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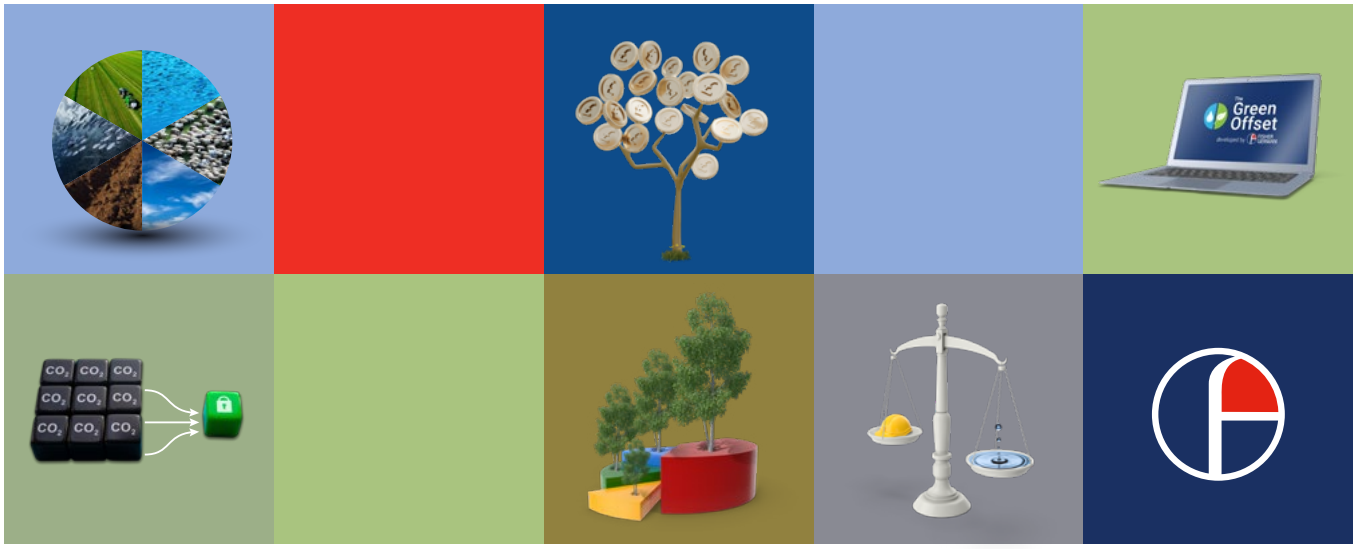
Natural Capital



Natural Capital

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Natural Capital

For those unfamiliar with the term, ‘Natural Capital’ refers to the world’s stock of natural assets - animal, plant, marine biodiversity, soil, air and water.

Key legislation which defines this area includes

- 2008: the Climate Change Act
- 2018: the Government’s 25-year environmental plan (‘A Green Future: Our 25 Year Plan to Improve the Environment’)
- 2020: Agriculture Act
- 2021: the Environment Act.

Environmental improvement is now incorporated across every area of government policy making and will impact every organisation in the property sector - whether they are involved in development, commercial, residential lettings or infrastructure projects. It also adds significant pressure on all responsible organisations - encouraging them to account for their impact on the environment.

As a result, there is increasing demand for nature-based solutions, as businesses seek to mitigate or compensate for environmental externalities of economic activities. Some of these initiatives driven by regulation, while others are undertaken voluntarily by organisations to compensate for the impact of their operations on the environment and as a demonstration of their commitment to sustainability - to their customers and stakeholders.

Nature Based solutions involve initiatives which protect, sustainably manage and restore natural or modified ecosystems.

Our experienced team of Natural Capital specialists understand:

- The regulatory and voluntary drivers for investment in natural capital
- The policy landscape for natural capital services and its wider implications for the rural and property sector - having advised providers of Natural Capital solutions (landowners and farmers) for almost 200 years
- Organisations’ strategic imperatives when seeking to mitigate their environmental impact
- How to develop successful tailored programmes which meet clients’ specific objectives.

