



Built Environment Committee

Corrected oral evidence: The impact of environmental regulations on development

Tuesday 28 March 2023

10.40 am

[Watch the meeting](#)

Members present: Lord Moylan (The Chair); Lord Berkeley; Lord Best; Lord Carrington of Fulham; Baroness Eaton; Lord Faulkner of Worcester; Lord Goddard of Stockport; Lord Mawson; Baroness Thornhill.

Evidence Session No. 7

Heard in Public

Questions 61 - 76

Witnesses

I: Rob Wall, Assistant Director (Sustainability), British Property Federation; Alex Watts, Associate, Green Offset Scheme, Fisher German.

Examination of witnesses

Rob Wall and Alex Watts.

Q61 The Chair: Good morning, and welcome to this evidence session of the Built Environment Committee, which is part of our inquiry into the impact of environmental regulation on development. Our witnesses today are Rob Wall, assistant director of sustainability and tax policy at the British Property Federation, and Alex Watts, an associate of the green offset scheme at Fisher German.

I will introduce each person who asks a question, but their names are also on plates in front of them round the room. These sessions are always shorter than we would like them to be, so it helps if members and witnesses are fairly brisk in what they say. Everything is recorded, so there is no need for repetition, unless we are being particularly dense and do not understand what you are saying. It is not necessary to keep making the same points.

I chair the committee and will start with the first question. Our focus today, as you know, is on commercial property. What environmental regulations are engaged when developing commercial property, including warehouses, offices and retail parks? We will leave it to you to sort out among yourselves who answers first, unless the question is specifically to one of you.

Alex Watts: There are currently a number of environmental regulations that are engaged with when developing not only commercial property but a range of other property forms across the sectors. The majority at the moment are quite locationally specific and depend on which local authority the development is situated in.

One of the newest forms of environmental legislation that developers are having to engage with is biodiversity net gain, which is being introduced through the planning system as part of the Environment Act. Although it is not yet mandatory, some local planning authorities are already embracing biodiversity net gain and requiring it to be delivered through the planning system. Whether the developer takes forward the project depends on whether they have to deliver a gain and how much gain they will have to deliver. Some, for example, are only requiring a gain of as little as 1%, while others are requiring a minimum of 10%, and some, for example in areas of Oxfordshire, are requiring a minimum of 20% already.

The other piece of environmental regulation that is in place is nutrient neutrality. This is more locationally specific than biodiversity net gain and is only required in 74 catchment sensitive areas, which have been allocated by Natural England. Developers taking forward developments in these areas will need to ensure that their development will have no adverse impacts on nutrients in those areas, specifically from phosphates and nitrates entering water courses.

Another form of regulation that needs to be engaged with, particularly in the commercial sector, is minimum energy efficiency standards. New buildings will be required to meet the current requirements, and developers are making sure that the buildings are as energy efficient as possible to create some longevity in the rating, as the requirements are set to toughen further.

Although not yet in regulation, it would be amiss for me not to mention carbon. A number of developers, particularly in the commercial sector, are seeking to embrace more carbon-friendly construction methods in order to create a net zero development. Although this is not being required by legislation yet, the wider environmental social and governance targets are requiring them to do this. We are also seeing a demand from investors and occupiers to rent greener spaces with net zero credentials, and in many cases, they are willing to pay increased rents for these. It is an interesting space, as the market is moving quicker than the legislation is.

Rob Wall: In general, environmental regulation, certainly in the built environment, is not sector-specific, so the same concerns that apply to residential developments impact on commercial developments. Some nuances—Alex mentioned nutrient neutrality—may be more of an issue for the residential sector than the commercial sector, although I know of some commercial developments that have been hit by restrictions on nutrient neutrality. It can apply more broadly. Currently, in this space, BPF members' key concerns and questions to us are about water neutrality, nutrient neutrality and biodiversity net gain, regulations which I am sure you have heard a lot about already.

One key point to make is that BPF and our membership—and, I hope, the commercial development sector more broadly—are not opposed to environment regulation. We support good regulation and we absolutely support the policy intention behind the regulations. We want to see a couple of things when it comes to regulation. One is a level playing field: regulation that is applied fairly and consistently across the piece. Another is certainty: business owners want certainty. There is a lot of change in this space at the moment, both in environmental regulation and in planning reform, and that is never great for business. Also, we need regulation that can be implemented and administered, which is about the resourcing of regulators and planning authorities. Obviously, ultimately, we want regulation that works.

