

NATURAL CAPITAL

ENHANCING NATURE,
UNLOCKING VALUE.

CLA

Natural Capital Roadshow

South West

The 2023 CLA South West Natural Capital Roadshow is supported by:

Headline Partner

Carter Jonas | Simply better
property advice

Supporting Partner

IM irwinmitchell





Find out if nature markets are for you

- What are the options available?
- How do they fit with other business activities?
- What are the risks?
- What are the next steps?

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Agenda

- Overview of nature markets - CLA
- Legal issues – Irwin Mitchell
- Economics and examples – Carter Jonas
- Panel question session

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Overview of the market

- What stage you at?
- Nature markets made simple (!)
- Government schemes
- Private sector schemes
- Market realities
- How to take it further
- Key things to consider

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What stage are you at?

Interested but
don't know
where to start

Some
knowledge but
lots of questions

Have
investigated
opportunities but
not committed

Have a live
agreement or
close to live

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Getting the language right

NATURAL CAPITAL ASSET	SERVICES PROVIDED
Soil	<ul style="list-style-type: none"> • Medium for growing crops • Carbon storage • Water regulation
Woodland	<ul style="list-style-type: none"> • Timber • Recreation • Wildlife habitat • Carbon storage
Water	<ul style="list-style-type: none"> • Crop irrigation • Wildlife habitat • Drinking water

Environmental funding

- Full range of options for funding
- Government schemes
- Private and charitable funding

Nature markets

- Private sector investment and funding

Compliance nature markets

- Regulatory requirement

Voluntary nature markets

- Driven by business environmental credentials and reputational risk

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What is driving environmental funding?

Legislation

- Climate Change Act (2008) – Net Zero
- Agriculture Act (2020) – Payment for public goods
- Environment Act (2021) – Environmental Targets

Policy and Regulation

- Environmental Land Management Schemes
- Biodiversity Net Gain and Nutrient neutrality
- Climate/nature related financial disclosures

Business responsibility

- Reputational – Environment, Social and Governance (ESG)
- Marketing benefits
- Business resilience



Taskforce on Nature-related
Financial Disclosures



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Types of environmental funding

Government schemes

- Agri-environment schemes
- Woodland creation
- Targeted funding

Offset markets

- Compliance markets – Biodiversity Net Gain, Nutrient Neutrality
- Voluntary Markets – Carbon, Nature

Business funding

- Retailers and brands in the supply chain
- Water companies
- Other national and local businesses

Charities

- Woodland Trust
- Wildlife Trusts
- Other national and local organisations

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Government funding

- **Environmental Land Management (ELM) schemes**
- Other Defra grants

Species Recovery
Programme
Grants
£14.5 million

Natural
Environment
Readiness Fund
£10 million

Species Survival
Fund
£25 million

Natural flood
management
programme
£25 million

- Other government
departments

Health/education
authorities
Social prescribing

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Government Funding: Environmental Land Management (ELM) schemes

Environmental Land Management schemes
Potentially **£2 billion** per year

Sustainable
Farming
Incentive

Countryside
Stewardship

Landscape
Recovery
(pilot)

Plus legacy schemes still running: Higher Level Stewardship (HLS)

England Woodland Creation Offer and Tree Health Scheme

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Sustainable Farming Incentive

Sustainable Farming Incentive

- 3 year agreements
- Currently 23 actions available
- Management payment of £20/ha for first 50ha
- Rolling application window
- Automated online application
- Quarterly payments
- Ability to add new standards mid-agreement
- Open for applications now

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Phasing in the SFI offer

From 2023

- Nutrient management
- Integrated pest management
- Hedgerows
- Arable and horticultural land
- Improved grassland
- Low input grassland

From 2024

- Agroforestry
- No till
- Precision farming
- Boundaries (walls & banks)
- Moorland options
- and more

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Countryside Stewardship

Mid-tier

- Menu of 84 land management options
- Revised payment rates from 1st January 2023
- More options will be added in 2024
- Can run alongside HLS

Higher- tier

- Menu of 48 land management options
- Competitive
- More environmentally significant sites
- Some 10 or 20 year options

Capital

- Menu of 118 items
- Revised payment rates from 1st January 2023

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Landscape Recovery

Landscape Recovery

- **Large scale** – minimum 500 ha
- **Collaborative** – with other land managers and experts
- **Long term** – minimum 20 year agreements
- **Blended finance** - Mix of government funding and private sector funding
- Round 1 (2022) applications in development phase
- Round 2 (2023) applications under assessment
- Round 3 will open in 2024
- Themes have included: protected sites, net zero, river restoration and habitat creation

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England Woodland Creation Offer



- Pays on standard costs (trees, shelters, fencing etc) up to £10,200/ha
- Additional supplements if location & design create certain public benefits
- £350/ha/yr maintenance payment for 10 years helps establishment
- Can retain BPS payments on land
- Can create woodland carbon credits & sell or retain as offsets
- Minimum 1 ha (0.1ha block size) & apply any time

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England Woodland Creation Offer - supplements

Public benefit	Additional Payment (£/ha)	Notes
Nature recovery (high)	£2,800	} Only one rate applies.
Nature recovery (med)	£1,100	
Water Quality	£400	
Reduced Flood Risk	£500	
Riparian buffers	£1,600	Also qualifies for one of 'nature recovery' supplements
Close to settlements	£500	
Public Access	£2,200	Also qualifies for the 'close to settlements' supplement

