



association for public service excellence

Habitat banks

An introduction for local authorities



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Habitat banks: An introduction for local authorities

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About APSE

The Association for Public Service Excellence (APSE) is a not-for-profit local government body working with over 300 councils throughout the UK.

Promoting excellence in public services, APSE is the foremost specialist in local authority frontline services and operates one of the UK’s largest research programmes in local government policy and frontline service delivery matters.

1 Purpose of this briefing

In late 2023, Plymouth City Council announced an “innovative new green finance model set to boost biodiversity” in the city. This new green finance model is known as a “Habitat Bank”.¹

In late March 2024, Devon became home to the first registered privately-owned habitat bank in the country.²

These ground-breaking initiatives follow the introduction of the new Biodiversity Net Gain (BNG) planning laws which require all qualifying planning permissions to demonstrate that development of a site will achieve a net gain in biodiversity of more than 10% compared with beforehand.

This briefing is designed to provide an overview of habitat banking; the legislative context, the opportunities the scheme presents for local authorities as well as emerging case studies.

2 What is Biodiversity Net Gain (BNG)?

Put simply, BNG is an approach to development that aims to leave the natural environment in a measurably better state than it was beforehand.

The Environment Act (2021) has outlined clear statutory targets for the recovery of the natural world in four priority areas: air quality, biodiversity, water and waste.

BNG requires developers to provide at least 110% of the biodiversity value found on the site prior to their development. Its purpose is to ensure existing habitats can, wherever possible, be protected. But, where ‘disturbance’ does occur as a result of developers, these ‘disturbances’ are compensated for with natural habitat and ecological features over and above what has been affected (*See Figure 1 for more information*).

In England, BNG became mandatory for all major developments from 12 February 2024 with regulation for small sites taking effect from 2 April 2024.³

2.1 The Statutory Biodiversity Metric

The Statutory Biodiversity Metric is used to calculate biodiversity value for the purposes of BNG. The Metric, developed with input from Natural England, Environment Agency and the Forestry Commission, measures the value of habitats by calculating their number of “units”.⁴

¹ <https://www.plymouth.gov.uk/news/innovative-new-finance-model-set-boost-biodiversity-plymouth>

² <https://news.exeter.gov.uk/exeter-habitat-bank-offers-biodiversity-benefits-for-city/>

³ <https://www.gov.uk/guidance/biodiversity-net-gain-exempt-developments>

⁴ https://assets.publishing.service.gov.uk/media/65c60e0514b83c000ca715f3/The_Statutory_Biodiversity_Metric_-_User_Guide_.pdf

2.2 BNG Hierarchy: On-site, off-site or credits

The BNG Hierarchy emphasises that onsite biodiversity gains should be considered first followed by registered offsite biodiversity gains and, as a last resort, biodiversity credits. If the hierarchy has not been applied, justification must be provided (*See Figure 2 for more information*).

Applying the Hierarchy means delivering BNG in the following priority order:

1. avoiding adverse effects of the development on onsite habitat with a habitat distinctiveness score, applied in the biodiversity metric, equal to or higher than six;
2. so far as those adverse effects cannot be avoided, mitigating those effects;
3. so far as those adverse effects cannot be mitigated, habitat enhancement of onsite habitat;
4. so far as there cannot be that enhancement, creation of onsite habitat;
5. so far as there cannot be that creation, the availability of registered offsite biodiversity gain;
6. so far as that offsite habitat enhancement cannot be secured, purchasing biodiversity credits.

Local planning authorities must take into account the Biodiversity Gain Hierarchy when considering whether the biodiversity objective has been met and when determining whether to approve the Biodiversity Gain Plan.

2.3 30-year timeframe

The landowner is legally responsible for creating or enhancing habitat and managing that habitat for at least 30 years to achieve the target condition. This applies if the developer makes on-site gains or sells off-site gains on a site they own.

