Cumbria Wide Special Purpose Vehicle (SPV) - Business Model Options

1 What is a Cumbria SPV and why should we develop one?

The scope and purpose of a Cumbria-wide Nature SPV would be to support the development of ecosystem service projects, and the creation and trading of ecosystem service outcomes as units or credits.

The Nature SPV would ultimately have the capacity to support a variety of different ecosystem service models, facilitating the stacking of different ecosystem service revenues from a given site or project. In the near term the Nature SPV would seek to prioritise Biodiversity Net Gain (BNG) and Nutrient Neutrality (NN) opportunities.

The Nature SPV would operate within a Cumbrian footprint. It would be jointly owned by Westmorland and Furness Council (WFC), Cumberland Council (CC), Lake District National Park Authority (LDNPA), and Cumbria Wildlife Trust (CWT) ("partners") but would be managed on an arms-length basis; it would reflect our collective strategic ambitions and would operate within an agreed set of principles.

A Cumbria wide Nature SPV would:

- Enable the strategic delivery of nature recovery (or mitigation) across the county.
- Make the most efficient use of our collective resources.
- Help meet the needs of Cumbrian developers and corporations by providing a simple one-stop-shop for the purchase of units/credits.
- Help unlock housing development across Cumbria which has currently stalled due to the requirement for nutrient mitigation.
- Provide a mechanism for landowners to take their units/credit to the market with a greater confidence in local authority, Lake District National Park Authority (LDNPA) and Cumbria Wildlife Trust (CWT) backing.
- Create a credible, strong and reputable SPV brand, one which will provide confidence to both sellers and buyers.
- Provide a local 'quality mark' for interventions by setting standards, undertaking quality control, and seeking to avoid dis-benefits.

In order for a Cumbria-wide Nature SPV to be successful, there is an expectation that all partners would commit to putting all land managed for surplus units/credits not required for their own development projects exclusively through the Nature SPV.

2 Options for Developing a Cumbria Wide Nature SPV.

Before we can progress with a multi-organisation approach to developing a Cumbria wide Nature SPV, we need to be able to define exactly what it is that we would be developing and how it would function. There are three key business model options for the SPV, each with their own benefits and risks. The three main options are:

- Brokerage
- Habitat Bank
- Trading Body

The details for each business option model are outlined in the following sections. All partners need to be in agreement with which business model(s) we are adopting before we can progress with obtaining legal and financial advice.

2.1 Option 1: Brokerage

A brokerage business model would match landowners (with units/credits to sell) with developers (needing to buy units/credits) and take a cut in the process, which would aim to cover running costs and funding for future nature projects. It would effectively act as a 'shop window' allowing developers to see what offsite options are available to them (much like an estate agent but for biodiversity units instead of houses).

The brokerage business model can be used to deliver 'land banking', or 'bespoke habitat creation', where the SPV provides a portfolio of land on which habitat creation/enhancement/nutrient mitigation solutions could take place, with work only commencing once the units/credits have been sold to a developer.

The SPV would provide assistance with the process of buying and selling units, but the legal obligations would remain the responsibility of the developer and landowner.

The SPV would not be responsible for the baseline condition surveys, full NN feasibility assessments, development and implementation of the Habitat/NN Management and Monitoring Plan (HMMP/NNMMP) however it could offer these to the landowner/developer as additional paid for services.

2.1.1 Partner owned land

Where a partner owns the land being used for habitat creation/enhancement/NN mitigation solution, they would perform the role of the landowner. Legal agreements would be secured directly between the developer and the partner.

The partner would be responsible for designing and implementing HMMPs or nutrient mitigation solutions for their own land, unless this is outsourced to the SPV as additional paid for services.

2.1.2 Third-party owned land

Where third party landowners are involved, their options are:

- To bring their biodiversity units to market through the SPV, but only legally secure, register, and deliver the habitat creation/enhancement/NN mitigation solution upon agreed sale of units (land banking model).
- To legally secure, register, and deliver the habitat creation/enhancement/NN mitigation solution on their land at risk, and then bring their biodiversity units to market through the SPV (using the habitat banking model).