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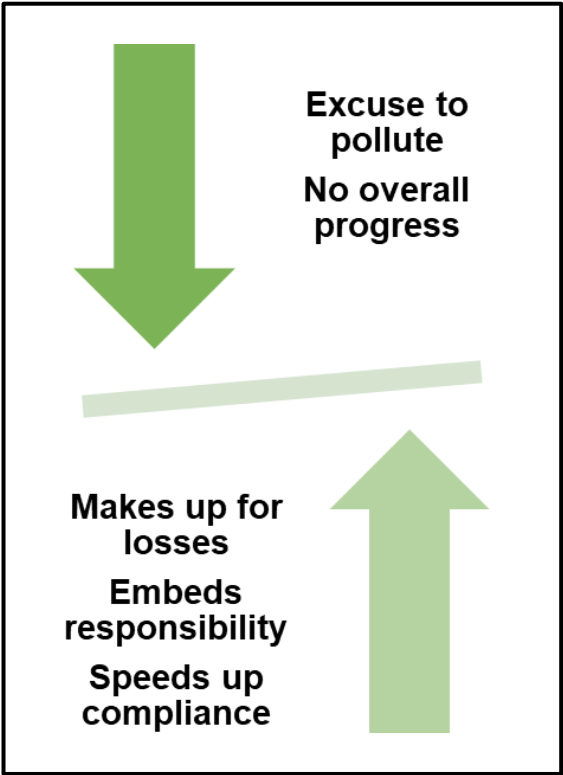
Offset markets

- Businesses and organisations that have an environmental impact
- Compensates for unavoidable environmental impacts
- Opportunity for land managers to change land use and alternative long term income stream

Compliance
Biodiversity
Net Gain

Compliance
Nutrient
Neutrality

Voluntary
Carbon
Market



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Offset market – Biodiversity net gain

Basics

- Mandatory for developments from January 2024
- Compensate for biodiversity loss plus a minimum 10%
- Measured by Biodiversity Metric
- Different types of biodiversity unit

Contracts

- Minimum 30 year legal agreement
- Delivery options - Habitat banking or create on demand
- Land management options – leasehold or management
- Payment model options - upfront, annual payments or a mix

Market realities

- Preference for on-site BNG, so demand for off-site BNG will vary
- Value will vary depending on number and type of biodiversity units
- Cannot put on designated sites such as SSSIs
- May have limited land use options at end of term

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Offset market – Nutrient Neutrality

Basics

- Mandatory for new developments in specific catchments
- Compensate for additional nitrogen and phosphate
- Measured by the Nutrient Mitigation Tool
- Nutrient credits created by change of land use/management

Contracts

- Minimum 80 – 120 years
- Woodland and wetland creation preferred to give long term change
- Leasehold and/or management agreements

Market realities

- Land must be in the affected catchment
- Some political uncertainty around the policy
- A Government Nutrient Mitigation Scheme may be used to create credits

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Offset market – Carbon markets

Basics

- Voluntary market – businesses buy credits to offset unavoidable emissions
- Codes/standards to verify – Woodland Carbon Code, Peatland Code, and others in development such as hedgerow and saltmarsh
- Create carbon units by permanent change in land use or management
- Sell as carbon offset credits for use by other organisations

Contracts

- Generally a duration of 40 + years to meet lasting benefits requirement
- Can sell up front as pending issuance units or carbon credits on verification of carbon removals or avoided emissions
- Soil carbon certificates can be used to gain funding from supply chain as part of their scope 3 emission responsibility, and are not considered offsets

Market realities

- Need to consider own business net zero before selling carbon credits
- High transaction costs for verification means minimum area of 10 ha is required.
- Carbon price is variable, and relatively low at the moment
- Emerging technology for carbon capture and storage could affect nature-based carbon market

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Business funding

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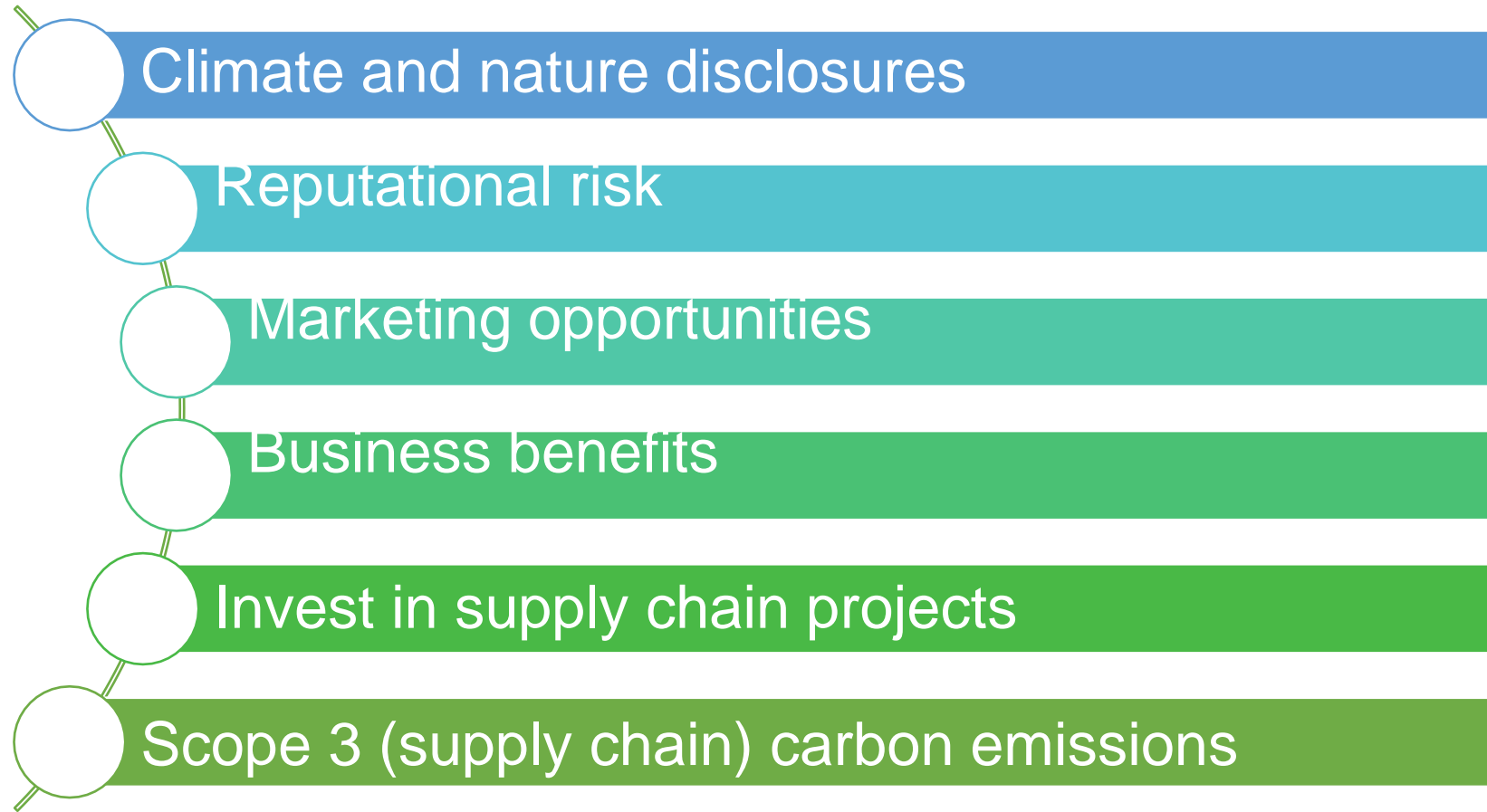
Charities

