

## Tees Rivers Trust (TeRT)- Tees Riverbank

Four potential structuring and financing options are outlined below for Biodiversity Net Gain (BNG)

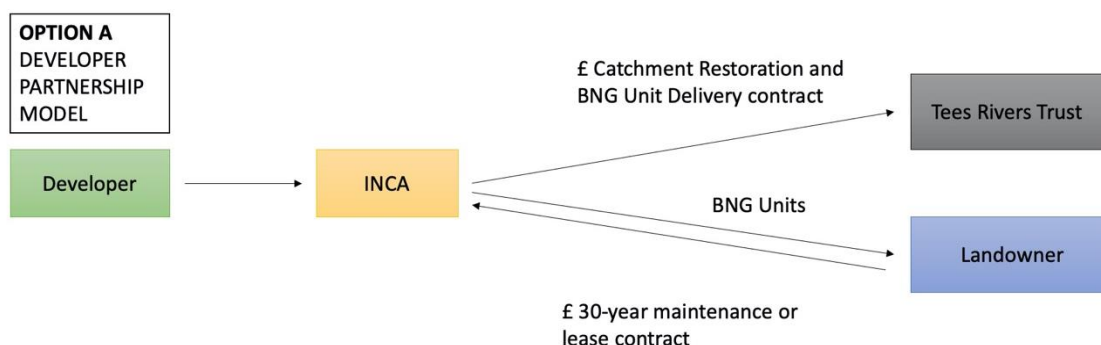
### Option A – NO SPV - DEVELOPER PARTNERSHIP APPROACH I.E. TeRT TODAY VIA RELATIONSHIP WITH INCA

#### Summary

Use existing projects which are funded by grants to deliver the BNG credits/units which can then be sold to a developer {via INCA as a broker for developers}. This will need to investigate factors such as what additionality the BNG delivers as well as regulation of BNG market in relation to stacking as well as TeRT's ethical approach.

Under this approach, TeRT would simply enter into a form of partnership agreement with a developer to procure and deliver appropriate off site BNG units in order that the developer can meet their BNG obligations.

This would be a single transaction approach with TeRT effectively playing the role of intermediary between the developer and a selected landowner where a river restoration project can be delivered.



Through the partnership agreement, TeRT would potentially undertake the following:

- Select site and engage landowner.
- Design and plan river restoration project including capital costings and maintenance plan.
- Undertake BNG baseline assessment.
- Agree MoU and works timetable with landowner.
- Deliver the restoration works.

General note – I think we need to specify how and who designates/registers/ a BNG credit/opportunity. I believe it's the landowner who must do this.

The developer would then enter into a formal 30+ year contract with the landowner which provides for the BNG units created by the restoration to become the property of the developer in return for a long-term maintenance/lease payment to the landowner.

The developer will fund TeRT to undertake the restoration and once completed, TeRT may either be retained to oversee maintenance and BNG assessment and monitoring – or this may be contracted to a third party or the landowner themselves.

A potential opportunity could be for TeRT to take a 'futures' approach and use BNG credits as a match fund for grants and only sell the relative proportion of the BNG credit that they fund plus then deliver the monitoring, maintenance, and assessments.

### Issues to consider:

- This isn't creating a "BNG river bank" in itself – instead it's more TeRT providing catchment based BNG as a service to developers.
- This approach could be used as a "starter for 10" though – prior to establishing an SPV and delivering one of Options B or C below. Chance to learn, explore the role of INCA as aggregator of buyers, build developer relationships and create template contracts etc.
- Creation of new habitat through this bespoke approach doesn't generate as many biodiversity units for a developer as new habitats which have already been created. The create and bank approach will therefore be more effective over time provided funding for the restoration can be secured.
- This could be a relatively risk-free approach for TeRT as once the restoration is completed, TeRT may not need to have any residual obligations in relation to the site.
- Question whether this is a scalable model – is it possible to procure a new site each time for a developer client? Do the timescales work?