Natural Capital (cont)

Our Team's expertise lies in its ability to

- **Advise:** providing insights into relevant Natural Capital markets and how they operate
- **Recommend:** determine which are the most appropriate options and partners for mitigating offsets
- **Deliver:** help negotiate optimum terms for offset acquisition to meet identified Natural Capital objectives.

For the landowner and farming community, there are multiple sources of public or quasi-public funding to deliver improved environmental outcomes from agriculture, forestry and wider land management such as:

- Sustainable Farming Incentive (SFI)
- Countryside Stewardship (CSS)
- Environmental Land Management Scheme (ELMS)
- England Woodland Creation Offer (EWCO).

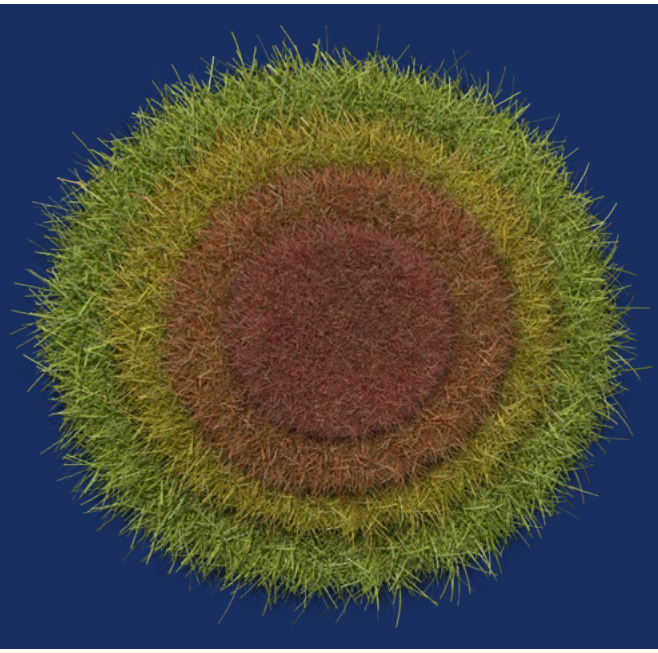
However, demand from the private sector for Natural Capital 'ecosystem services' is fast emerging as a complementary source of revenue which many believe will grow exponentially over the next few years, as commercial and non-commercial organisations seek offsetting strategies to compensate for natural capital degradation (as a result of their activities).

To date three distinct private markets have emerged:

- Biodiversity offsetting - expected to be mandatory across England by January 2024, but is already required in a number of local authorities – to ensure compliance with the Town and Country Planning Act
- Carbon offsetting - particularly relevant to organisations and individuals with environmental and ESG objectives to meet
- Nutrient offsetting - as a result of Natural England identifying 74 catchment sensitive locations where development must not increase the nutrient burden on water courses.

This is only the beginning. Further ecosystem services, such as the provision of land for flood mitigation, air quality, or provision of public access for green prescribing are already being explored.

Biodiversity Net Gain (BNG)



Mandated in England through the Environment Act 2021, Biodiversity Net Gain is designed to ensure that habitats for wildlife are left in a 'measurably better state' than they were in before development took place.

In short, it is a strategy to enable the recovery of nature through the development and planning process. It is particularly relevant to:

- Developers
- Rural landowners
- Local Planning Authorities

The key mandatory BNG stipulations enshrined in the Environment Act, include:

- To be applied from January 2024 in England
  - A number of local planning authorities require a gain in biodiversity to be delivered in advance of the mandatory introduction
- BNG will apply to most developments which result in the loss of habitat, but a 'de minimis' threshold applies and some types of planning are exempt
- A minimum 10% gain - calculated using the Biodiversity Metric will be required
- Habitat provision must be secured for at least 30 years via planning obligations, or conservation covenants

Where net gain cannot be achieved on site, then biodiversity offsetting must be sought first through local offsetting arrangements or, where this cannot be achieved, via the purchase of statutory Biodiversity Credits from the government. Biodiversity offsetting will need to be registered through the BNG site register.