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- Wildlife Trusts
- Other national and local organisations

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Business funding



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Business Funding and Charities

National and large businesses

- Water companies provide advice, grants and tree planting
- Retailers and brands provide benchmarking, group advice and equipment

Local businesses and groups

- Local Nature Recovery Strategies
- Direct project funding/sponsorship

Charities

- Woodland Trust, Wildlife Trusts and many more
- Advice, funding, connections and volunteers

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Accessing the markets – 4 options



Develop own projects, create nature units for sale, now or in the future



Work with a project developer and enter into a management agreement to deliver specified nature units



Lease land for others to create nature units for sale now or in the future



Sell land for others to create and sell nature units

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Accessing the markets – 5 steps

Natural Capital baseline assessment

- What have you got?
- What more can you deliver?

Asses local/national market opportunities

- Local Nature Recovery Strategy
- Types of ecosystem
- Costs
- Market prices
- Identify buyers

Training, knowledge and advice

- Research and training
- Environmental knowledge
- Risks

Identify partners

- Neighbours
- Farmer groups
- Environment groups
- Local Authorities
- Brokers

Agreements

- Options – sell, manage, lease
- Payment terms
- Professional advice

CLA Natural Capital Directory

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Legal considerations

Sam Knight & Jess Beddows

Irrwin Mitchell

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LEGAL STRUCTURES AND ISSUES





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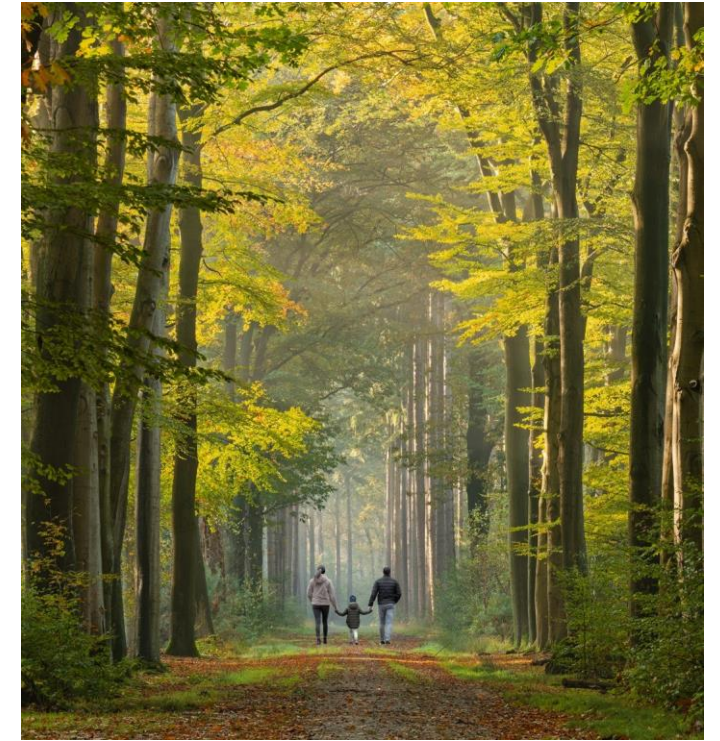
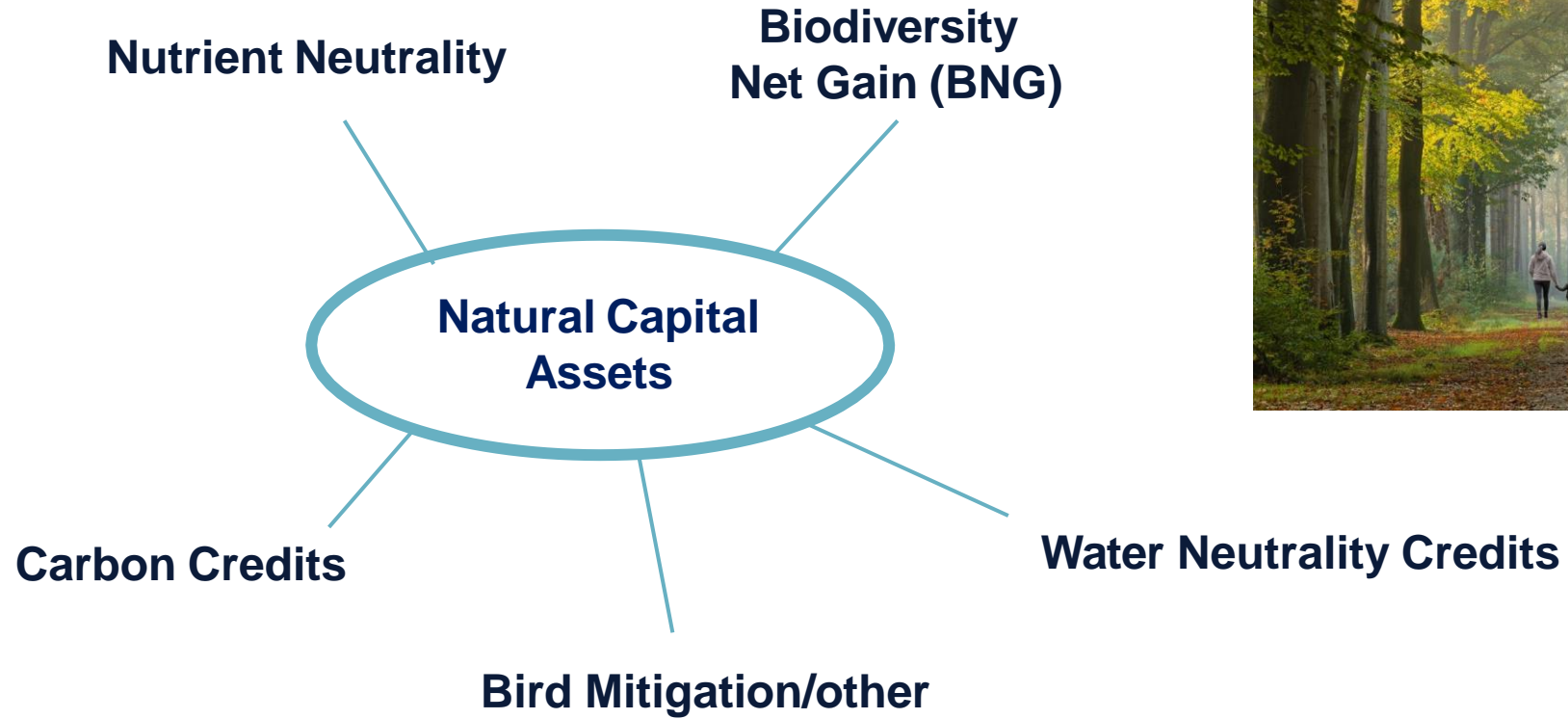
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Natural Capital Assets