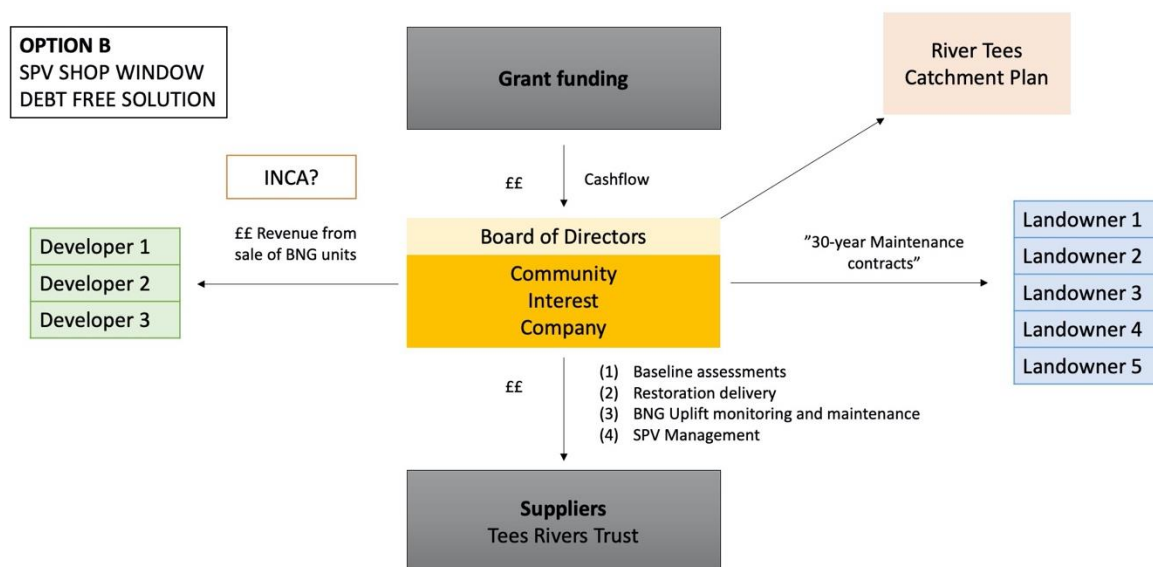
Strengths	Weaknesses
Good opportunity to learn and develop know how and contract templates.	Probably not a scalable model as procurement of a new site and set of contracts required each time
Relatively risk free starting point – doesn't involve creation of legal structure or any debt.	New habitat creation results in less BNG units than already created and "banked" habitats
Opportunities	Threats
As strengths above	Competitors may jump to a more scalable model while TeRT is trialling this approach?

### Option B – SPV SHOP WINDOW - DEBT FREE MODEL

#### Summary

This structure relies on TeRTs ability to secure capital funding grants for funding catchment restoration interventions – rather than having to borrow money from external investors.

An SPV is created by TeRT or a partnership for the purpose of warehousing BNG credits generated from all of its grant funded restoration projects. The SPV commissions TeRT to source projects and then enters into long term (30 year plus to comply with BNG) agreements with landowners.



Under these agreements, the SPV will undertake biodiversity baseline assessment (using Defra metric), design, finance and deliver the restoration project and measure the biodiversity uplift. The

agreement will include a long term maintenance plan and include an RPI linked annual fee to be payable to the landowner. In return, the agreement will provide that the SPV takes ownership of the BNG credits generated from the restoration.

The SPV can then “bank” these BNG credits (potentially sitting on them until they mature – circa 5 years) and offer them to developers through a “shop window” for an agreed price. The developers may be attracted by this approach as they can purchase riverbank BNG credits which have already been created and are supported by long term maintenance contracts with landowners.

This solution could be very commercially attractive for the SPV and TeRT as it is effectively using public grant funding to create BNG units which have a commercial value. It may well be that the SPV will need to be structured as a not-for-profit or with an asset lock to square this with grant funders with any retained profit potentially being used to fund additional activity outlined in the Rivers Tees Catchment Plan. In addition, the SPV could engage local community groups to undertake the ongoing maintenance, citizen science data collection etc. as part of a commitment to using the BNG monies to generate social and environmental resilience in the catchment.

#### Issues to consider:

- This achieves the “BNG river banking” objective of the NEIRF project.
- Would there still be a need for INCA as an aggregator of Developers?
- Could this be a sensible first step for TeRT using existing public grant funding for restoration?
- Use of a CIC or similar with an asset lock may be acceptable to public sector grant funders as there is no private gain involved i.e. the revenues from sale of BNG units will be retained and reinvested by the CIC.
- This model could be a good opportunity to involve local communities in governance or restoration, maintenance, monitoring etc. The CIC could even pay them to undertake this.
- This model assumes that the SPV will hold the long-term contracts with the landowners rather than the developers themselves. The developer clients will want to ensure that the SPV is suitably resourced to manage these landowner relationships and effectively “protect” their BNG investments.
- Could the SPV register to be a “Responsible Body” for the purposes of BNG legislation. This allows the SPV to incorporate Conservation Covenants into landowner agreements. This could increase the value of BNG units sold by the SPV.
- Does this model using public grant funds allow TeRT to scale the BNG riverbank quickly enough or would some additional repayable finance be needed (see below, Option C)?
- The SPV method provides a future opportunity to generate revenues from other ecosystem services e.g. carbon or water based services (e.g. similar to Wyre Catchment CIC).
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Strengths	Weaknesses
Logical first or second step to creating a BNG river “bank” for TeRT	Does existence of public grant funding mean that developers can get “cut-price” BNG credits (additionality point below)
Attractive to developers as SPV would manage landowner relationship and secure grant funding	Involves creation of a legal structure and governance arrangements etc – some time and cost involved
Debt free low risk model	
Use of a not-for-profit or social enterprise model (e.g. a CIC) could be attractive to public sector grant providers and LA partners	
Could be used as a mechanism for hard to fund but high priority activities under the Rivers Tees Catchment Plan	
Opportunities	Threats
Develop scale, credibility and a brand for engaging with developers.	Unsure whether public grants can be used to create saleable BNG units (additionality rules)
Good way to engage and involve local communities in governance and delivery.	
Could TeRT provide funding to the SPV to deliver the restoration works and bank the BNG	

