

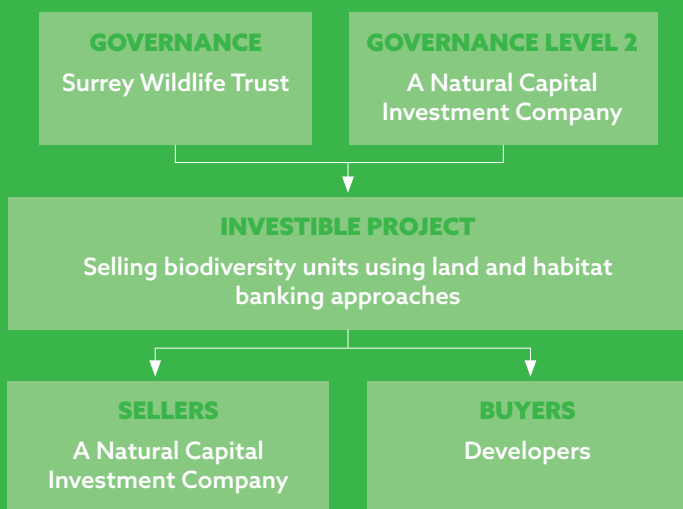
This is one of a suite of case studies of NEIRF funded projects, to highlight efforts to protect and enhance the natural environment, while generating revenue from ecosystem services.






River Wey, Godalming, Surrey

A NATURAL CAPITAL INVESTMENT COMPANY FOR ACCELERATING DELIVERY OF HABITAT BANKS

HIGH LEVEL SUMMARY OF PROJECT



Habitats and geographical location

-  Woodland/wet woodland
-  Grassland/calcareous grassland
-  Surrey



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PROJECT OVERVIEW

According to Surrey Wildlife Trust, a third of species in Surrey are locally extinct or threatened with extinction, habitats are increasingly fragmented and there is a decline in species of conservation concern in several habitat types. Simultaneously there is an estimated housing need of 5,000 homes each year in the county. However, from November 2023 any new developments in England will need to result in BNG, by improving biodiversity either on or off site.

The Surrey Wildlife Trust (SWT), in partnership with Finance Earth, used NEIRF funding to explore the setup of a subsidiary Natural Capital Investment Company (NCIC) to attract private investment from developers to accelerate habitat restoration and nature recovery. The NCIC would sell biodiversity units to developers using land and habitat banking approaches initially on land owned by the SWT. The NCIC would create habitat bank Special Purpose Vehicles (SPVs) to aggregate environmental projects.

Initially SWT and its ecology services consultancy (a subsidiary of SWT), will act as the NCIC and restore and maintain the sites and sell the units, with the option for the NCIC to take over these roles. The model is flexible depending on what SWT require of the NCIC. Third-party investors may be introduced to fund habitat restoration for a return following the sale of the units.

The benefits identified by the project of creating a NCIC subsidiary are:





- Ringfencing financial risk.
- Ability to raise investment and issue shares.
- Cross-subsidisation between projects.
- Specialist skills focused on the generation and sale of ecosystem services.
- Using SPVs owned by the NCIC provides greater long-term flexibility.

To develop the proposition the project has undertaken financial modelling, assessed market demand and extensive stakeholder engagement to develop the business case.

The project modelled three sites owned by SWT; Manor Farm (5.3ha), Shepherds Meadow (73ha) and Pewley Meadow (15ha). These three sites will create 403 land banking and habitat banking units. The project is in the process of negotiating the sale of the first 37 biodiversity units from Manor Farm at a price in the region of £25,000 per unit using a land banking approach. This revenue will fund restoration work at Manor Farm and also support restoration work on other sites where demand has already been indicated.

SWT estimate that the BNG demand will fund 463ha of restoration in Surrey over a ten-year period, but they aim to create 500-700ha of nature recovery by utilising other ecosystem service markets such as carbon sequestration and Natural Flood Management (NFM) which the project may look to develop once a core BNG product is operational.