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Overarching Schemes

- The Solent Region
- Legal Structures and how they are set up - S106/33 Agreements for Nutrient trading and for BNG schemes whilst Conservation Covenants are awaited
- Natural England approved
- Conditional sale contracts/allocation agreements for nitrate Credits direct with developers
- Notices on LPAs and Grampian planning conditions
- Tripartite S106/33 Agreements linking mitigation sites and development sites

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BNG Solution Models

Habitat Bank Sole Landowner

A landowner could establish a habitat bank at it's own cost enabling the trade of credits to the developer market. This would require the landowner to pay for the Baseline survey and habitat management and monitoring plan (HMMP) and legal set up costs. A 30 year+ commitment!

Land could be sold, but we would recommend any land sales to include a suitable overage to protect natural capital later value.

Habitat Bank Joint Venture

Similar to the above but where a development entity or land promoter provides financial backing for the project or ecology skills to aide in the set up and sale of BNG Units, minimising financial exposure and risk

The Land could be let to a third party who takes a long term lease on the land with permission to enter in to a habitat bank type use. They take on the set up costs but margin would be achieved for third party. Risk & Reward



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Opportunities for Landowners

- Diversification of landholding portfolio & new revenue streams
- Potential to maximise returns in uncertain markets when well advised.
- Ecological benefits
- Ability to offset for own development activities and potential credit with Council for wider benefits to community
- Mental health in community improvement, given BNG is not exclusive to public access of the habitat bank



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Legal Agreements: Points to Consider

- Political uncertainty & Food Insecurity
- Monitoring obligation costs & Inflation
- Climate change
- SSSI implications and consents
- Planning and land use change
- Tax and succession planning
- Long term basis of agreements/covenants – Different commitment periods
- Mechanisms for flexibility
- Considerations when contracting with Responsible Bodies and LPAs
- Maintenance funds/trust accounts

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Inheritance Tax

Agricultural property relief (APR)

Very broadly, relief applies to agricultural land and pasture (together with ancillary woodland) used for the purposes of agriculture, and certain specified habitat schemes, owned and occupied for the relevant period.

Business Property Relief (BPR)

Again, very broadly, relief is available at 100% on a business or an interest in a business which is wholly or mainly trading, or at 50% on land used in a business, which has been owned for at least two years. Currently, relief is not available if the activities of the business are over 50% non-trading or 'investment activity'.

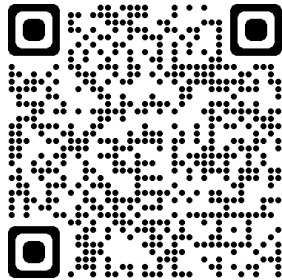


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There isn't a one-size-fits all strategy when planning to pass on your wealth or managing your estate. We'll help you plan the best way forward by giving you advice you can trust while building a long-term relationship with you. Find out more:



