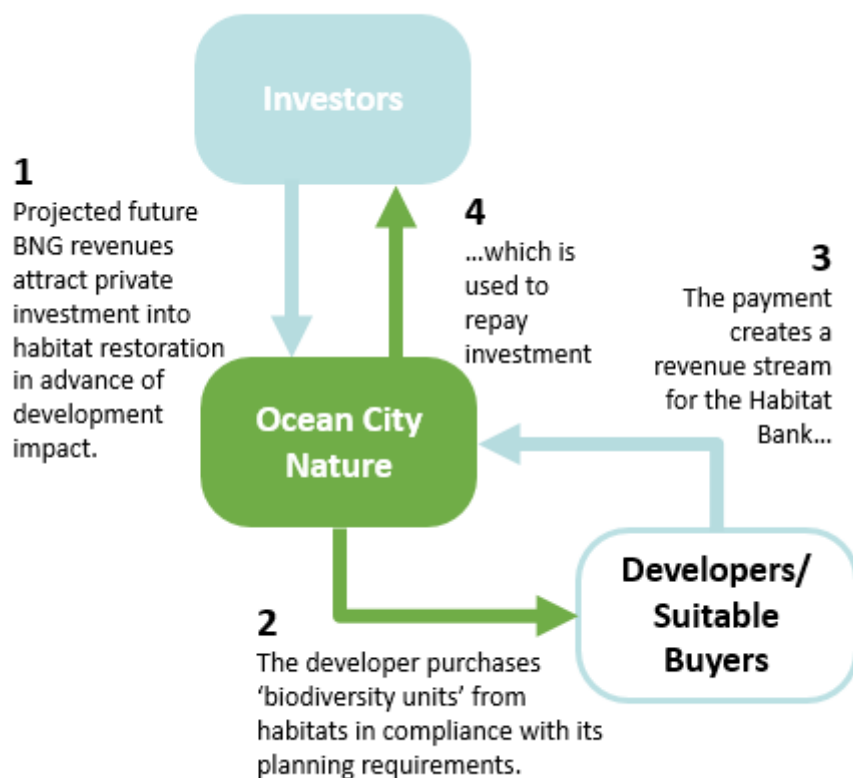
With these challenges in mind, Plymouth City Council chose to explore the idea of developing a local Habitat Bank, as a form of local biodiversity offset scheme that could help secure long-term biodiversity investment into strategic sites within the area.

The simple idea behind this is to use biodiversity units, which are a form of tradeable currency that emerged alongside the BNG legislation, to generate a sustainable revenue stream which can in turn support local biodiversity initiatives. In practice this works by selling units to developers going through the planning process, who can't deliver BNG on site. Developers pay a pre-set amount for the offsets, based on both the quality and quantity of biodiversity lost through the development.

Plymouth agreed to establish Ocean City Nature – to act as the city's Habitat Bank in 2023. The aim of creating this body was to align governance and catalyse local investment at scale in a coordinated manner, such as through developer BNG contributions. It was established as an arms-length body, limited by guarantee and it had bold aims to create:

"A replicable, scalable funding ecosystem for investment in green and blue assets and sustainable enterprises delivered through a public-facing entity delivering direct environmental benefits, vital services, boosts to the local economy, a sense of place - all catalysing further innovation."

To set up as a local supplier of Biodiversity offsets, the new arms-length company required an initial source of biodiversity units, to sell to developers. To make this work the council leased 3 strategically selected nature sites to the Habitat Bank, and provided a £0.5m loan to the company to carry out the biodiversity enhancements. Through the process of upgrading the biodiversity of these 3 sites an estimated 277 biodiversity units will be generated.



Timeline

- 2020-21 – Ocean City Fund concept development through Future Parks Accelerator programme
- 2022-23 – Development of Habitat Bank business modelling and Business Cases
- Oct 2022 – First Exec Decision approval to set up arm's-length vehicle to act as Green Finance and Habitat Bank
- Mar 2023 – Second Exec Decision to establish detail of Company structure and governance arrangements
- May 2023 – Change in administration from Conservative to Labour held Council
- October 2023 – Third Exec Decision committing PCC to invest £0.5m in initial biodiversity enhancements across the 3 sites, leased by the council to the Habitat Bank

Timelines exceeded original intended milestone dates primarily due to the innovative nature of the initiative which required a lot of internal stakeholder engagement. Political cycles also impacted the rate of progress with local elections in 2021, 2022 and 2023.

With initial investment secured biodiversity enhancement work is now underway on the first 3 sites. These will provide a supply of 277 biodiversity units from year 3.

Stakeholders

Internal

Plymouth City Council's Environmental Planning division had been successfully growing and delivering against a multi-million pound environmental programme for a decade. The creation of the Habitat Bank was seen by the division as an important next step to secure a long-term income stream to support local nature projects.

The project also involved stakeholders from the council's Finance, Legal, Land and Property, Planning and Democratic Support teams. There was initially some resistance to the project, with key stakeholders such as the Finance Director questioning if it was a good use of council resources. However, when the business case was put in front of these stakeholders, which indicated the potential of the project to become a £25-30m project over a

decade, heads were turned.

The Environmental Operations teams played a key role in developing the detailed costings for delivering the habitat management plans across the 3 sites for a 30-year period. This was based on their experience of delivering S106 and grant-funded BNG project from 2020.