The Chair: We can understand why those who are established in this world already—existing developers; and existing housebuilders, although that is not the focus of today's meeting—would put their attention to the predictability and stability of the regulatory environment, but do you think it acts as a deterrent to new entrants? The number of small housebuilders has certainly fallen. I do not know if there are small commercial developers. One of the questions we are trying to explore is whether the level of regulation might be quite convenient to the incumbent developers, as long as it is predictable and stable and there is

the resource to deliver it—we understand that—but a deterrent to new entrants and therefore advantageous to the incumbents in many ways.

Rob Wall: BPF certainly has smaller developers and smaller property companies in its membership. The barrier here is less about the regulation and more about the implementation. That is certainly a theme that I am keen to pull out this morning. It is less about the cost of mitigation and compliance and more about delay.

We have had members whose developments have been delayed for some time and that brings a huge cost, certainly in the current environment. One of our members has a development that has been paused for 18 months due to water neutrality concerns. That has a huge impact on the ongoing cost of the development because of inflation, the increasing cost of goods and services, the increasing cost of labour. They have also lost tenants because of that. It is also about understanding the regulation. It is very complex. There is absolutely a cost involved in compliance, but there is also a cost in accessing expertise, planning consultants, environmental consultants to help navigate the labyrinth that is the regulations.

The Chair: Do you regard it as a labyrinth that needs navigation?

Rob Wall: Certainly. We hear a lot of feedback from members, for example, that Environmental Impact Assessments can be very challenging. They will use consultants to help them to prepare those assessments. There can be disagreements between local authorities about content and what needs to go in. There are challenges there. I know, and I am sure you know, that government is currently looking at replacing Environmental Impact Assessments with Environmental Outcome Reports. If it streamlines the system, if it is more outcome-focused, we think it has legs in principle. Watch this space.

Q62 **Lord Best:** May I ask a factual question, particularly of Alex Watts? Biodiversity net gain varies by local authority; they can do their own thing, ranging from 1% to Oxfordshire going for 20%. Is there no limit? Could a local authority say 100%? Supposing a local authority does not want anything to happen in this area, that is the political imperative for them. Can they step this up? Where is this 1% to 20% and beyond coming from?

Alex Watts: What local planning authorities are choosing to apply is slightly random at the moment. The Environment Act requires a minimum of 10% gain. Whilst the regulation is not due to be mandatory in all local planning authorities until November this year, some are requiring a gain to be delivered already. Some are trialling it on the basis of just delivering a gain rather than enforcing all the developments to deliver that 10%. Others are going above and beyond.

The Chair: How far above and beyond are they allowed to go, is Lord Best's question?

Alex Watts: I do not know. The Environment Act stipulates a minimum of 10%, but it does not confirm a limit. But there will be a point where it will be entirely unviable for a site to be taken forward if they are commanding biodiversity gains of well in excess of 20%, because it will act as too much of a barrier to development.

The Chair: To help Lord Best on this point, I think I am correct in saying that this would need to be part of their local plan and would be subject to inspection by a planning inspector. If you put 100% in your local plan, the inspector judged it and you failed to achieve other planning objectives that you have to meet, presumably the inspector would have a moderating effect. Kelvin knows about this from experience, but my suspicion is that, at the moment, local authorities are imposing these requirements without their being in the local plan because they do not have any local plans or it takes longer to write them.

Alex Watts: Those that are imposing it are writing it within their policy, and that policy is confirming what level they are requiring, whether it is just a gain or whether it is a gain of 10% or more than that.

Q63 **Lord Mawson:** What impact are environmental regulations having on the costs and viability of delivering major commercial projects? To what extent will the forthcoming requirement for 10% minimum biodiversity net gain affect the viability of some forms of commercial development?

Alex Watts: The environmental regulations are undoubtedly creating additional costs for developers, and it will depend on the developer's method of development and the location they are developing in as to how much this will impact the viability. The new regulation increases the developer's consideration of biodiversity and, if relevant, nutrient neutrality. It increases the focus on environmental considerations, which will increase the involvement of professionals—solicitors, land agents, ecologists and planning advisers—to advise them on this emerging legislation, all of whom will need to be paid. Dealing with delivery of 10% net gain or nutrient neutrality will necessitate increased investment, whether it is done on-site or off-site.