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Economics and examples

James Stephen & Ross Kent

Carter Jonas

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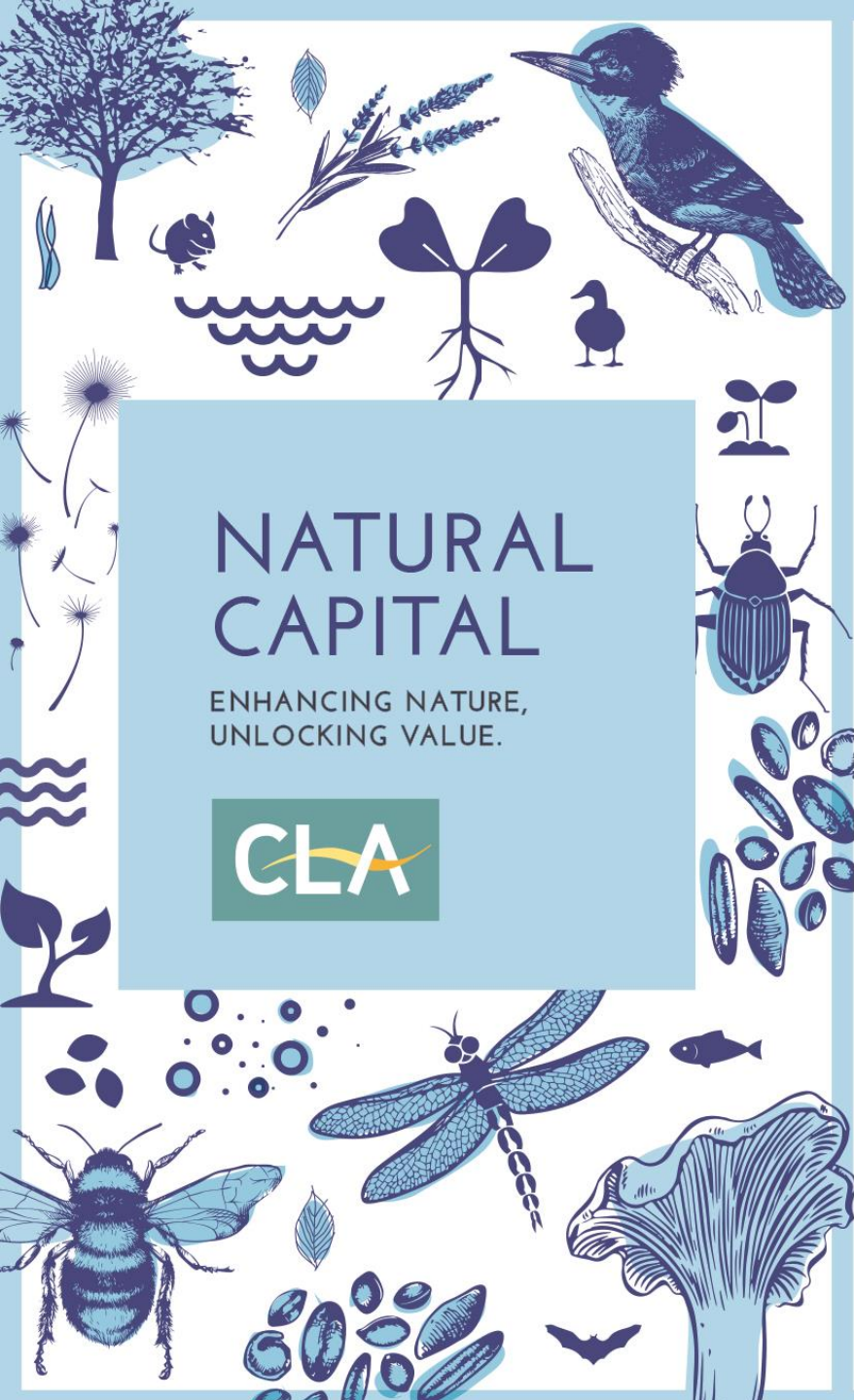


Implementing Natural Capital

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Opportunities



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Natural Capital Markets

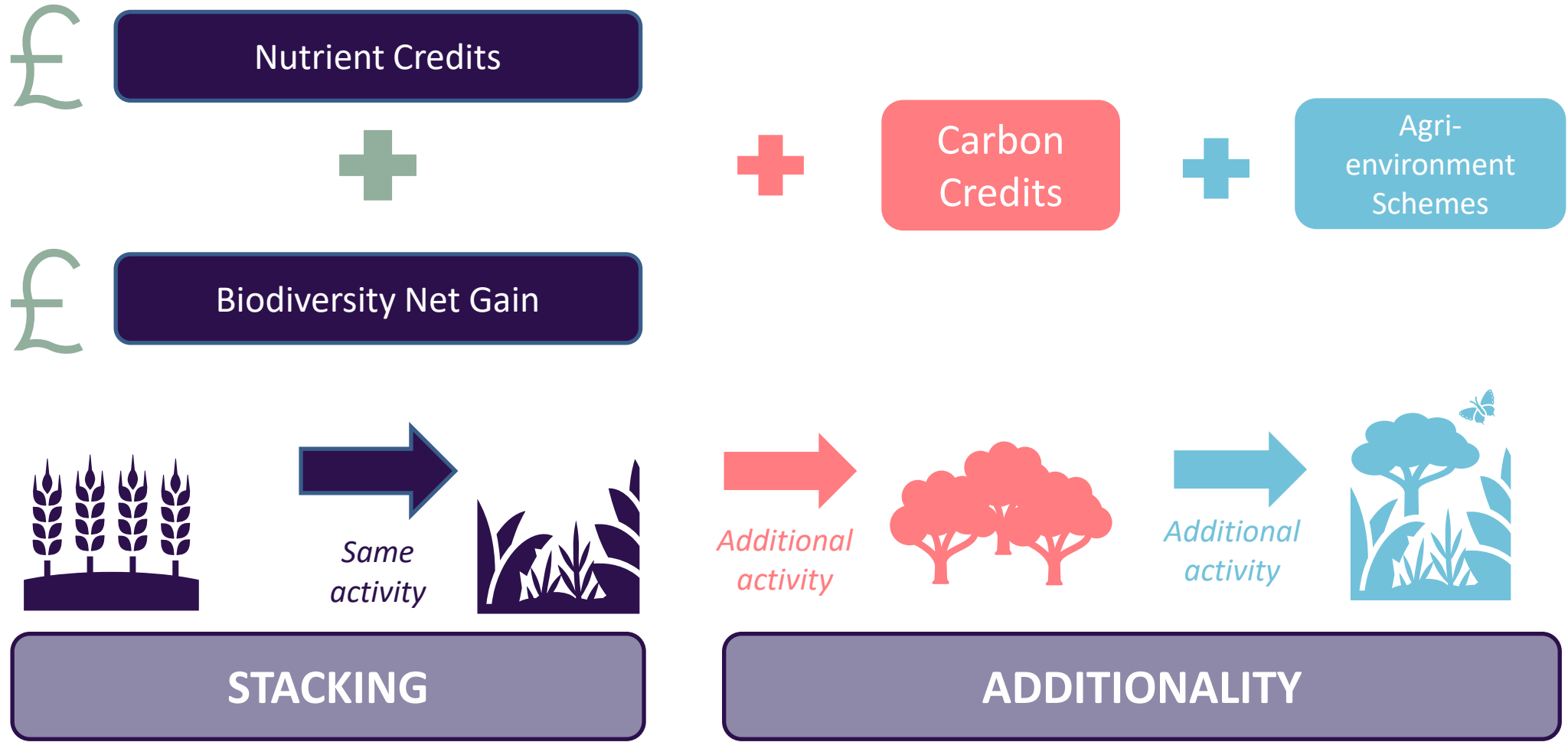
Emerging Markets –


- Nutrient Neutrality is already upon us – solutions slowly emerging – range from replacing “Package Treatment Plants” in same catchment to elaborate wetland or woodland creation.
- BNG is almost upon us and some projects up and running.
- Carbon Markets – Woodland and Peatland Carbon Codes – wider markets still not developed.