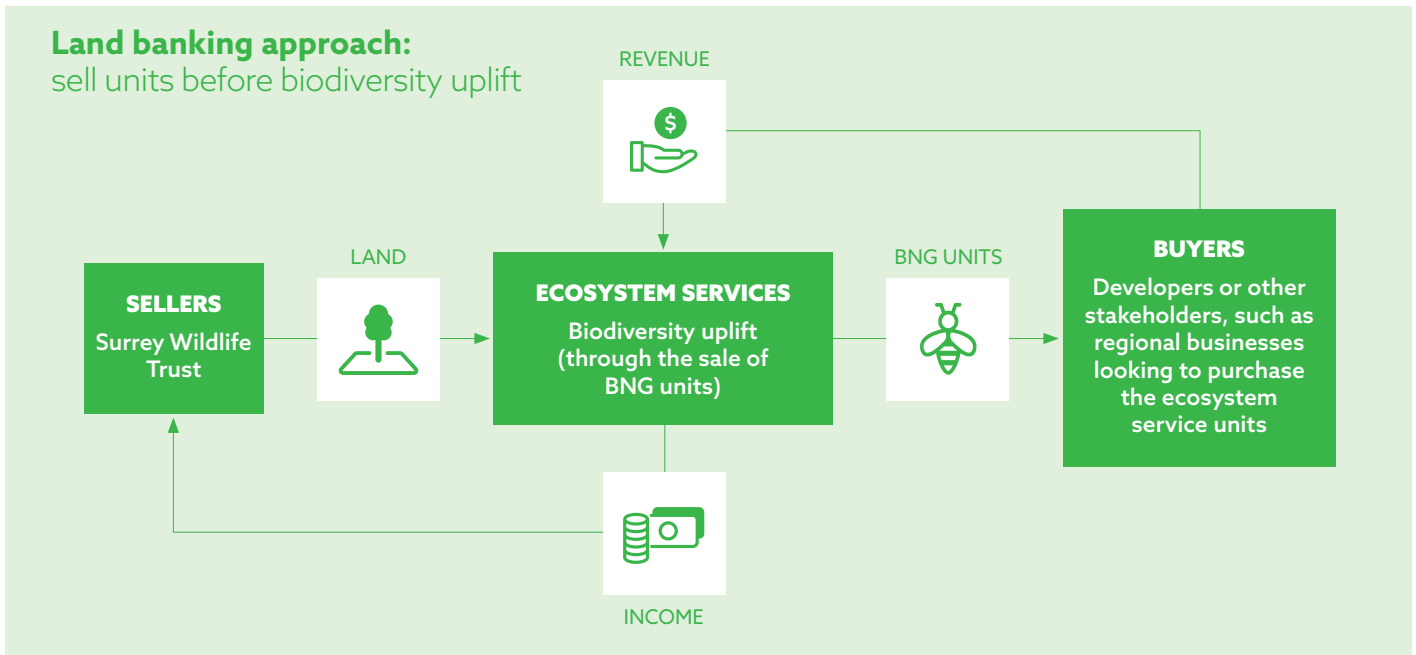
GOVERNMENT ENVIRONMENTAL GOALS

| | |
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|  Clean and plentiful water | Enhancement of the rivers Wey and Mole through restoration of ditches, ponds, and creation of wet woodland. |
|  Thriving plants and wildlife | Aiming for 500-700ha of nature recovery of grasslands , woodlands, hedgerows, and ditches across Surrey and the South-East. |
|  Enhancing beauty, heritage, and engagement with the natural environment | Pewley Meadows is within an AONB, and it will become a public nature reserve . |
|  Mitigating and adapting to climate change | Land use change to restore a variety of habitats , such as lowland calcareous grassland and wet woodland, will help wildlife adapt to climate change. |