2.4 “Units” Vs “Credits”

The statutory biodiversity credit scheme aims to ensure that the pace of development in England is not impacted by the introduction of mandatory BNG by providing a last resort alternative if on-site and off-site options are unavailable.

In BNG, there is a key difference between biodiversity units and credits:

- Biodiversity units refers to the output of the biodiversity metric. It is also the term used for the sale of off-site biodiversity units, such as ‘1 unit of modified grassland costs £xx’.
- Statutory credits are the last resort option for developers provided by Government if the site’s BNG cannot be delivered onsite or via purchasing off-site biodiversity units.

Figure 1: How BNG works

Source for Figure 1: Plymouth City Council

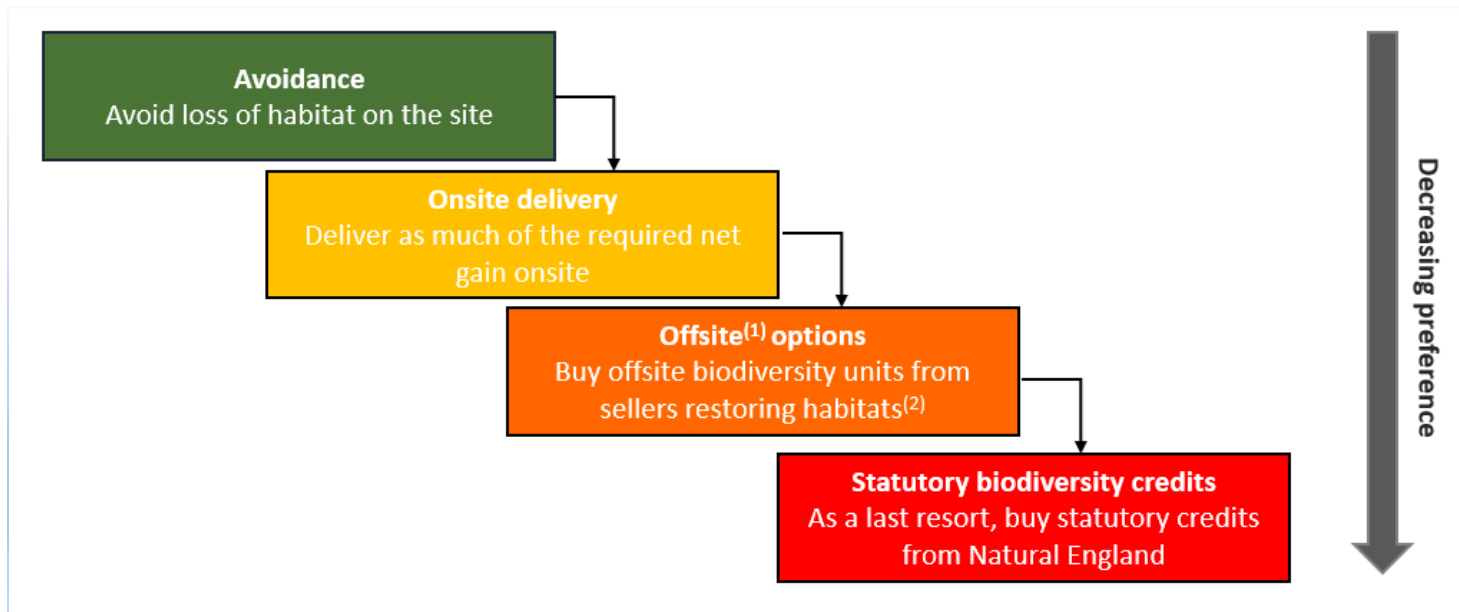
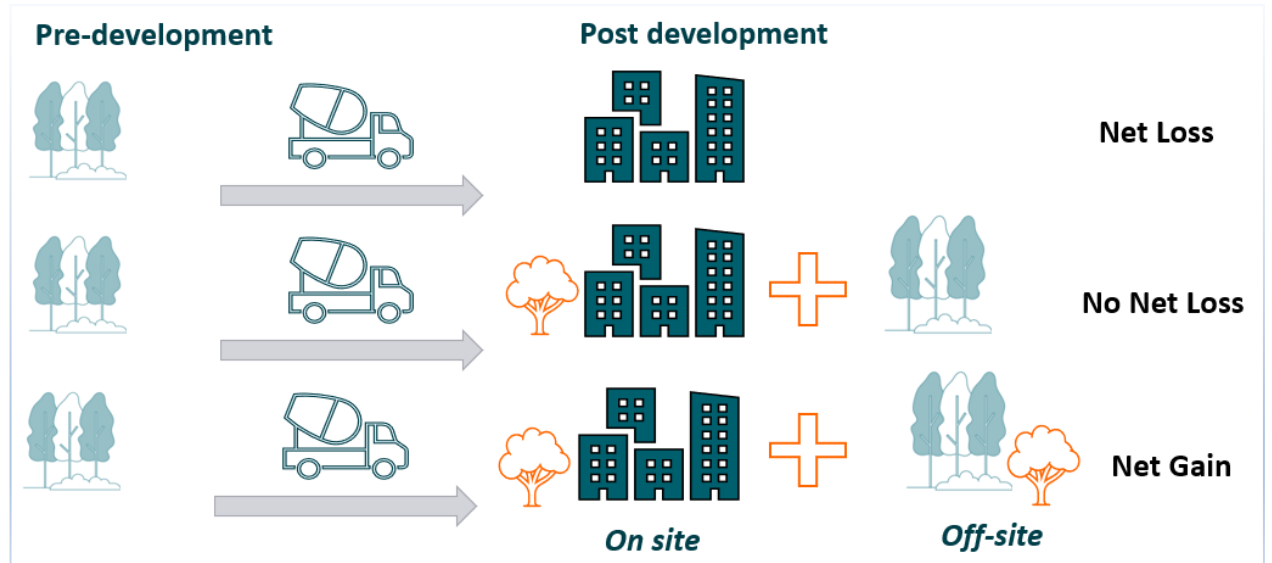