Viability is compounded once again by it being an emerging legislation. There is a lack of practical understanding as to how we should be dealing with these matters, which is resulting in protracted timeframes and delays in development commencement. There is also more risk and uncertainty around the timescales for delivery as a result. This, coupled with the increased cost, is certainly affecting the viability of some commercial development projects and wider developments in all sectors. It is likely that developers will try to increase their red Line boundary right from the outset to deliver more space on-site to achieve the gain. There is, however, a degree of debate as to whether this is the best outcome for nature or whether a dedicated off-site habitat would be best, which is connected to other high-value habitats. Perhaps this would be a better outcome for nature, but ultimately this will come at more of a cost.

There is a risk that biodiversity net gain will make marginal projects unviable, particularly on constrained sites where they do not have the acreage to deliver it. We also need to caution against policy inadvertently preventing sites in existing commercial estates from coming forward. The other day, for example, we heard of a commercial developer who was looking to take forward a small brownfield site on an industrial development, but it was covered in quite established scrubland. Dealing with 10% net gain, destroying that scrubland and having to deliver a 10% gain either on-site or off-site made that development unviable for that developer, so they chose not to take it forward. Local planning authorities will need scope to intervene in those examples, but there is a lack of clarity on this at the moment.

Nutrient neutrality is more locationally specific, and the costs are more acute due to the cost of offsetting. The nutrients offset depends on a number of factors: namely, the location in the catchment and the sewage treatments that are available in the area. That being said, as we have already highlighted, for commercial development there is less likely to be on-site accommodation, so it is more of a secondary issue, but it is having a large impact on residential developments.

I wanted to mention, while we are speaking about it, that it is potentially a matter for the levelling-up agenda. Rural communities tend to have smaller, less-advanced sewage treatment systems that service smaller communities. Perhaps we are less likely, therefore, to see investment in these areas. Consequently, development in these areas is constrained and requires more of an offset, this will subsequently require more investment and reduce the viability of these schemes. Care will therefore need to be taken to ensure that nutrient neutrality does not prevent further development in these rural areas, particularly in the delivery of affordable housing.

Delivery of the 10% net gain will certainly add pressure to development and could affect the viability of each project. Developers must take a hierarchical approach to biodiversity loss. They must first try to avoid habitat loss where possible. The next step is to try to minimise it as much as they can. Developers will be expected to deliver remediation on-site where possible, but if it results in a reduced developable area, it could affect the viability of the site. Developers may therefore consider off-site options, whether that is working with a third-party landowner securing habitat units or purchasing units off a habitat bank. Whichever way they choose to do this, it is likely to be costly for them and could therefore impact on the viability of the site.

There is no clear guidance nationally, and biodiversity net gain will add further uncertainty to an already stressed planning system. Time delays will impact on developers' margins and financing, and they will inevitably look to pass the cost of dealing with net gain on to the landowners. This may result in less land coming forward, which could impact an already constrained supply. If central government can be clearer with guidance and work with local planning authorities to deliver coherent deliverable

plans on offsetting in particular, the objectives of biodiversity net gain can be delivered successfully in tandem with development.

To summarise on the question of viability, this regulation creates more delays and barriers to development if on-site or on-site options are not available. Therefore, we are beholden on our local planning authorities, the Government and ultimately the market to make sure that those credits are available for purchase to ensure that we have sufficient supply ahead of it becoming mandatory to stop delays in development.

Rob Wall: I would add a couple of things on viability. Again, it is worth making the point that the challenge is less about the regulations and more about the implementation. I gave the example of a development that was delayed, which is adding to the cost.

On the viability of commercial development at a macro level, we recently ran a sentiment survey with our members on the state of the market and what factors drive development and investment. The three big risks to members' businesses are the economy and the risk of recession, inflation and rising costs, and the availability and cost of debt. Anything that impacts on those impact on the viability of developments.

It is also worth recognising, as I am sure you do, that commercial development has a different business model to housing developments. A typical housing development will be build and sell. Our members invest in commercial developments for the long term and generate their income through rental income, so they have a different set of priorities when they invest. It is also a diverse model. I know we spoke about offices and retail at the beginning, but the asset classes that our members think will have the best financial returns currently are life sciences, student accommodation, purpose-built rental accommodation, warehouses and data centres—so maybe not the typical asset classes that people would think of. The margins in those will be bigger. When you look at viability, it is quite a complex piece.

I will add a couple of things to what Alex said on biodiversity net gain. Again, we support the policy. Our members are enthusiastic about boosting biodiversity on developments and existing assets, but there are challenges. For example, how will you deliver biodiversity net gain off-site? That is a challenge. We know of developments that are being paused because developers cannot deliver BNG on-site and cannot find provision off-site. There are implementation challenges there.

