Showcase of the Wyre NFM Project
Q&A submitted during the live event

Green Finance Institute | HIVE

What role did insurance companies play in this project as potential beneficiaries?

FloodRe was one of the 5 "buyers" of ecosystem services - i.e., one of the customers of the project. We tried to engage some large reinsurers but again found it was too small to engage them

Between large investors and individuals are local SME businesses. Did you consider engaging those as potential founders?

We did not, we decided to focus on known investors rather than businesses for the investment side.

Could beneficiaries pay (i.e., businesses that do not get flooded because of the scheme) rather than HNWIs and other investment funds?

At the heart is a special purpose vehicle, which will draw down external investment finance (investors), to fund the capital delivery which will be repaid over a 9-year period through contracts with buyers (those who will benefit from the intervention, I.e., United Utilities) and Sellers (farmers and landowners who will host the NFM. But essentially this is a social enterprise model, the SPV will be a CIC limited by guarantee with an asset lock on it. So, if there is any retained profit in the SPV will go towards further catchment interventions.

Interesting that investment from individuals was not seen as suitable. How does this align with volunteering as this is a great way to get individuals to invest "in kind" and effectively reduce the required capital investment. Have you explored the potential for volunteering to make individual investment viable?

Answered live - see event recording.

How does current increases in base rate impact perception of risk and demands to increase on 6%?

Arguably not much at all. Broadly we took the view that 6% is a reasonable interest return in this area as a pilot project – you could argue it should be higher given the risks that investors are taking, but use of the tax relief helps in defending that figure. Impact investors are generally looking for a blended return, i.e., financial, and social/environmental, whereas more commercial investors may well have priced this deal at 7%+.

Could you explain a bit more about SITR? It looked as though the slide said there had to be a qualifying trade which excluded agriculture - is that correct? If so, what is the qualifying trade in this case?

The "trade" in this case for the CIC (which is the entity aiming to secure SITR accreditation) was the sale of ecosystem services i.e., NFM to its customers, the 5 buyers. The CIC is therefore not undertaking "agriculture". This was part of the 9-month accreditation/discussion process that we had on this project with HMRC. This hopefully now sets a useful precedent for future projects. You do need to be very careful with SITR, as there are so many areas where you can trip yourself up and this is one of the reasons it has not been used that much in the social sector.

What does the funding look like long term for individuals / farmers, e.g., the giving up of the land over time for NFM, BNG opportunities?

Farmers enter an initial 9-year contract for hosting and maintaining the NFM interventions which is then extendable to 50 years.

How did you get over the problem of lack of clarity regarding stacking of countryside stewardship with other PES transactions?

Most interventions site outside of CS, however, one of the bigger challenges was encouraging farmers to become early adopters when ELMS is on the horizon and as we navigate through the agricultural transition

Was the guarantee of 80% delivery by year 3 or year 5? Are there any consequences to deliverer/landowner of failing to meet this target?

The buyer contract (i.e., between buyer group and CIC) stipulate that 80% of the agreed interventions must be in the ground by the end of Year 3 and this is linked to a detailed map included in annex to the contract. Failure to achieve this enables the buyers to exercise a break clause - which of course leaves the investors without a revenue stream and facing total loss. The interventions can be delivered in numerous landholdings across the catchment and so there is flexibility to mix and match. The Year 1 interventions are already signed up but Years 2 and 3 will develop as time goes on and this will be down to Wyre Rivers Trust's relationships in the catchment.

The mention of Year 5 is when the performance metric kicks in - this is the testing of whether the NFM is working based on 2 sub-catchment monitoring systems that are being implemented as proxy for the whole catchment.

What is the overall cost (capital and maintenance, and landowner payments) over a 20-year period, and what is the forecast revenues over the same period?

Forecast revenue over the 9-year period is c£2m (roughly £220k p.a. for 9 years with a build-up in the first 3 years and including some woodland facilitation fees and potential carbon share on peat restoration - plus RPI on all fees. This positive cashflow needs to fund repayment of loans (£850k) plus interest plus landowner payments (c£400k) and SPV running costs and a £100k adaptive maintenance budget. The aim is for the CIC to have a retained profit of £150k.

Are The Rivers Trust (or another of the partners) now able to roll the community interest company model out to other NFM projects?

We are now applying this model and developing project is several other areas, however, it is important to say each catchment in unique and will have different requirements.

How were landowners engaged/approached along the Wyre and was there was any resistance despite investors taking on a lot of the risk?

Answered live - see event recording.

Was there any discussion with land managers about the potential quantified impact on their farming businesses of re-wetting the land? There could be long term adverse impacts - if there were, can the land manager pull out?

Answered live - see event recording.

How did you encourage land clustering?

Answered live - see event recording.

Can you give an example of what the payments looks like?

The payments are £400/Ha, based on area calculations for each intervention.

Do you think the need for nutrient neutrality in these areas could make finding investment more achievable, especially from developers themselves who are looking for phosphate offsets? Or how might this impact a financial model for projects in these areas?

Answered live - see event recording.

Water companies (and others) have significant controls regarding how you spend, e.g., OFWAT for United Utilities. Are there any positive or negative impacts these controls have on your decision making? What could be better?

A key element of this is the requirement to spend customers money on things that are the fundamental responsibility of the water company so investing in NBS can be challenging if it is not the most efficient way of meeting our core objectives and the broader benefits do not attract other buyers. Mechanisms like this can help to draw in broader revenue streams that can align to water companies and therefore make projects more deliverable. As a regulated industry there are also a lot of controls on how we spend our money and ensure this is open to competition which are additional considerations that need to be thought through when supporting these projects.

Was any funding sort from the local communities that are likely to be affected by flooding?

Answered live - see event recording.