Very Few Experts and a lot of “Cowboys” – weeding out the wheat from the chaff is key.



Stacking & Additionality



 have your say

Carter Jonas



Are the Natural Capital Markets Right for you? – Holistic Approach

Succession planning/family circumstances – these are long term commitments which may have taxation implications.

Location – proximity to development/infrastructure projects/catchment for neutrality

Land availability and suitability – eg: poor quality arable land

How does this fit in with your existing businesses and mix of other opportunities

X have your say

Carter Jonas



Diversification Projects – Natural Capital already Important:

Woodland Creation

Wedding Venue business –
now selling opportunity to
plant trees for wedding
guests

Woodland Burial site

Holiday lets overlooking
open countryside/ lakes/
coastal views

BNG – creation of new
habitat and sale of units

New Solar park
opportunity – now looking
at opportunity to add BNG
or potentially Phosphate
Credits

Nature based solution for
small sewage works

Sporting Interests –
Shooting –
woodland/coverts -
Fishing - lake/fishing
rights – clean water vital

Development land – may
now need your own
BNG/nutrient credits

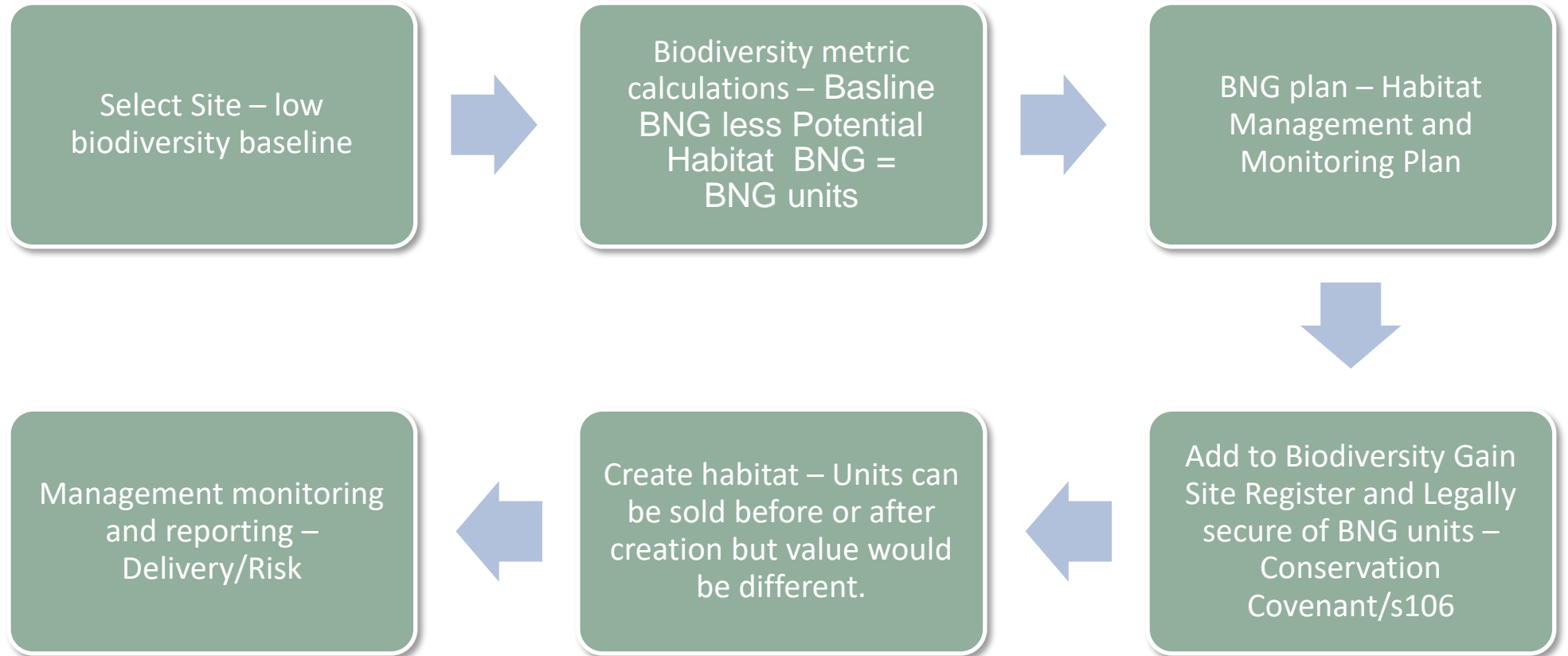
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How Does BNG Work?



BNG Marketplace & Farmer Impacts

Developers

- Short term reactions to need
- Plan into development agreements
- Developers will seek least cost solutions

NSIP Infrastructure From 2025

- Impact on scheme land requirements
- Large impact on marketplace/potential to create large sites

Small Developments on your own land

- May impact on farmyards & therefore expose farmers to BNG via the planning system