Figure 2: The BNG Hierarchy

Source for Figure 2: Defra BNG Impact Assessment 2019

(1) Off-site is anywhere outside the red line boundary of the planning application but must be within England. Local delivery of offsite BNG is rewarded.

(2) Any landowner who enhances or creates habitat that generates biodiversity units, as calculated by the Defra Biodiversity Metric, can sell those units into the market.

3 On-site delivery of BNG

The Metric incentivises onsite and local delivery of BNG. Onsite is prioritised in the Hierarchy because it works alongside initiatives like the Green Infrastructure Framework, a commitment in the Government's 25 Year Environment Plan to create a network of accessible green spaces and climate resilient towns and cities across England.

Onsite habitat creation provides spaces of higher quality within urban areas. It also ensures gains are being created where they are to be lost. This is also considered the cheapest way to deliver Biodiversity Net Gain, as the developer already owns the land.

4 Off-site delivery: What is a habitat bank?

The BNG Mitigation Hierarchy states that gains delivered onsite are the preferred option. However, where this cannot be achieved, there is the option to purchase biodiversity units offsite. Habitat banks are the land where these offsite units are purchased. The banks are usually parcels of degraded or low-quality land where a significant uplift in biodiversity can be achieved.

For local authorities, a habitat bank can provide an excellent opportunity to finance habitat creation and restoration as well as a mechanism for selling biodiversity units. If it owns the land, the council can set up a habitat bank as their way of fulfilling the Government's legal requirement that developers produce a net gain of biodiversity.

5 How to set up a habitat bank

Future Parks Accelerator has developed a robust guide which offers ten logical steps to setting up a habitat banking vehicle. However, it's important to note that this is not a linear process.⁵

1. Get familiar with the context and legislation

The sale of biodiversity units means the investor who provided the finance gets their initial investment back with interest and information about the 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 quite possibly even longer.