The legal obligation for managing, monitoring and maintaining the habitat or NN mitigation solution in its agreed target condition would remain the responsibility of the landowner.

The SPV is not responsible for the baseline condition surveys or development and implementation of the Habitat/NN Management and Monitoring Plan (H/NNMMP) unless this is included in the contract as additional services for a fee.

Figure 1: **Brokerage SPV Organogram**

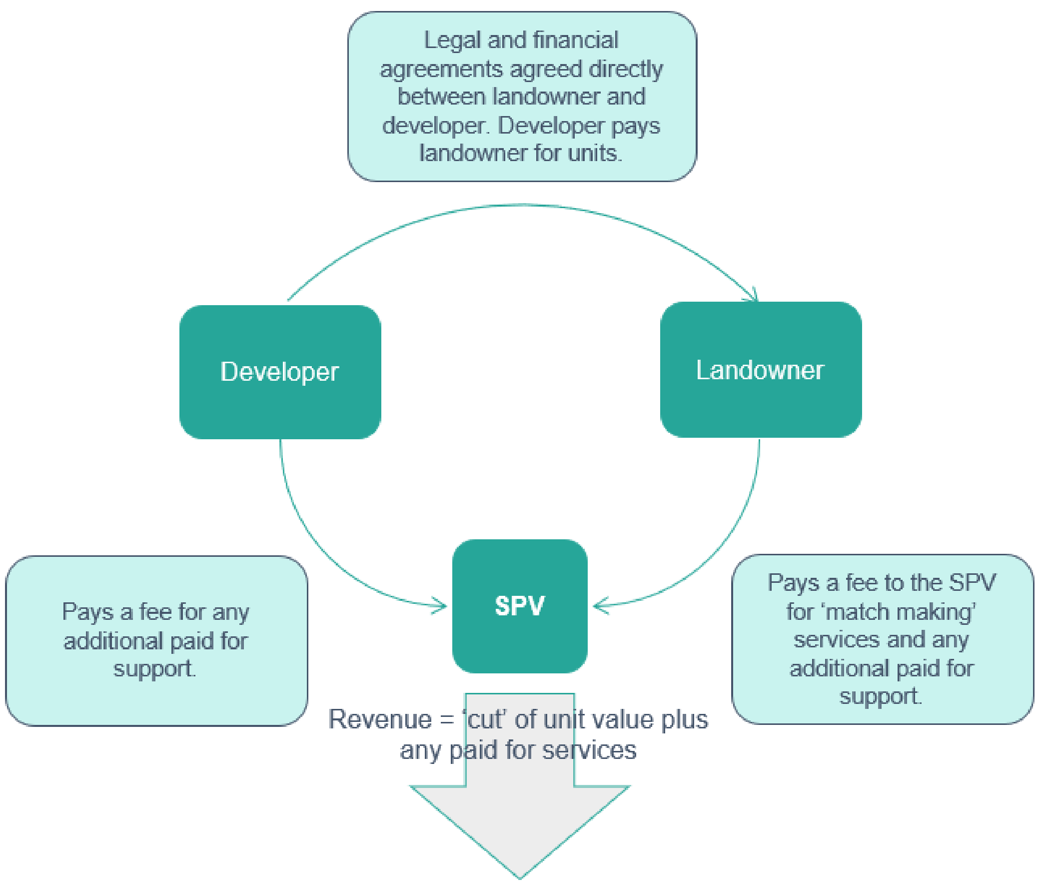

Figure 2: Process for bringing BNG units to market via a brokerage.

Baseline survey and optioneering

- Baseline habitat survey carried out by an ecologist (paid for by landowner).
- Determine potential biodiversity unit ouputs for different habitat scenarios.