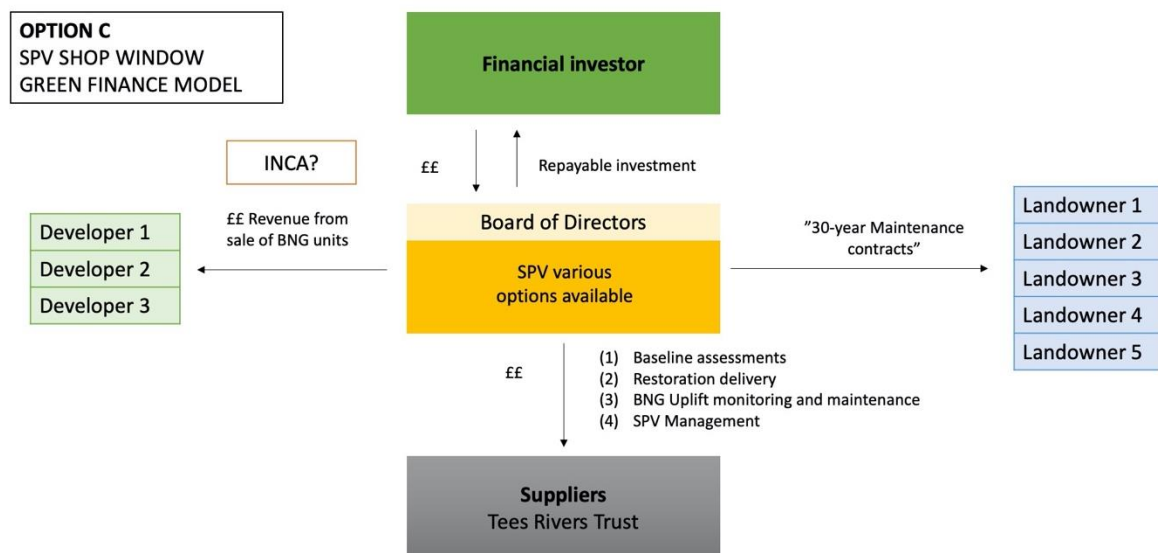
units and de-link this from grants received from TeRT?	
Use of SPV allows other revenue streams or investment or grant funds to be accessed	
SPV could register as a “Responsible Body” for purposes of BNG legislation – more credibility and ability to enter into conservation covenants leading to a higher BNG unit price?	

### Option C – SPV SHOP WINDOW - GREEN FINANCE MODEL

#### Summary

This is a more commercial structure similar to the Environment Bank model.

An SPV is created by TeRT and an external repayable investment facility (“green finance”) is raised from a financial investor. The SPV commissions TeRT to source river restoration projects and then enters into long term (30 year plus to comply with BNG) agreements with landowners.



Under these agreements, the SPV will undertake biodiversity baseline assessment (using Defra metric), design, finance and deliver the restoration project and measure the biodiversity uplift. The agreement will include a long term maintenance plan and include an RPI linked annual fee to be payable to the landowner. In return, the agreement will provide that the SPV takes ownership of the BNG credits generated from the restoration.

The SPV can then “bank” these BNG credits and offer them to developers through a “shop window” for an agreed price. The developers may be attracted by this approach as they can purchase riverbank BNG credits which have already been created and are supported by long term maintenance contracts with landowners.

This solution is more challenging from a commercial point of view than Option B above because external repayable investment is being used to finance the model instead of public grant funds. Revenues from sale of BNG units will be used provide returns to investors rather than be available for reinvestment. Many private sector investment funds are looking at this model given market expectations that BNG units might sell for £20,000 - £25,000 per unit.