2. Build your team

You will need people with dedicated time for this work. They will need to be adept at bringing change, working across departments and engaging partners.

⁵<https://static1.squarespace.com/static/5f32743336e609411fb3202ba/t/634c2683980d17255dba28dc/1665934980895/GreenFinance.pdf>

3. Identify pilot sites

When selecting pilot sites consider size, number, significance, public access, and partners. Private investment is easier to attract on a larger scale. Aim for a minimum of 50ha in total and no less than 10ha per site. A group of pilot sites might be between 20ha and 100ha.

4. Take a baseline

Biodiversity net gain is measured in units. To work out your baselines, you need an ecological assessment for each site capturing the relevant data. You may choose to have your ecological assessments done independently. You may also choose to undertake habitat assessments across all or many of your potential sites (not just pilot sites).

5. Decide on your principles

As part of your prep work you need to decide how your habitat bank can help to maximise environmental, social, and economic benefits for your city or town, keeping revenue and benefits local.

6. Understand supply

This step involves working out how much improvement (measured in units) can be sold to developers. Conservation specialists will advise what restoration or creation might be possible from the baseline assessments. Your supply is the difference between the baseline units and the number of units a site will produce after habitat is created or restored.

7. Understand demand

Biodiversity units can be sold outside of the locality, though developers are incentivised to buy in their local area. Understanding top level growth targets for infrastructure, transport, and housing can offer assurance that there's enough demand in the pipeline. Especially for places seeking to satisfy all local demand, and not oversupply what might be required.

8. Build your financial model

Ecological expertise will already have determined what interventions should happen on each site. Now you need to know what these might cost, including restoration, maintenance and the cost of providing public access. This is robust analysis and will always be a working model continuously updated for accuracy. It offers data to make decisions about which sites are viable, the best time to sell biodiversity units and to test principles and ideas. For example, it could help you to understand how many years beyond the minimum 30-year term that any endowment might cover maintenance costs.

9. Business case

The business case should be clear and concise, using familiar templates and protocols for internal decision-making.

10. Set up your habitat banking vehicle

Your external finance partner should help you with the process of designing the capital and corporate structure. This involves ensuring cash flows towards your priority benefits. For example, funding for long-term maintenance. You will also need to seek external advice on governance and which legal structure (e.g. traditional company or a charity) is best for you and any contracts you might need drafting.

6 Habitat banking in action

6.1 Ocean City Nature – Plymouth City Council (PCC)

For PCC, the habitat bank forms one investment vehicle of Ocean City Nature. Ocean City Nature is an arm's length, council-owned company. Incorporated on 2 August 2023, the project was conceived and developed through the Future Parks Accelerator (FPA) – a joint initiative between the National Lottery Heritage Fund and the National Trust. Support was also provided by the impact investment adviser Finance Earth, and further funding support came from the Department for the Environment, Food & Rural Affairs' (Defra) Natural Environment Impact Readiness Fund.

As per PCC's website:

"Ocean City Nature is a Plymouth City Council-owned company, established to ensure that the city can deliver on its environmental ambitions.

*By enabling investment in some of Plymouth's most-loved natural spaces, Ocean City Nature will support the Council and its partners in its ambitions for nature recovery – bringing benefits for biodiversity and improved recreational places for residents."*⁶

⁶<https://www.oceancitynature.co.uk/#:~:text=By%20enabling%20investment%20in%20some,improved%20recreational%20places%20for%20residents.>

6.1.1 Why a habitat bank?

PCC, like many councils across the UK, faces multiple challenges. These include:

- Budget pressures across the authority including for maintaining natural spaces. Especially with the loss of S.106 money.
- Enhanced duty towards natural environment.
- Environment Act creates a new market for biodiversity units replacing existing payments for mitigation locally.
- Requirement to maintain habitats enhanced for a minimum of 30 years.
- Interaction of new BNG duty with affordable housing delivery targets and need.