External

The Future Parks Accelerator programme played an instrumental role in the initial development of the idea for a Habitat Bank in Plymouth. Backed by the Heritage Fund, National Trust and DHLUC, the accelerator provided vital funding and support to PCC's Sustainable Finance programme.

Natural Environment Investment Readiness Funding (NEIRF) seed funding was also imperative during the early stage of the project, as the project was developed to a point where it could attract investment. Environment Agency supported development and wider understanding from peers through NEIRF Communities of Practice.

Critically, Finance Earth was brought in as a conservation finance specialist. Their knowledge was key in the development of the business case, financial modelling and company set up.

Impact

Nature Benefits

- Initial secured investment will see 109 hectares across 3 sites benefit from biodiversity enhancements for the benefit of local wildlife.
- The strategic development will support the growth of Plymouth's local nature recovery network, in line with the Local Plan.
- The bank will accelerate habitat creation and restoration in advance of development impacts. This differs to other forms of developer contribution (e.g. S106 payments), where benefits are typically secured after the development is complete.
- One site which will benefit from these enhancements is Cann Woods:

Cann Woods	
Size	23.4 ha
Habitat Mix	Types: Woodland, Grassland and Heathland & Scrub Distinctiveness: Medium & High
Management Interventions	Woodland Thinning, Coppicing, Ride Creation, Bramble Clearance, Invasives Control, Scalloping, Topping, Seed Sowing, Spring Cut
BNG Units Available	57 units
First Units Available	Year 3
Maintenance Period	30 years
Biodiversity Value	Part of Local Nature Recovery Network
Social Value	Adjacent to neighbourhoods falling with the 'Lower Middle' Deprivation Group (IMD 2019); provides public access
Site Documentation	<ul style="list-style-type: none"> • BNG Site Register number available • Lease agreement in place • S106 agreement in place

Cann Wood's profile

Financial Benefits

- Biodiversity Enhancements across the 3 pilot sites will yield an expected 277 Biodiversity Units.
- Financially, the initial £0.5m capital investment should derive £5.3m revenue to Plymouth City Council through a Management Agreement over a 30 year period (average £176k p.a.)
- As more sites are taken on, there is potential to see benefits multiply to £25-30m over the next decade.
- Endowment arrangement secures future management of sites over 30 years project life
- Proof-of-concept for further financially sustainable natural environment investment models.

Other co-benefits

- Sites will contribute to the city's wider targets e.g. flood risk management & climate change mitigation. In addition, there is potential that in future, the council may be able to stack these kinds of benefits on top of the biodiversity units to generate further sustainable revenue streams. This is currently being explored as part of a funded pilot project.
- Investment will safeguard public access to high quality nature within the city, providing health and wellbeing benefits for local communities.
- It will create new, local jobs within the restorative economy, including opportunities for volunteers. Generating social value.

Lessons Learned

Resource and Capacity

- Developing green finance propositions is a time consuming process which requires the involvement of several departments with competing organisational pressures. Sufficient time must be allowed to facilitate mindset shift so that all stakeholders can actively partake in the journey.
- Some tasks such as estimating the cost for specific habitat management interventions are particularly resource intensive.
- Lack of resources mean it is difficult and not valued for the local planning authority to move away from S106 approach to investment led-approach.

Governance and decision-making

- Identify key internal stakeholders early in the project as possible and ensure they are fully included in project development to ensure decision-making is as smooth as possible. In addition, a project sponsor needs to have significant influence.
- Consider the co-benefits when making the case to secure buy-in from different stakeholders.
- Risk aversion and uncertainty has been a challenge with some stakeholders requiring reassurance about the lack of preceding projects of this type. Working with external partners like Finance Earth has helped to generate the confidence required to proceed. By taking this bold move, Plymouth City Council hopes to support other councils thinking about replicating this project.

Technical considerations

- Delivering urban green space enhancement through BNG requires LA's to balance public access to the site while delivering the target habitat condition. This should be costed into delivery models. It is necessary to cost in the provision of good quality access features, including paths and fences.

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Initial concept development costs = £180k

This was funded through the Future Parks Accelerator and Natural Environment Investment Readiness Funding.

The council subsequently provided a £0.5m loan to the Habitat Bank to carry out the biodiversity enhancements. PCC will receive principal and interest repayments on its loan of £0.5m to the Habitat Bank.

Financial assessment and modelling, carried out by Finance Earth, indicates that:

- The Habitat Bank is expected to generate an estimated £7.4million in revenues from the 3 identified pilot sites over 30 years as a minimum.
- Of that, £5.3m is forecast to flow back to Plymouth City Council through Management Agreement over a 30-year period (average £176k p.a.) to pay for site management.
- Further investment and scale-up could see benefits multiply to c.£25-30m.

Next steps

The Habitat Bank is now being operationalised to coincide with the national introduction of BNG regulations. Plymouth City Council, in collaboration with Devon County Council, has been working to prepare its planning teams for the changes this brings. One aspect of this is ensuring all of the correct documentation is in place to be able to register with Natural England's BNG Register. This requires the council to pull together various site details such as habitat management plans.

Going forward the Council aims to explore how the habitat model could be applied to woodland and marine carbon to drive further sustainable income streams. Further opportunities will also be explored in newly emerging corporate markets such as through the Taskforce on Nature-Related Financial Disclosures (TNFD).

Links, contacts, and credits

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