#### Issues to consider:

- This model achieves the “BNG river banking” objective of the NEIRF project.
- Going straight to this model would be a big first step for TeRT as it would require creating a (start up) business plan, raising an external finance facility and handling investor due

diligence etc. before TeRT has actually delivered one of these contracts elsewhere. Note; Environment Bank have taken many years to establish their model.

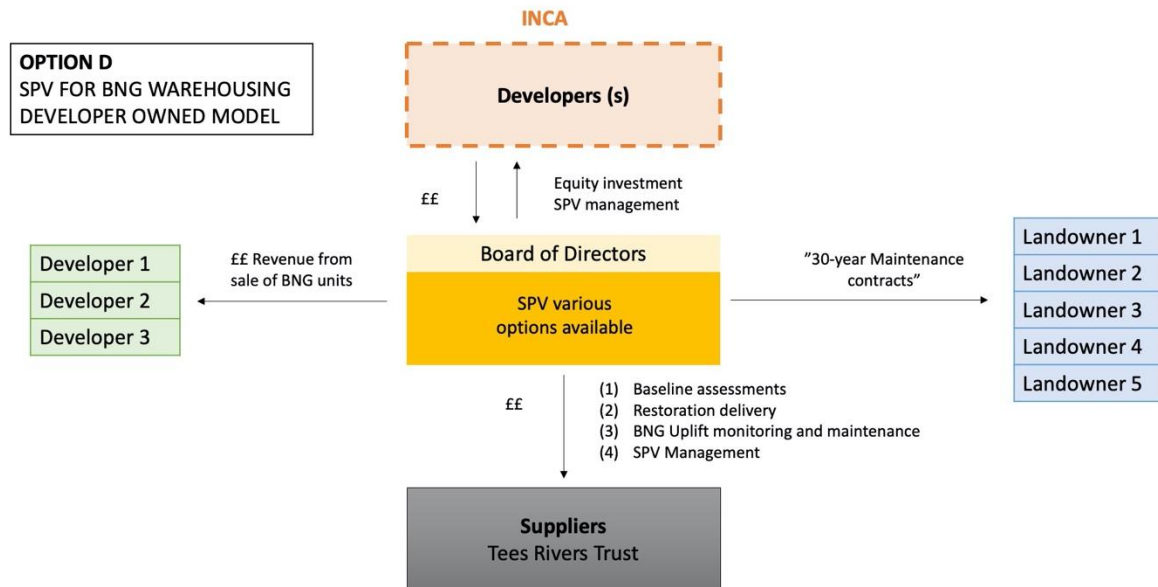
- There are various options for the type of SPV that could be used. It could be a straight limited company with the investor and TeRT becoming joint shareholders (similar to Environment Bank model – see 31 Dec 21 accounts from Companies House) or it could be a community or asset locked vehicle depending on the type of investor and how commercial they are. For example a genuine impact investor might be happy to make a loan to a CIC whereas a more commercial investor will want equity and more control.
- This model would potentially allow TeRT to accelerate the development of the BNG riverbank because the investor would be purposely front funding the creation of new habitat and BNG units to place in the SPV shop window.
- As with Option B, this model assumes that the SPV will hold the long term contracts with the landowners rather than the developers themselves. The developer clients will want to ensure that the SPV is suitably resourced to manage these landowner relationships and effectively “protect” their BNG investments.
- As with Option B, it is worth looking into whether the SPV could register to be a “Responsible Body” for the purposes of BNG legislation. This allows the SPV to incorporate Conservation Covenants into landowner agreements. This could increase the value of BNG units sold by the SPV. This may depend on the ownership structure of the SPV as this may not be possible with a privately owned vehicle (need to check)
- The SPV method provides a future opportunity to generate revenues from other ecosystem services e.g. carbon or water based services (e.g. similar to Wyre NFM).

<b>Strengths</b>	<b>Weaknesses</b>
Logical second or third step to creating a BNG river “bank” for TeRT once debt free models have been tested and evaluated first	Commercial model with private investment may mean that the SPV couldn’t access public grant finance
Attractive to developers as SPV would manage landowner relationship and secure grant funding	Involves creation of a legal structure and governance arrangements etc – some time and cost involved
<u>Use of external “green finance” could accelerate the pace of business development.</u>	Presence of external repayable finance increases the risk profile for all parties as investors will have step in rights if things don’t go to plan
	Cost of servicing external finance is money not going back into river restoration or TeRT
	Investors will want some controls through governance arrangements
<b>Opportunities</b>	<b>Threats</b>
Develop scale, credibility and a brand for engaging with developers.	TeRT not experienced in engaging with private sector finance – big learning curve inevitable
If Option 2 (using grant funding) is not available due to additionality rules, then this may be the only way to deliver a TeRT BNG riverbank at scale and with required pace	TeRT will inevitably lose an element of control to investors – may be culturally challenging relationship
Good way to engage and involve local communities in governance and delivery.	
Use of SPV allows other revenue streams or investment or grant funds to be accessed	
SPV could register as a “Responsible Body” for purposes of BNG legislation – more credibility and ability to enter into conservation covenants leading to a higher BNG unit price?	