For PCC, a habitat bank can help the council meet these challenges by:

- Turning financial liabilities into self-sustaining income generating assets over the long-term.
- Supplying biodiversity units captures the income generated by Plymouth's nature and people.
- Offers more control over site specific biodiversity.
- Credible local offer for developers: Providing a low friction and high integrity for local developers.

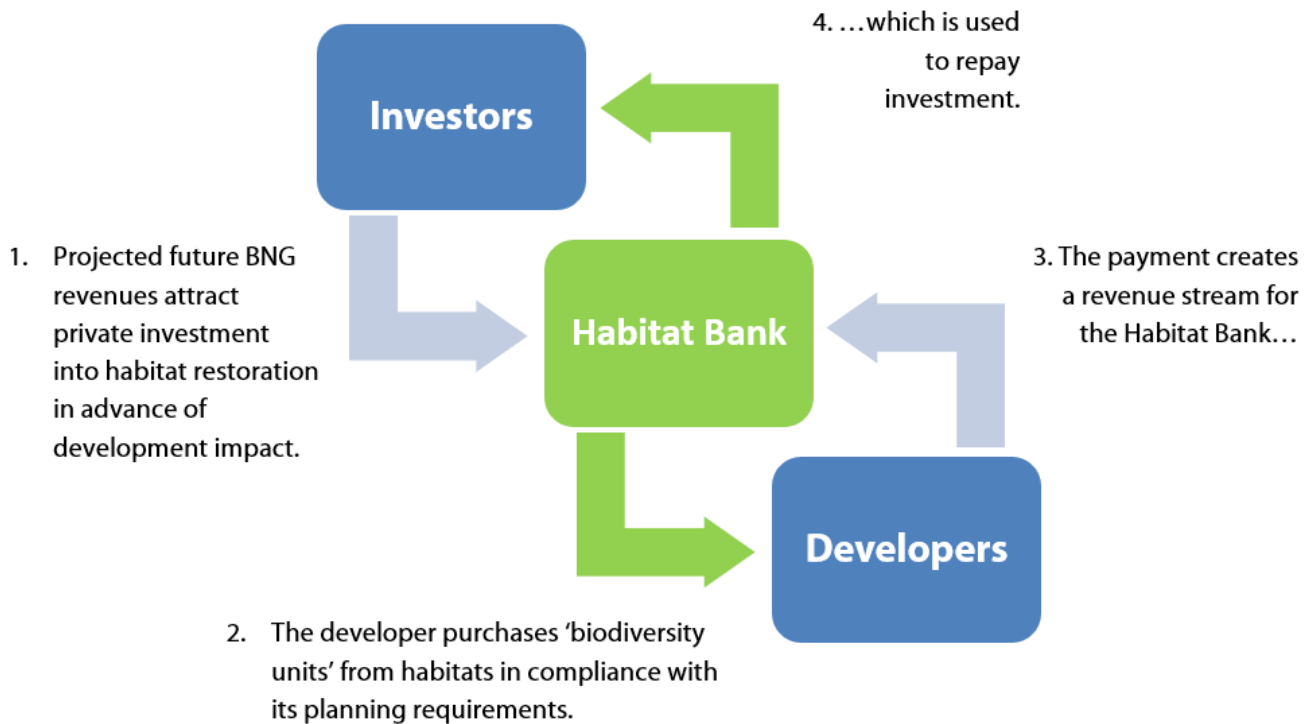
PCC is also a big landowner " ...with 1400 hectares of green space around the city. There's quite a bit of opportunity to take land that can often be seen as a liability to local authorities – think trees that can fall over – and turn it into genuine assets that provide an income stream which in turn goes back into maintaining and improving green spaces."⁷