Agree the sale of biodiversity units

- Landowner agrees to enhance or create specific habitats and maintain in a certain condition for a specific development.
- Finalise habitat creation / enhancement proposals and calculate biodiversity unit output in metric.

Legally secure the land

- Landowner / developer to agree a Habitat Management and Monitoring Plan with Local Planning Authority/Responsible Body.
- S106 or Conservation Covenant between landowner and LPA/RB.
- **Restoration can start once the land is legally secured.**

Register the site and record allocation

- Apply to register land on public off-site BNG register and allocate units to specific development.
- Natural England to assess and approve (or decline).

Ongoing management monitoring and reporting

- Manage and monitor for minimum of 30 years in line with legal agreement.
- Report on progress to LPA or Responsibly Body.

Figure 3: Process for bringing NN credits to market via a brokerage.

Site identification and pre-feasibility	• Potential mitigation site identified • Pre-feasibility assessment to determine suitable solutions, likely p savings and potential number of credits • NN Project team produces and maintains a list of sites that are suitable as mitigation in principal
SIte Matching	• Full feasibility assessment to confirm number of NN credits. • Site is matched with an interested developer within the catchment (based on agreed allocation criteria) • Landowner signs options agreement with developer to make site available for the identified mitigation
Approvals and permits	• Landowner submits planning application for the development which includes details of the proposed mitigation, NN calculator and monitoring/management arrangements • Natural England agree or contest the proposed mitigation through the planning application/HRA process • LPA approves the planning application
Delivery	• S106/S33 or Conservation Covenant signed between the two landowners and the LPA/RB • Agreement/Mitigation site is registered on cross LPA register to avoid duplication • **Mitigation delivery can start once the land is legally secured.**
Ongoing management monitoring and reporting	• Mitigation site is managed and monitored for between 80 and 125 years in line with legal agreement. • Report on progress to LPA or Responsibly Body.

Table 1: Risks, Benefits and Requirements of a Brokerage

Risks	Benefits	Requirements
Less control over what habitat creation / enhancement measures happen where, particularly with third party sites. Largely dictated by developer.	No capital investment required.	All partners to agree key principles and sign up to Shareholder and Investor Agreements.
Less ability to deliver strategic nature recovery as restoration/creation will only take place as and when units are purchased.	Only costs would be the legal and financial aspects of creating the brokerage SPV.	£50-150k initial set up costs including support with training, governance, financial and legal support etc.
Higher risk to landowner (partner) as the obligations around management and monitoring remain with the landowner.	Least risk to SPV as the obligations around management and monitoring remain with the landowner.	c. 6 months (ambitious) to set up.
Higher risk for developers. Market-led - some developers may not have capacity to deliver on their own and the solutions are untested through a HRA which may lead to delays at application stage.		
Delivery of habitat creation / enhancement only happens when units are sold.	Simpler and quicker to set up in terms of governance.	
Management and monitoring (of our own land) is made much more complicated if there are multiple developers/ HMMPs allocated to each site, particularly if they are implemented at different times.		
Lower potential for generation of surplus – likely limited to a 'cut' from the sale of units plus any additional paid for services.		
Financial model and associated contracts would need to be carefully considered as third-party landowners would be under no obligation to progress their site through the SPV.		

2.2 Option 2: Habitat Bank

A habitat bank business model would allow developers to buy units/credits from an existing portfolio of nature restoration or NN mitigation sites where habitat creation/enhancement and/or nutrient mitigation is already in progress or has taken place.

The SPV would lease the land from the landowner, and also take on the financial and legal responsibility for the production of the H/NNMMP and implementation of the required habitat creation / enhancement and/or delivery of nutrient mitigation solution, management and monitoring. The units that come out of this would then be sold by the SPV at market value to developers, with any surplus generated being fed back into the SPV.

2.2.1 Partner owned land

Where a partner owns the land being used for habitat creation/ enhancement/NN mitigation, they would sign a lease agreement with the SPV which would secure the land for this use for a minimum of 30 years for BNG and up to 125 years for NN.