X have your say

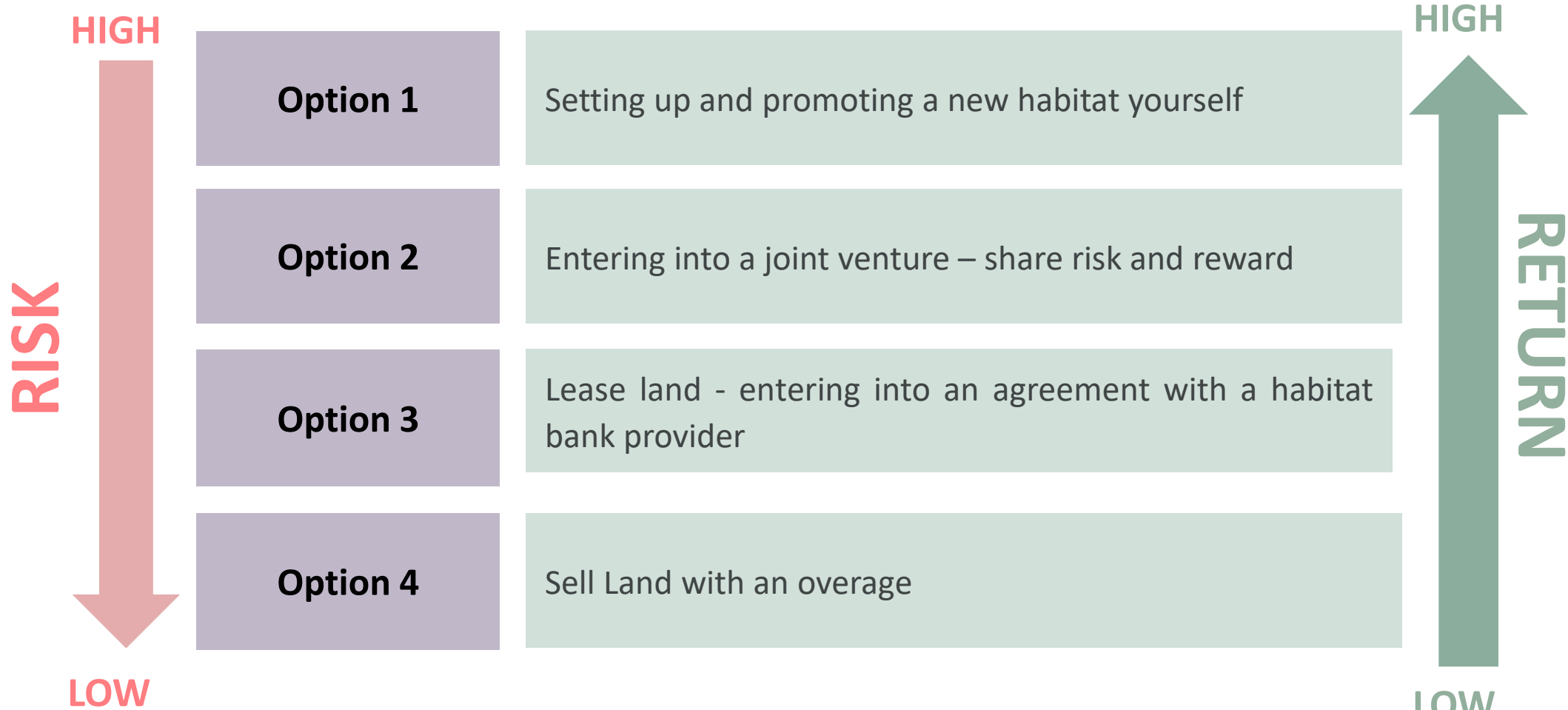
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Options for Biodiversity Net Gain delivery



 have your say

Carter Jonas



Economic Alternatives (£/ac/annum)

FBT	In hand arable	Solar farm rental	Soil carbon (regen ag)	BNG rental	BNG DIY
£145/ac	£180/ac	£1,000/ac	??????	£400/ac Total £150/ac rent £250/ac contract	Variable - £750 - £1,500/ac



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Carter Jonas



Evaluating long term agreement value – there is no single answer.

Capital Value – is
there a long term
impact on value?

Cash generation vs
Risk, Taxation
considerations

What is important to
you?
(Profit, succession,
environmental, social,
sporting and access
etc)

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Market Knowledge – Carter Jonas

Estate Strategy

Market
Negotiations

Project
Management

Review Heads
of Terms

Sales /
Acquisitions /
Letting

Ongoing
Consultancy

 have your say

Carter Jonas

 CLA



Local Planning Considerations

Somerset County Council BNG Consultation

Six BNG Principles:

- Consider biodiversity early in site selection and design.
- Priorities habitat retention, compensation and connectivity.
- Respond to heritage and landscape opportunities.
- Help to deliver appropriate multi-functionality and recreation.
- Build climate resilience through green/blue infrastructure.

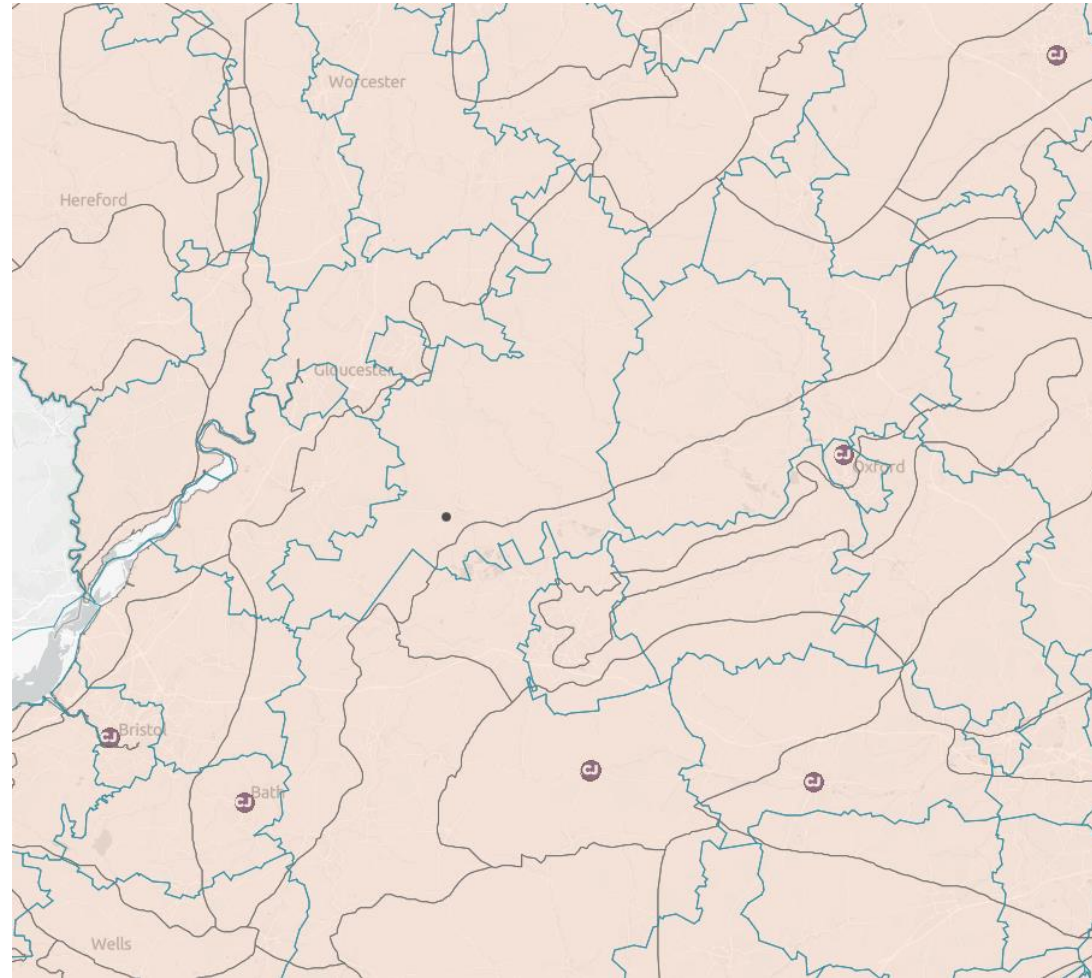
Strategic Significance: High, Medium and Low