Our team of BNG specialists has the experience and the expertise to help developers:

- Understand BNG requirements
- Make informed decisions on any offset options for acquiring the necessary habitat units
- Identify and secure habitat units if offset requirements are known
  - Either via greenoffset.co.uk - a portal, launched by Fisher German
  - Or via bespoke searches to meet a specific brief
  - Acquire 'biodiversity offsets' on land outside the developed area - ideally within the local area to account for any loss and deliver the net gain required
  - Acquire credits from government if necessary

Implementation will be phased as summarised below:

- Large sites from 12 February 2024
- Small sites from 2 April 2024
- Nationally Significant Infrastructure Projects (NSIPs) planned for 2025

BNG opportunities for landowners

Biodiversity Net Gain (BNG) represents potential new income streams for landowners and farmers (BNG providers).

ecent legislative changes have created a new market for Biodiversity offsetting. This provides an opportunity for farmers to be paid for the enhancement and long-term management of land, to deliver improved habitat outcomes. Developers seeking to mitigate and compensate for the impact of their developments on the environment will be a source of funding. Payment will be made in exchange for the measured environmental enhancement delivered.

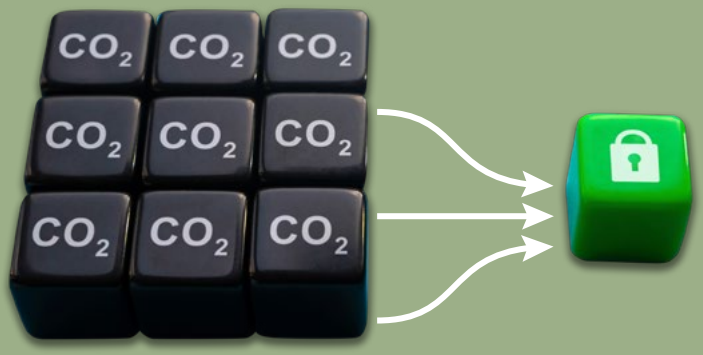
In addition to the regulatory need created via the planning system, demand for biodiversity offsetting is expected to emerge from organisations voluntarily seeking to report on and compensate for their biodiversity impact. For example the Task Force on Nature Related Financial Disclosure (TNFD) is gaining traction and helps financial institutions and organisations incorporate nature-related opportunities into their strategic planning, risk management and asset allocation decisions.

However, it is important to understand that biodiversity offset contracts will be long term contracts which will include legally binding clauses related to associated costs and liabilities - so should not be entered into without proper consideration and advice.

Our BNG experts can help anyone interested in becoming offset provider. They:

- Understand the policy landscape and market for offsets
- Appraise the opportunity for offsetting on their land and the various approaches to developing offsets
- Assess the impact of potential schemes on the existing business
- Assemble, appraise and market offset projects
- Negotiate and review offset proposals, agreements and sales

Agricultural carbon auditing



The farming sector is a significant source of Greenhouse Gas (GHG) emissions.

At the moment, almost 10% of the country's total GHG emissions originate from agriculture production. These emissions contribute to the overall food emissions – which is why food supply chain partners are looking to farmers to help them meet their own Net Zero targets*. The result is that landowners and the farming sector are developing strategies to address their own carbon footprint in order to achieve the Government's 2050 Net Zero goals.

Although challenging, farmers and landowners can achieve this if they:

- Reduce their farms' carbon emissions per kg of production
- Combine this with offsetting measures to remove any remaining emissions from the atmosphere

The good news is that carbon sequestration – the mitigation of climate change by the adoption of carbon sinks – enables farmers to reduce their carbon footprint, access a new revenue stream (Carbon Farming) and help society by capturing carbon in soil and vegetation (thereby removing it from the atmosphere).

Farm Carbon Accounting

Many believe that Carbon Accounting – a methodology which calculates how much GHG a farm/estate emits, as well as its impact on the environment - will play a major role in future agriculture policy.