The SPV would take on the legal obligation for managing, monitoring and maintaining the habitat/mitigation solution in its agreed target condition.

In terms of BNG, the SPV would be responsible for the baseline condition surveys and development and implementation of the Habitat Management and Monitoring Plan (HMMP). In terms of NN the SPV would be responsible for carrying out the site feasibility assessments, producing the necessary Habitat Regulation Assessments, gaining the relevant permits and permissions (e.g. EA permits and planning and Building Regulation approvals), solution delivery and the implementation of Management and Monitoring Plans.

Developer agreements would be secured directly between the developer and the SPV.

2.2.2 Third-party owned land

Where third party landowners are involved, the process would be the same as it would be with partner owned land; the landowner would sign a lease agreement with the SPV which would secure the land for this use for a minimum of 30 years (or up to 125 years for NN).

The SPV would take on the legal obligation for managing, monitoring and maintaining the habitat/mitigation solution in its agreed target condition.

In terms of BNG, the SPV would be responsible for the baseline condition surveys and development and implementation of the Habitat Management and Monitoring Plan (HMMP). In terms of NN the SPV would be responsible for carrying out the site feasibility assessments, producing the necessary Habitat Regulation Assessments, gaining the relevant permits and permissions (e.g. EA permits and planning and Building Regulation approvals), solution delivery and the implementation of Management and Monitoring Plans

Developer agreements would be secured directly between the developer and the SPV.

Figure 4: Habitat Bank SPV Organogram

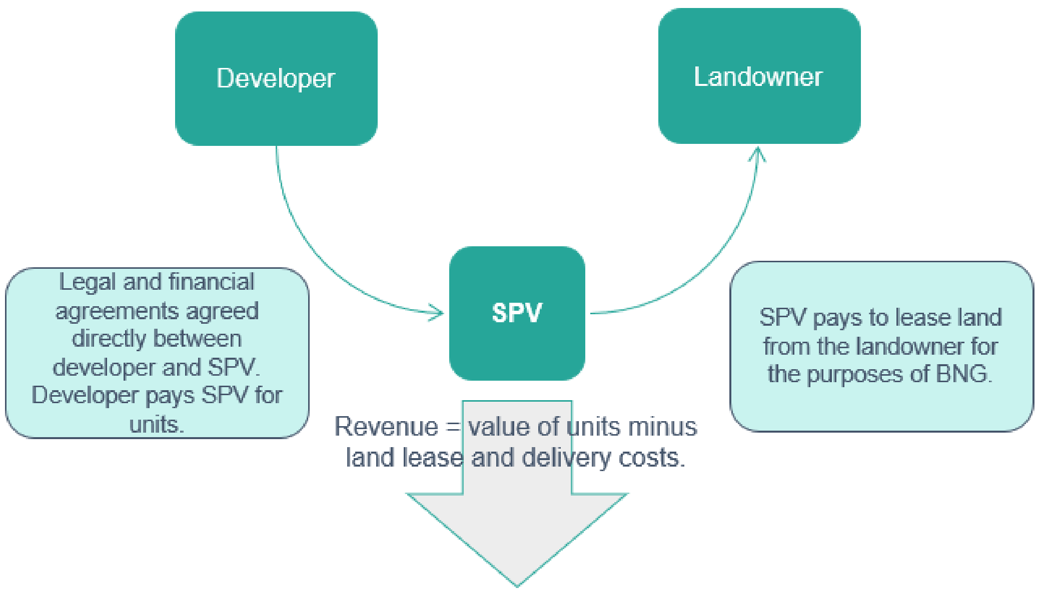

Figure 5: Process for bringing BNG units to market via a Habitat Bank.