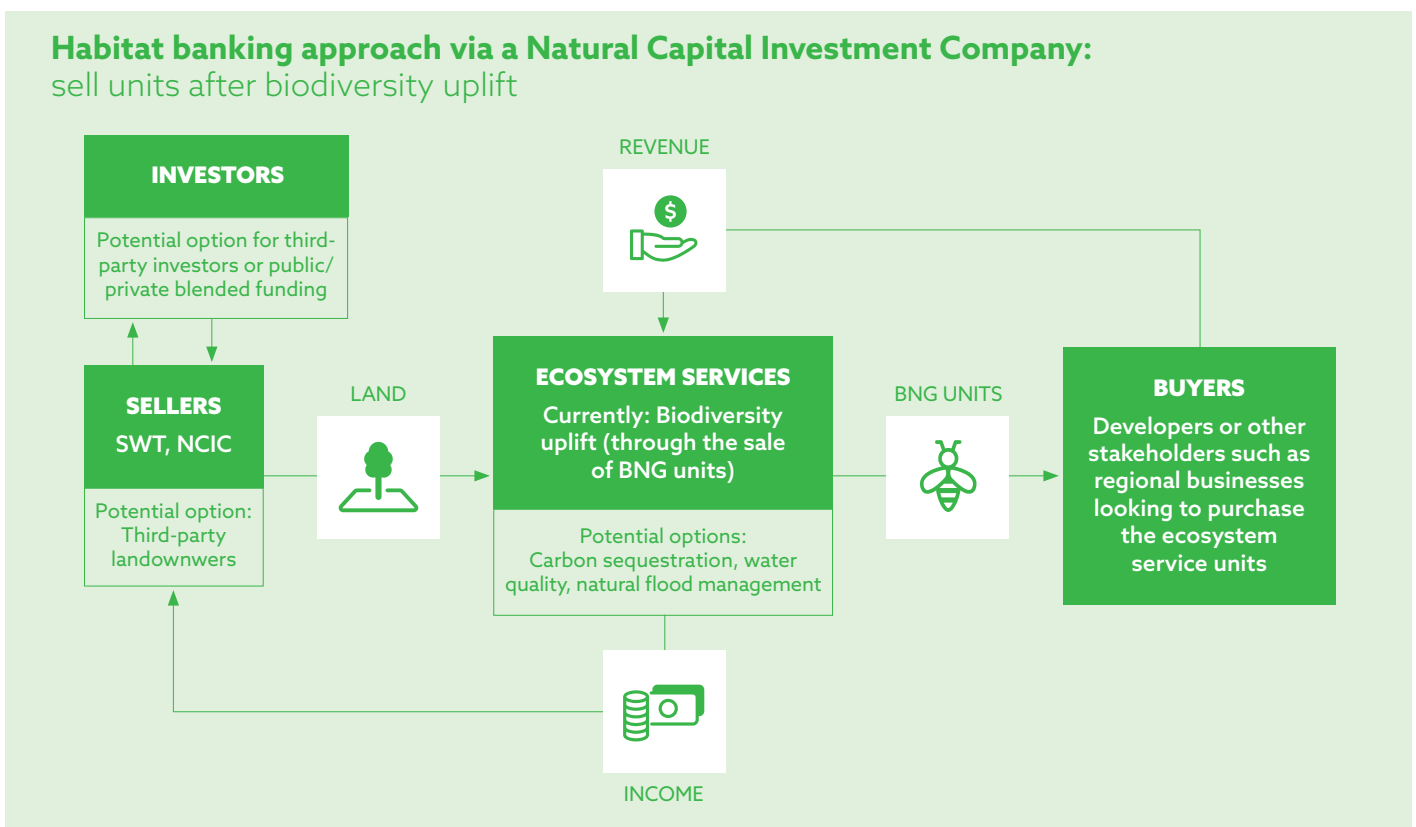
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REVENUE MODEL

The revenue model is designed in two stages. Initially the focus will be on raising capital through a proportion of units being sold through a land banking approach meaning the buyer pays in advance of nature restoration to provide the upfront capital to deliver initial restoration proposals and demonstrate proof of concept. This poses an additional risk to the buyer and so the unit price is lower. However, the risk to the landowner is lower as the work is financed in advance.