The call for Carbon Accounting is underpinned by evidence that reducing GHG emissions does lead to an improvement in a farm's technical performance, operational efficiency, cost reduction and improved profitability.

Carbon Accounting also has significant PR/marketing value. Evidencing carbon-friendly farming techniques will help meet supply chain partners' and consumers' growing demand for produce sourced from 'green' sources

Agricultural carbon auditing (cont)

Carbon Audit Reports

Carbon Auditing reports (using proven carbon calculators) provide farmers and landowners with the data and evidence they need to make operational changes and strategic decisions which will affect both the farm's short-term output and its long-term viability.

Audits provide the evidence required to make decisions such as areas where GHG emissions emanate from and can be:

- Reduced
- Eliminated
- Offset through sequestration planning

Our team of Farm Carbon Auditors can help you make informed strategic decisions and provide practical implementation advice. Working from multiple data sources (from farm records to data gathered by the team, or by specialists) we build a Carbon Map of the farm and collate the empirical evidence collected to help inform any decision-making.

The Carbon Audit report will detail what the farm's footprint is and what mitigating measures can be taken to reduce it. Ultimately, the aim is to create a route map to achieve Net Zero.

Given our deep knowledge of the farming sector and our almost 200-year experience of working with farmers, our recommendations will align with your existing business model. We will:

Look for marginal gains designed to improve efficiencies across the farm

Identify inefficiencies and make rational and logical recommendations to achieve to achieve clearly defined operational gains

By identifying the poorest performing parts of the farm, the report will highlight areas where gains could be immediate and significant. It will assess issues such as:

- Consumption of fuel and power
- Materials used such as metals, wood and plastics
- Choice of crops and impact of nitrogen use efficiency
- Applications of fertiliser, sprays and manure
- Livestock: numbers, purchased feed, growth rates and mortality
- Buildings and machinery
- Water and waste

Almost every farmer we advise has found that our Carbon Audits have also proved a valuable business efficiency tool - not just a response to legislation. Some clients opt for annual Carbon Audits to help monitor performance and evidence progress.

To find out how we can help, please call David Kinnersley or Tom Beeley about any Farm Carbon Audit enquiries you might have, or complete our enquiry form and we will get straight back to you.

Our Farm Carbon Audit team works closely with other specialists drawn from across the firm to ensure that clients benefit from integrated and holistic property advice – one team, one plan, one goal.

*** For example:**

Tesco has a 2050 Net Zero target but, it has stated that it is aiming to reduce GHG emissions from suppliers' agricultural activities by 15% by 2030

Morrisons has pledged to be the first supermarket to be completely supplied by Net Zero (British) farms by 2030.

Woodland carbon units (WCU)

In the UK, carbon offsetting is primarily delivered through woodland creation or peatland restoration.

The national Woodland Carbon programme is part of the Woodland Carbon Code (WCC) – a quality assurance standard for woodland creation projects in the UK, which assesses how much carbon dioxide has been captured. Their strategy is to help create verifiable carbon units (which can be measured) in order to track the subsequent reduction in CO2 from the atmosphere.

The £50m scheme (which is neither a grant or a fund) enables landowners and farmers ('providers') to measure their captured carbon and sell the 'carbon units' as verified Carbon Credits, defined as Woodland Carbon Units (WCUs), to the government, for a guaranteed price every five or ten years - up to 2055/56. It is index-linked for the life of the contract.

WCUs can also be sold on the open market, not just to the government.

The scheme is therefore an opportunity for providers to create new woodlands which generate an additional and long-term income stream – based on the value of the carbon captured within the growing trees.

In addition, the Government's England Woodland Creation Offer (EWCO) pays providers to create new woodland, through natural colonisation, on areas as small as one hectare. Payment, for the costs of establishing, as well as managing the woodland for up to 10 years, could be up to £10,200 per hectare, plus up to a further £8,000 in Additional Contributions for public benefits, to support any woodland creation scheme.