## Option D – SPV SHOP WINDOW – DEVELOPER FINANCED MODEL

### Summary

Under this option, a developer (or group of developers, potentially brought together by INCA) could establish an SPV and provide the initial capital funding. The SPV could then commission TeRT to source river restoration projects and then enter into long term (30 year plus to comply with BNG) agreements with landowners.



The contracting and commercial arrangements would be almost identical to Options C above. The main difference is that the developers would be able to purchase the BNG credits created at an agreed price because they also own the SPV. In some ways Option D is a structured and scalable version of Option A above with the developer(s) front funding creation of BNG credits for themselves.

This solution could be commercially advantageous for the developers because they are controlling the whole BNG creation process and effectively sub-contracting TeRT to undertake the capital works and future management.

### Issues to consider:

- This model achieves the “BNG river banking” objective but is developer owned.
- TeRT would play the role of main contractor but would likely have little or no control or ownership of the SPV, which may or may not be attractive.
- The SPV would likely be a simple limited company as the developer(s) are unlikely to see the benefit of an asset lock.
- There doesn't seem to be any reason why developers can't invest in and effectively “warehouse” BNG credits in advance of (or alongside) developments being approved?
- The question is more whether developers would want to do this. It would involve creating a vehicle and then financing and managing it. Developers would have more control over the quality of the BNG credits and underlying contracts. However, many may conclude this is not core business for them and instead prefer to buy BNG credits in the market as and when they need them e.g. through Options B or C above. However, this could be an obvious role or INCA as an aggregator of ‘buyers’.
- This model would potentially allow TeRT to accelerate the development of the BNG riverbank albeit the developer(s) and not TeRT would be in control.
- How would TeRT initiate this option, via INCA? Suggest it would not be TeRT's first choice of the Options in this paper.

<b>Strengths</b>	<b>Weaknesses</b>
If developers want to do this, it could be created quickly.	For TeRT – lack of control as role would be that of main contractor not owner.
Could be attractive to developers as SPV would manage landowner relationship and contract TeRT as delivery partner	This model is unlikely to be able to access any public sector grant or other funding.
<u>BNG credits should be available to developers at cost price compared to open market</u>	No involvement of local communities in this model – appears quite a commercial structure.
	Perhaps unlikely that developers would work together to create a common vehicle as they are all in competition with each other?
<b>Opportunities</b>	<b>Threats</b>
Could develop and scale quickly as would be developer led and motivated to generate BNG credits in advance of development.	Would Local Authorities allow developers to buy BNG units already created and warehoused from a vehicle which they own?
If TeRT was involved at the outset – opportunity to secure good commercial terms and bring restoration projects to the table for funding.	Could TeRT be replaced as main contractor by the developer(s). Would TeRT be able to make a decent margin or overhead recovery through this model?
SPV could register as a “Responsible Body” for purposes of BNG legislation – more credibility and ability to enter into conservation covenants leading to a higher BNG unit price?	Would this developer led model potentially compete with a TeRT led Option B,C or D>

## OTHER POTENTIAL APPROACHES

It is possible that a combination of Options B and C could be developed, For example a Community Interest Company which initially starts out as Option B creating and selling BNG units using grant funded restoration, and once established, starts taking on external repayable debt to accelerate its habitat creation activities. Similarly, Option C could also be developed where instead of external investors, the Local Authority funds the development of the model at the starting point, and once established, starts taking on external repayable debt to accelerate its habitat creation activities. The cost of the external debt may be lower if the vehicle has already established a proven business model. Would the SPV approach be for TeRT and focused on TeRTs discrete geographical area? Would other regional Rivers Trusts want to create their own SPVs?

Alternatively, could a single SPV approach work across the entire Rivers Trust movement i.e. could RT (central) raise some investment or grant funding to establish the SPV and some template contracts etc. and then all individual regional Rivers Trusts can bank restoration projects and biodiversity units each time they undertake any river restoration works anywhere in the country? This would create an SPV with a bigger shop window and there could be some economies of scale in terms of managing the SPV, sharing knowledge around contracts, negotiating deals with national developers etc.