



## How to set up an urban habitat bank

This guide offers you logical steps to setting up a habitat banking vehicle. However, it's important to note that this is not a linear process and you will often need to return to previous steps, as outlined below.

### 1. Get familiar with the context and legislation

Habitat banking provides a way for landowners – in this case local authorities – to create or restore a habitat in advance and “bank” the resulting biodiversity units. These units can then be purchased by developers seeking to comply with the mandatory 10% net gain.

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 including Executive Officers and elected officials. It is innovative work, so the team will learn new concepts, some financial jargon and be comfortable with not having all the answers upfront. Your internal team will likely include representatives from finance, legal, housing, planning, strategic and operations green estate.

This work is likely to inform planning guidance issued to developers and link to Local Nature Recovery Strategies, so understanding this context is important. The team should know how land is currently used and be able to understand the opportunity for change. Conservation management skills and knowledge of ecological assessments will mean they can accurately cost habitat restoration, public access improvements and maintenance.

Your core project team will want to bring in specialist external advisors, too. These will include an appropriate external finance organisation who is equipped with the skills and regulatory clearance. They will help develop the financial model to manage risk and help you to outline your business case, establish the vehicle itself, and access investment. You will also need legal support to help set up the habitat bank when you are ready to do so.

### 3. Identify pilot sites

The purpose of piloting is to quickly develop an understanding of supply and demand for biodiversity units.

Make sure you understand the land you're working with. You don't need granular detail at this stage, just information about where key nature sites are, their size, any designations, some level of habitat information and basic management objectives.

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.

You may want to identify more pilots than you think you need and model the costs for them, just in case one or two are not viable. If a site is within your Local Nature Recovery Strategy, there is a multiplier effect in the Defra Metric for calculating biodiversity units, meaning it will generate 15% more biodiversity units. You do not need to have identified all the sites in your Local Nature Recovery Strategy to select pilot sites, but if you have some or can do this in parallel, it is a good idea.

### 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. From here you can propose how to restore the habitat and use the DEFRA metric to calculate the units – UK Hab Assessments map directly onto the DEFRA metric.

You may choose to have your ecological assessments done independently, providing additional reassurance to your future investors. You may also choose to undertake habitat assessments across all or many of your potential sites (not just pilot sites). This will enable you to get an overview of potential available units across the city and therefore estimate revenue at a city scale over thirty years.

### 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. An early discussion on key principles will help you to build in the elements that are most important to you.

## 6. Understand supply

We call this part of the process 'supply assessment' because you work 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.

In 2021 a DEFRA report suggested the market price per biodiversity unit could be between £20,000 and £25,000. Your external financial partners will keep you up to date with market prices.

## 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.

Note that if a development scheme already has permissions, it may not be obligated to deliver biodiversity net gain. Also remember you are looking at longer term demand as biodiversity units are sold any time from the third to around the fifteenth year.

## 8. Build your financial model

It's best to do this modelling with an experienced external commercial financial partner. 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. We suggest starting high, including all costs associated with the priorities you established when setting out your principles. You can value-engineer downwards if needed.

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.

Risk is managed partly through the DEFRA metric which includes a difficulty multiplier for habitats that are harder to restore, and a discount factor for selling units in advance of verifying the planned habitat was delivered. Your external financial partner will further support risk management through modelling to account for changes in market prices, adjustments for inflation, operating costs for the habitat bank and building in a buffer for changes in demand.

## 9. Business case

The business case should be clear and concise, using familiar templates and protocols for internal decision-making, such as presenting options. Focus on the decisions that need to be made to secure a mandate to progress your work rather than technicalities; you might include supplementary documents that cover any technical or background reading. As you progress your business case, your external financial partners might need to be available to co-present or be on-hand to answer technical questions that arise.

## 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.

Once set up, the habitat bank will need accountancy and insurance services and a bank account. Your external finance partners then attract investors using materials compliant with the Financial Conduct Authority (FCA) regulations. They will negotiate and close the investment deal.

The habitat bank will register any sales of biodiversity units. It will monitor, report and verify compliance with the habitat management plan, submitting data to the relevant body.

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