The commercial market for WCUs comprises organisations wishing to offset their UK-based emissions by purchasing verified carbon units from WCC projects. However, WCUs cannot be purchased for emissions generated overseas, or from international aviation or shipping.

Peatland carbon offsetting

Peatlands, the world's largest terrestrial carbon stock, store twice as much carbon as all the world's forests combined.

In the UK, peatlands cover around 10% of the nation's land area however, historic mismanagement has affected almost 80% of our peatland estate in some way.

That is why the Government launched the Nature for Climate Peatland Grant Scheme - a fund to help restore peatlands in England. The scheme will run until 2025.

In addition, the Peatland Carbon Code (PCC) was launched to:

- Support the restoration of our national peatland estate by attracting private-sector funding (to augment limited public funding schemes)
- Provide investors with clarity and assurance that carbon savings are made - through independent validation and verification

The Code helps to attract voluntary carbon credit buyers and assures them that the peatland ecosystem services being marketed are real, quantifiable, additional and have permanent climate benefits.

It provides a mechanism for accrediting peatland restoration projects and the carbon benefits they deliver.

Credits validated by the PCC certification process can be sold as a carbon offset or reduction measure.

Nutrient Neutrality

Legislation within the Habitat Regulations has introduced new requirements for 'Nutrient Neutrality' in some areas of the country.

Nutrient Neutrality is a planning requirement for new development – mainly affecting housing developments. It is applied in 27 river catchment areas designated as Special Areas of Conservation (SAC) and impacts planning in 74 local authority areas.

The rules require developers to demonstrate that a proposed development will be 'nutrient neutral' and that nutrient pollution resulting from the development will not add to the already unsustainable levels of nutrient pollution entering the designated water course. Local Authorities are unable to grant planning consent unless the scheme can demonstrate how Nutrient Neutrality will be achieved.

To secure planning permission, developers must demonstrate Nutrient Neutrality by offsetting the anticipated nutrient pollution of a development, either by purchasing Nutrient Credits from established mitigation schemes or, by funding/creating nutrient mitigation schemes themselves.

As a result, projects which can reduce nutrient pollution - nitrates and phosphates - entering water courses are being sought as 'Nutrient Offsets' - to enable new developments. This has created new opportunities for rural landowners in affected catchments for development of nutrient offset projects.

Nutrient offsetting projects can include:

- Agricultural abandonment - to reduce nitrates & phosphates inputs to land: but it will result in land being taken out of production
- Wetland construction - to strip nutrients from surface water and effluent flows and prevent it entering water courses.
- Riparian buffers and other catchment management solutions - this includes zones along the edges of rivers, streams, lakes and other water bodies which remain uncropped and planted with vegetation to capture nutrients

Nutrient reductions are purchased by developers as either nitrate or phosphate credits depending on the type of pollution in the catchment - to evidence that the impacts of the development can be offset. The quantity of offset required is determined by a number of variables including the performance of the sewage treatment works, catchment rainfall levels, soil type and existing land use.

Our Natural Capital team has the experience to advise landowners and help them understand the policy landscape, as well as the potential opportunities arising from the market for nutrient offsetting. We can help landowners explore opportunities for offset development, marketing and sale.

2021: Fisher German launched The Green Offset portal – the first to match Offset Seekers with Offset Providers

The portal is designed to make it easier and faster for:

- **Offset Seekers:** organisations and individuals to identify land which will help them meet their Natural Capital objectives. The portal enables them to identify and contact landowners, farmers and their agents directly, in order to ascertain if the schemes offered are relevant to the Offset Seeker
- **Offset Providers:** landowners and farmers to register on the national portal and therefore gain direct access to national and international Offset Seekers

In addition to organisations and individuals looking for offset opportunities, the portal is of particular interest to developers as, under the terms of the Environment Act 2021, they have a legal responsibility to address the loss of biodiversity associated with their development and (with a few exceptions), might have to deliver at least 10% biodiversity net gain from January 2024.

The portal will help Offset Seekers find alternative sites for offsetting the environmental impact of their projects.

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we can handle your project from start to finish

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