BNG Delivery and Monitoring





Demand for BNG Units



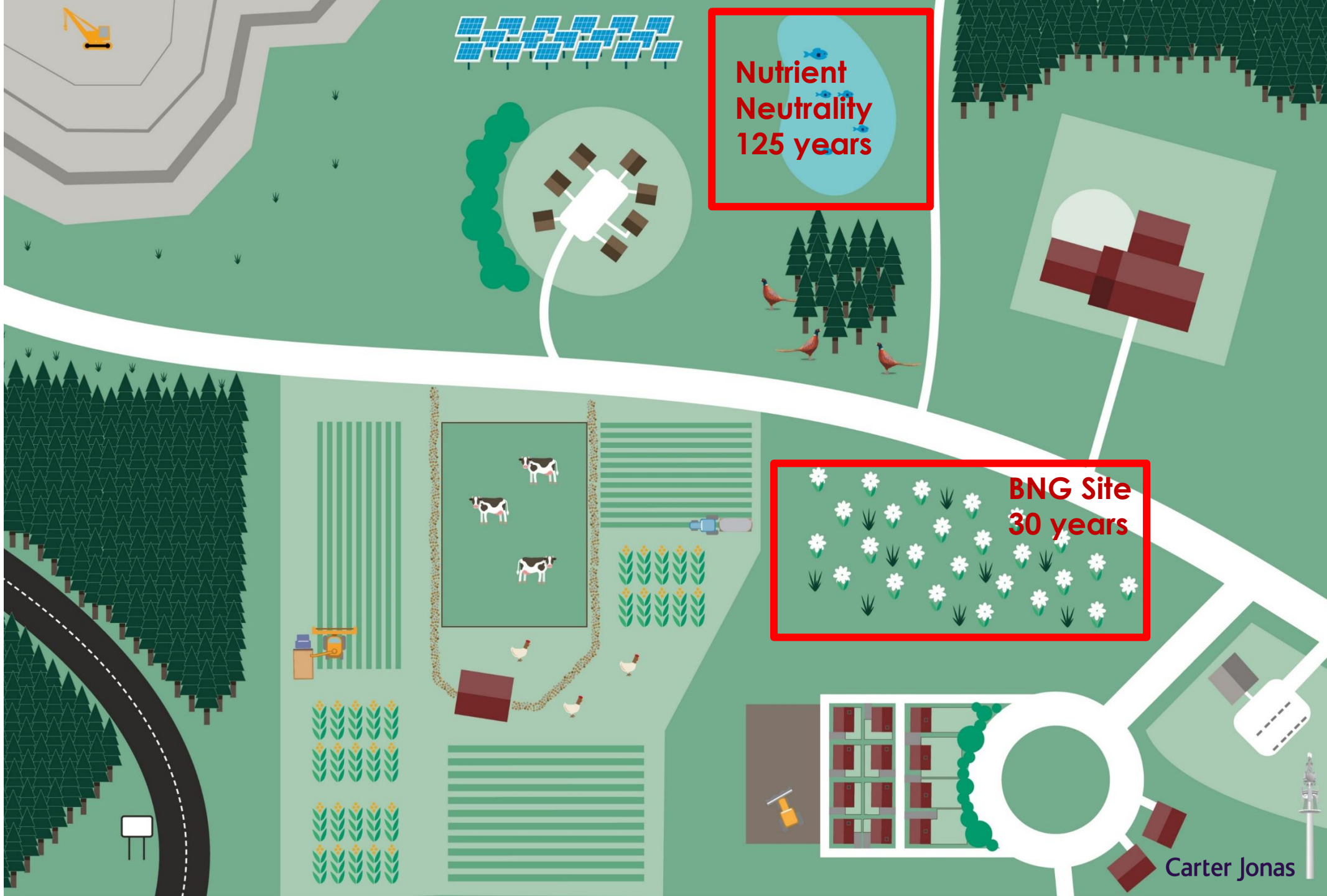
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**Nutrient
Neutrality
125 years**

**BNG Site
30 years**

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Decision Tree

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Key things to consider

- Does it fit with your business plans?
- What skills and equipment is needed?
- What are upfront and annual costs?
- What happens at the end of the contract?
- What is the likely impact on land value and holding value?
- What professional advice is needed – markets, planning, tax and legal?

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Panel Session

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Summary

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CLA Resources



Relevant CLA Guidance Notes – available for members

- GN01-23 – Funding and advice for woodland creation in England
- GN12-23 – Collaboration and cluster groups for environmental delivery
- GN14-23 – Carbon markets for landowners
- GN15-23 – Carbon accounting for landowners
- GN17-23 – Environmental Funding – An overview
- GN18-23 – Nature markets: How to measure the natural capital on your land
- GN19-23 – Nature markets: How to enter into nature markets
- GN20-23 – Nature markets: Checklist for contracts



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THANK YOU

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