Baseline survey and optioneering	• Baseline habitat survey carried out by an ecologist. • Decide what habtiats are going to be created/enhanced and determine the biodiversity unit output in metric.
Legally secure the land	• SPV signs lease agreement with landowner. • SPV to produce a Habitat Management and Monitoring Plan which is approved by the LPA / RB. • Conservation Covenant or S106 between Landowner and Local Planning Authority/Responsible Body. • **Restoration can start once the land is legally secured.**
Register the land on the public off-site BNG Register	• SPV applies to register land on public off-site BNG register on the landowners behalf. • Natural England to assess and approve (or decline).
Agree the sale of biodiversity units	• Agree the sale of biodiversity units to a developer. Developers will want to purchase biodiversity units for specific enhancements depending on the nature of their development.
Record the unit allocation on the register	• Natural England to assess application. • LPA will check that developments have the correct allcoation before approving their gain plan.
Ongoing management monitoring and reporting	• SPV to manage and monitor for minimum of 30 years. • Report on progress to LPA or Responsible Body.

Figure 6: Process for bringing NN credits to market via a Habitat Bank.

Initial assessment and optioneering

- Potential mitigation site identified
- Pre-feasibility assessment to determine suitable solutions, likely p savings and potential number of credits

Full feasibility and option agreement

- Discussions and option agreements between landowner and LPA/RB/SPV (inc discussions on rental values/credit sale sharing agreements)
- Full feasibility assessment inc detailed design where options agreement is in place
- Planning application and building regulation approvals sought where necesary

Confirmation of acceptance

- Landowner to agree an NN Management and Monitoring Plan with LPA/RB/SPV (may involve third parties)
- Natural England confirm acceptability of mitigation scheme
- Cost and number of credits that can be sold from the site confirmed

Legally secure the land

- S106 or Conservation Covenant between landowner and LPA/RB/SPV.
- **Mitigation delivery can start once the land is legally secured**
- NN Credits banked by LPA/RB/SPV

Ongoing management monitoring and reporting

- NN credits purchased by developer to unlock development elsewhere (based on agreed allocation criteria) - return to be shared with landowner where LPA/RB/SPV/developer is not leasing the land to the LPA/RB/SPV/developer
- Manage and monitor for between 80 and of 125 years in line with legal agreement.
- Report on progress to LPA/RB/SPV

Note: A different process will be required where the solution is to be delivered through a grant scheme e.g. Riparian buffer grant scheme or the Enhance My Tank PTP replacement grant scheme.

Table 2: Risks, Benefits and Requirements of a Habitat Bank

Risks	Benefits	Requirements
Capital investment required, in addition to cost of the legal and financial aspects of creating the brokerage SPV.	More control over what habitat creation / enhancement/mitigation measures happen where, as HMMPs are designed and implemented by the SPV.	All partners to agree key principles and sign up to Shareholder and Investor Agreements.
Higher risk to SPV as it takes on the legal and financial risks for the management, maintenance and monitoring of sites.	Lower risk to landowner (partner) as the SPV takes on the legal and financial risks for the management, maintenance and monitoring of sites.	£50-150k initial set up costs including support with training, governance, financial and legal support etc.
Partner (landowner) limited to income from lease agreement.	Landowner (partner) gets guaranteed regular income through lease agreement.	c. 6 months (ambitious) to set up.
More complicated and time consuming to set up in terms of governance.	More ability to deliver strategic nature recovery as restoration/creation can take place as soon as the land is secured.	c. £1m – £1.5m capital investment required for 200 – 300 ha of land for purposes of BNG.
	Delivery of habitat creation / enhancement can happen as soon as land is secured.	
	Management and monitoring is made simpler if restoration/creation is delivered on a site wide basis.	
	Higher potential for financial income for SPV - value of units minus lease agreement and management/monitoring costs.	
	Revenue can be put back into the system to help deliver additional habitat creation/enhancement/NN solutions.	
	Partners can test NN solutions through a strategic HRA which reduces delays at application stage.	
	Ensures consistency of approach across LPA boundaries.	