⁷ <https://www.futureparks.org.uk/habitat-banking-conversation>

6.1.2 The habitat bank model

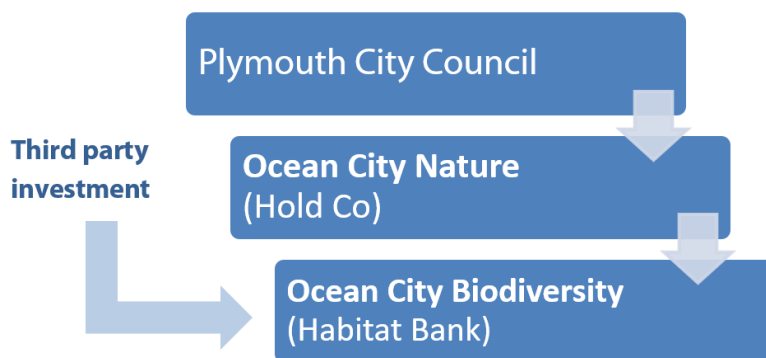
Figure 3 below, created by PCC, gives a good illustration of how the habitat banking model works:

Figure 3: The habitat banking model



The company structure of Ocean City Nature is illustrated in Figure 4 below:

Figure 4: Company structure of Ocean City Nature

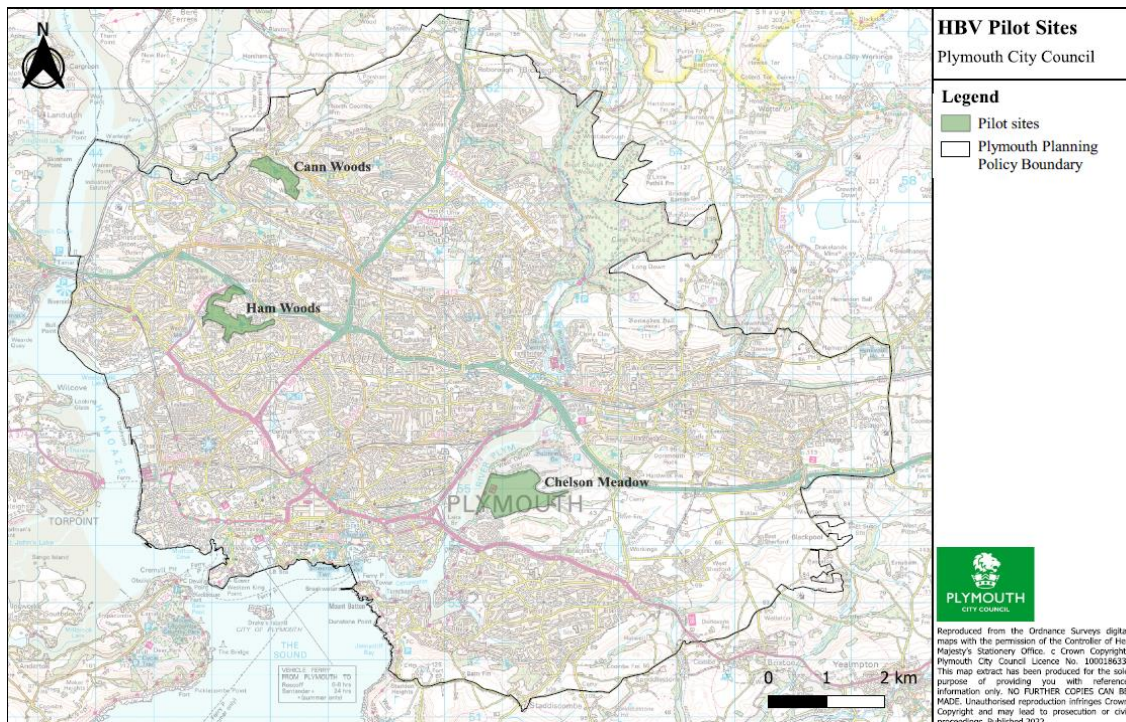


Should the habitat bank prove successful, PCC hopes to add further investment vehicles to Ocean City Nature – SuDs, woodland carbon credits – thereby helping to create a higher quality, accessible natural environment, and sustainable local green economy.