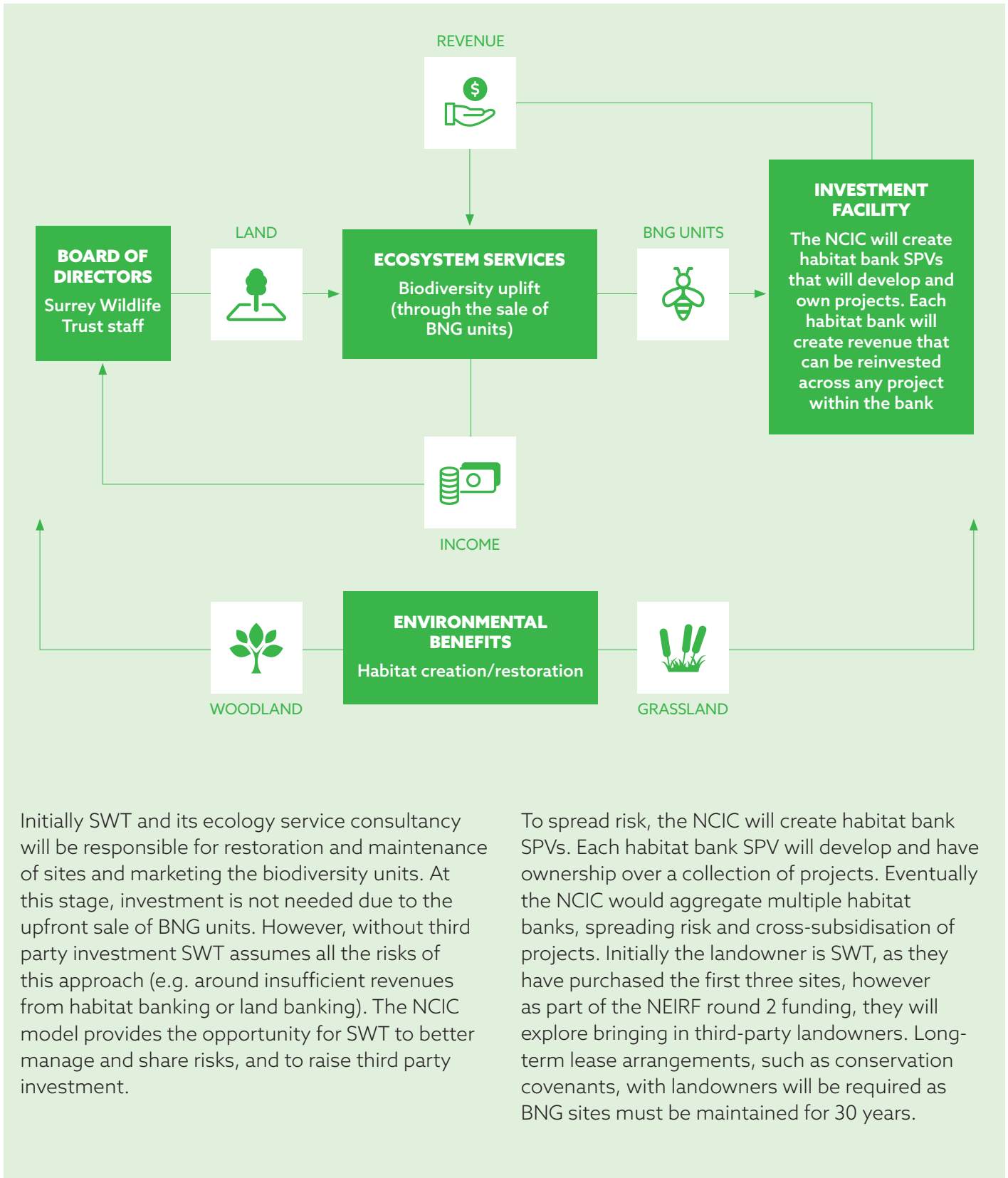


Post restoration units will be sold at a higher price to fund ongoing revenue and potential to fund restoration on additional sites, taking a habitat banking approach where units are sold after the biodiversity uplift. There is the potential in the future to seek investor funding to scale up this approach, on land not owned by SWT.



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OPERATING MODEL



Initially SWT and its ecology service consultancy will be responsible for restoration and maintenance of sites and marketing the biodiversity units. At this stage, investment is not needed due to the upfront sale of BNG units. However, without third party investment SWT assumes all the risks of this approach (e.g. around insufficient revenues from habitat banking or land banking). The NCIC model provides the opportunity for SWT to better manage and share risks, and to raise third party investment.

To spread risk, the NCIC will create habitat bank SPVs. Each habitat bank SPV will develop and have ownership over a collection of projects. Eventually the NCIC would aggregate multiple habitat banks, spreading risk and cross-subsidisation of projects. Initially the landowner is SWT, as they have purchased the first three sites, however as part of the NEIRF round 2 funding, they will explore bringing in third-party landowners. Long-term lease arrangements, such as conservation covenants, with landowners will be required as BNG sites must be maintained for 30 years.

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INNOVATION

The innovative element of this project is providing a single vehicle (the NCIC) for managing purchases and sales across multiple sites but under one strategic framework and owned by a wildlife trust. It has allowed Surrey Wildlife Trust to switch from a dependence on grant funding to explore opportunities in private finance. Creating a NCIC helps the organisation manage the risk, as it can be ringfenced and spread across third party investors. This means as well as delivering habitat restoration, surpluses from selling biodiversity units can be put into wider environmental projects.

SCALABILITY AND REPLICABILITY

Plans are for the project to be scaled up across the South East of England. The project has secured funding from the second round of the NEIRF to pilot 6 sites owned by third party landowners with the aim to maintain cashflows and expand supply. This second stage of the project will explore other ecosystem service markets and develop a business case for landowner-led habitat restoration.

Given that this approach is not site-specific, SWT hope that this model can be a blueprint for other wildlife trusts, environmental NGOs or landowners.



LEARNING POINTS

- **Using a land banking approach helps to mitigate the risk from nascent markets such as the biodiversity unit market.** The project has secured the sale of 37 biodiversity units before a nationwide market has been launched.
- **Creating a NCIC can aggregate multiple projects.** This has three benefits:
 - Improves cost efficiency as many costs can be shared across projects and/or habitat bank SPVs;
 - More attractive to a wider variety of investors; and
 - Spreads risk of each project.
- **In-house capacity when setting up a NCIC is beneficial.** Shortages in labour resources, such as ecologists, could have been a barrier if SWT did not have internal resources. Developing this capacity in-house increases the skill set of their staff and will have a long-term benefit.
- **Engagement in ecosystem service markets can support the resilience of the environmental NGO sector.** Surplus profit from this project will go towards additional conservation activity.
- **Third-party landowners are essential to create a habitat restoration pipeline.** SWT can only meet 20-25% of the estimated land demand in the next 10 years, so third-party land will be required to meet demand.

WOULD YOU LIKE TO KNOW MORE?

If you would like to learn more about the Natural Capital Investment Company for Accelerating Delivery of Habitat Banks, please get in touch with **Sarah Jane Chimbandira**, CEO, Surrey Wildlife Trust. For questions regarding NEIRF, please contact NEIRF@environment-agency.gov.uk.

This case study was produced by Ecorys.