It is recommended that the Habitat Banking model is limited to sites on partner owned land, at least in the initial stages in terms of BNG. This would mean that, in relation to BNG, the SPV would

take on the legal and financial risk for partners, but not for third party landowners, who could still put their sites through the brokerage function of the SPV.**

As the majority of potential nutrient mitigation sites are on privately owned land, some of which have been or are undergoing pre-feasibility assessment, a different approach may need to be taken with NN which would include these sites within the Habitat Banking model.

2.3 Option 3: Trading Body

The trading body model would not only sell units as per the brokerage and habitat bank models, but it would also buy them and trade them on.

Units would be brought to market as per the brokerage model, but instead of the SPV matching units with a developer, it would buy the units directly from the landowner for an agreed price. This would give third party landowners a guaranteed buyer for any units they decided to bring to market and would rely on the SPV being able to buy units off landowners for less than they would be able to sell them on to developers.

The legal obligations would remain the responsibility of the landowner.

The SPV would not be responsible for the baseline condition surveys, full feasibility assessments on NN sites or the development and implementation of the Habitat/NN Management and Monitoring Plan (H/NNMMP) unless this is included in the contract as additional services for a fee.

Figure 7: Trading Body SPV Organogram

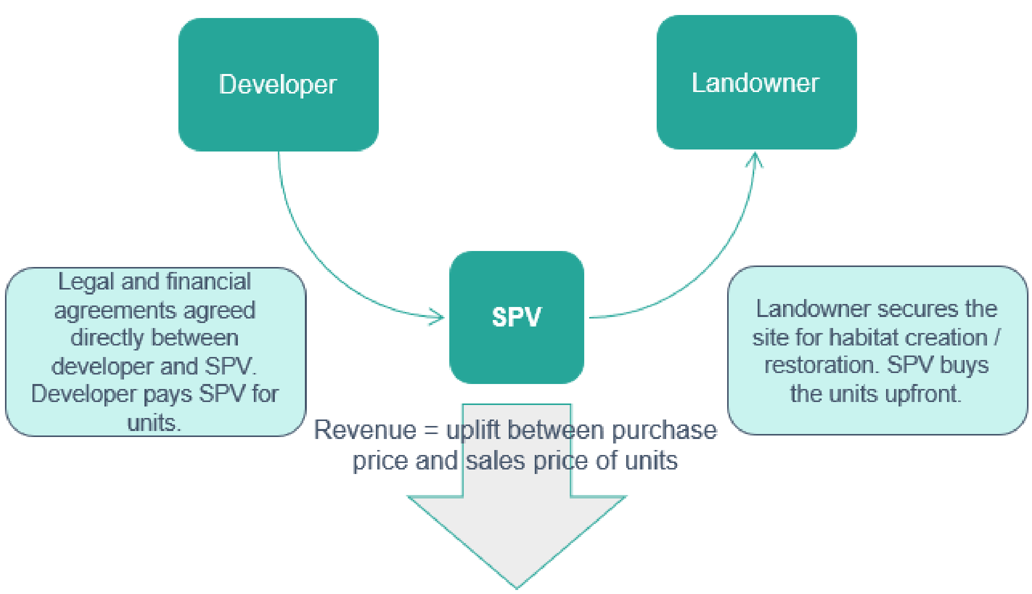

Figure 8: Process for bringing units to market via a trading body.

Baseline survey and optioneering

- Baseline habitat survey carried out by an ecologist.
- Determine potential biodiversit unit ouputs for different habitat scenarios.

Agree the purchase of biodiversity units

- Landowner agrees to enhance or create specific habitats and maintain in a certain condition.
- Finalise habitat creation / enhancement proposals and calculate biodiversity unit output in metric.
- SPV agrees to buy the units from the landowner at a fixed price.

Legally secure the land

- Landowner to agree a Habitat Management and Monitoring Plan with LPA / RB.
- S106 or Conservation Covenant between landowner and Local Planning Authority/Responsible Body.
- **Restoration can start once the land is legally secured.**

Agree the sale of biodiversity units.