6.1.3 Pilot sites

Ocean City Nature is undertaking habitat improvement activity on 3 PCC sites (Chelson Meadow, Ham Woods LNR and Cann Woods LNR) covering 109 hectares owned by PCC. It is expected to generate 271 Biodiversity Units for the BNG market.⁸

Figure 5: Habitat bank pilot sites in Plymouth



7 APSE Comment: Turning financial liabilities into self-sustaining income assets

APSE's latest State of the Market Survey on Parks found that three-quarters of local councils expect the level of funding in their budgets to decrease by more than 5% in the next five years, with 40% expecting cuts of over 10%.⁹ With the budgets of local authority parks and grounds maintenance teams across the sector facing enormous pressures, the enhanced duties placed upon them by the Environment Act (2021) could credibly be accused of placing further burdens on an already over-burdened sector.

⁸ https://democracy.plymouth.gov.uk/documents/s141868/231004%20Habitat%20Bank_Committee%20Report_Cabinet.pdf

⁹ <https://apse.org.uk/index.cfm/apse/news/articles/2024/three-quarters-of-local-councils-expect-the-level-of-funding-in-their-budgets-to-decrease-by-more-than-5-in-the-next-five-years/>

However, the Environment Act has also opened up a new market in biodiversity units for local councils in England, one that has the potential to prove very lucrative for those councils in ownership of large amounts of land.

APSE has long advocated the importance of biodiversity and nature in our cities and urban spaces. The socio-economic and environmental benefits such green space provides to communities across the UK are well documented. The main issue for local authorities has been securing the necessary investment and revenue for maintaining such space. In that regard, council-owned habitat banks are a possible game-changer.

Not only are they designed to capture the biodiversity unit income and ensure that goes back into benefitting the local environment and people, habitat banks also allow councils more control over site-specific biodiversity; making sure the right kind of green space is in the right place for people to access.

As with any investment, there is risk. So, it is important any councils seeking to create these kind of green finance vehicles ensure they do so with strong foundational principles. That includes creating a robust governance framework, ensuring routine monitoring and measurement with clear metrics are in place, as well as guaranteeing transparency and accountability at every stage.

Habitat banks present an exciting new opportunity for local councils to unlock new – and much-needed – funding from nature markets. The success of the model at PCC may seed a green finance revolution in the sector.

All APSE members can sign up to APSE's Parks, Horticulture and Grounds Maintenance Advisory Group network, which is an online network providing four learning events across the year, with expert speakers from across local government and the wider parks and greenspace sector. You can sign up to the network using [this link](#).

APSE Training has also developed a highly interactive online course - Biodiversity Net Gain: Preparing Parks Professionals – designed to help parks professionals fully understand Biodiversity Net Gain (BNG) legislation. Members receive special rates. [You can book your place here](#).

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APSE member authorities have access to a range of membership resources to assist in delivering council services. This includes our regular advisory groups, specifically designed to bring together elected members, directors, managers and heads of service, together with trade union representatives to discuss service specific issues, innovation and new ways of delivering continuous improvement. The advisory groups are an excellent forum for sharing ideas and discussing topical service issues with colleagues from other councils throughout the UK.

Advisory groups are a free service included as part of your authority's membership of APSE and are an excellent way to network with peers in other councils. If you do not currently receive details about APSE advisory group meetings and would like to be added to our list of contacts for your service area, please email enquiries@apse.org.uk.

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- Parks, Horticulture and Grounds Maintenance
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Visit www.apse.org.uk for more details.

If you require any further information on the findings of this State of the Market survey 2023, please contact Wayne Priestley Principal Advisor for Environmental Services at wpriestley@apse.org.uk or Matt Ellis, press lead on mellis@apse.org.uk.



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