- SPV sells the units to a developer and transfers the legal agreements to them.

Register the site and record allocation

- Apply to register land on public off-site BNG register and allocate units to specific development.
- Natural England to assess and approve (or decline).

Ongoing management monitoring and reporting

- Manage and monitor for minimum of 30 years in line with legal agreement.
- Report on progress to LPA or Responsibly Body.

Figure 9: Process for bringing NN credits to market via a trading body.

Identification of Site
- Landowner* identifies potential mitigation site and calculates number of nutrient credits that could be delivered

Feasibility
- Feasibility assessments inc detailed design are undertaken by landowner*
- Natural England accept or reject findings and number of credits are confirmed
- Relevant approvals and permits sought where necessary

Purchase of credits and delivery
- SPV agrees to buy the credits at a fixed price from the landowner*
- Landowner* agrees an NN Management and Monitoring Plan with LPA/RB/SPV
- **Mitigation solution is delivered on site**

Legally secure the land and credits sold
- S106 or Conservation Covenant between landowner/developer and LPA/RB/SPV
- SPV sells credits to developer needing them to unlock their site (using agreed allocation criteria) - LPA/RB will transfer credits to SPV where required

Ongoing management monitoring and reporting
- Manage and monitor for between 80 and of 125 years in line with legal agreement.
- Report on progress to LPA/RB/SPV

Table 3: Risks, Benefits and Requirements of a Trading Body

Risks	Benefits	Requirements
Less control over what habitat creation / enhancement measures happen where, particularly with third party sites.	Some ability to deliver strategic nature recovery as SPV functions as guaranteed buyer to enable restoration/creation to take place.	All partners to agree key principles and sign up to Shareholder and Investor Agreements.
Capital investment required in order to purchase units. In addition to cost of the legal and financial aspects of creating the brokerage SPV.	Less obligatory risk to the SPV as obligations around management and monitoring remain with the landowner.	£50-150k initial set up costs including support with training, governance, financial and legal support etc.
Higher risk to landowner (partner) as the obligations around management and monitoring remain with the landowner.	Management and monitoring is made simpler if restoration/creation is delivered on a site wide basis (due to guaranteed buyer).	c. 6 months (ambitious) to set up.
More complicated and time consuming to set up in terms of governance.	Partner (landowner) to get guaranteed income from sale of units.	Capital investment required.
Much higher risk to SPV as it is effectively trading on an open market.	Delivery of habitat creation / enhancement can happen as soon as land is secured.	
	Partners can test NN solutions through a strategic HRA which reduces delays at application stage.	
	Ensures consistency of approach across LPA boundaries.	

This is an innovative but also high-risk option and is not recommended for further consideration at the moment.

3 Recommendations

It is recommended that a Cumbria Nature SPV performs two core functions:

- As a brokerage to connect third party landowners with potential developers.
- As a habitat bank to deliver habitat restoration/creation on our own land and to deliver nutrient neutrality mitigation solutions on our own and privately owned land.

In terms of BNG, it is recommended that the Habitat Banking model is limited to partner landholdings until the SPV is sufficiently established, although third party sites may be considered for NN.

Whilst innovative, the risks associated with the trading body model are considered too high at this point in time and this model is not recommended for further consideration.

Table 4: Relative strengths and weaknesses of the brokerage, habitat banking and trading body business models.

Model	Set-up Costs	Nature Recovery	Timescales	SPV Financial / Legal Risk	SPV Potential Income	Landowner Financial / Legal Risk	Landowner Potential Income
Brokerage	-	+	+++	-	+	- - -	+++
Habitat Banking	- - -	+++	++	- -	+++	-	+
Trading Body	- - - (guess)	++	+	- - -	++	- -	++

Key: +++ greatest benefit; **+** least benefit; **- - -** greatest investment/risk; - least investment/risk.