Alex mentioned targets and the minimum of 10%. Some authorities have been targeting 20%. That will impact on viability. We should support ambition where it exists, but it needs to be underpinned by an evidence base. Also, we are putting a lot of responsibility, work and pressure on local authorities and planning departments. They need to be resourced to deliver this.

The Chair: We have heard lots of evidence about resourcing of planning departments.

Q64 **Lord Mawson:** That is helpful. My experience of the problems of implementation and the dysfunction that is going on in the system ties in with yours. Sometimes conversations in this place can be very siloed. A person I was speaking to this morning who is responsible for a major masterplan for one of our cities in the north described it as an egg timer, where all these things come to a pinch point and none of that is capable of dealing with it. In reality, it all gets delayed, nothing happens and there is no follow through. There is a theoretical discussion at 60,000 feet, but in practice something else is going on. Does that seem fair?

Rob Wall: I think it does. When you are looking at large commercial developments there are so many different elements to think through. We have found that where there is good local leadership, including at a political level, that can help to drive development. Many of these developments will be long term. The Government say they want to set up 12 Canary Wharfs. That development has been going 40 years and it is still developing. It is a complex issue. I do wonder whether the drive towards devolution and the growth of metro mayors can perhaps help to give some of that long-term political direction. Certainly we are seeing lots of investment going not just into London but into Birmingham and Manchester.

Lord Mawson: Is it relevant to ask how many of these mayors have ever run anything? This is practical stuff. It is the practical thing about the experience of making stuff work. Is that a fair question to ask?

Rob Wall: It is a fair question to ask. I am not sure I can answer it.

Q65 **Lord Berkeley:** Your responses to the questions so far have been very interesting. You have listed the various environmental regulations. Do you believe that they are proportionate and manageable, because the message I am getting from you so far is that the biggest problem you have is with timing? You are not opposing the regulations but the timing. On the other hand, the regulations are quite clear about what data has to be produced. Some of that is specific to the time of year, and ditto with the water and everything.

Do you believe that with the right professional working with you, which obviously has to happen, this timing issue would be built into your plan? If you do not, you will fall flat on your face. If it is just timing, it is a bit of a cost. If it is too bad, of course, the developers could choose alternative sites, which might be better. What is your view? Is it just delays, or is there something more fundamental and we do not want to comply at all with some of these regulations?

Alex Watts: I do not think it is because as Rob said, they genuinely want to comply. What we are seeing a massive lack of is a clear mechanism from the local planning authorities as to how developers are meant to abide by this. They know that they will have to work in conjunction with ecologists and what information they will need to provide, but there is no clear mechanism and framework provided by each local planning authority to deliver either on-site or off-site offsetting.

We have landowners who are keen to create habitat banks, for example, which will create oven-ready habitat units that a developer can purchase to avoid delay and a timeframe lapse in bringing that development to fruition. But, ultimately, if there is no set process in each local planning authority and if each one varies substantially, which is what we are seeing, the developers are lost. The planning application process is quite well known and thought out and runs in a certain way, whereas this has been thrown into the mix in a lot of circumstances, and there is no clear framework for the developers to follow and deal with the issue.

The principal issues is the lack of process. That has to come in secondary legislation. The Environment Act does a good job of setting high-level targets but does not detail how this will be dealt with practically and how developers will achieve these targets on the ground. We need secondary legislation to provide that insight and that process for local planning authorities to then mandate.

Rob Wall: Do we want to comply? I would suggest that our members in the sector are going above and beyond what is required. If you look at biodiversity net gain, for example, which applies to new developments, we have members who are applying those principles to their existing assets and portfolios. Canary Wharf Group is working with the Eden Project to green its spaces. Grosvenor is using the same Defra BNG metric to measure improvements in biodiversity across its existing assets and portfolio. Members are going above and beyond what is required. That is driven, in part, by the market, because investors are increasingly demanding higher ESG and green credentials from their investments. The better tenants are demanding that too. We are genuinely on board. It is good business sense to deliver to high environmental standards. It is more about the implementation.

On the delays, in the example that I quoted the problem was that the developer could not access mitigation on water neutrality and had to work with a third party, a local authority, to retrofit homes. It was outside their gift to manage. That is the concern on implementation.

Q66 **Baroness Thornhill:** I have two questions. One is clarification for my benefit. Is it simplistic to say, therefore, that there will be brownfield sites that are doing nothing and will probably never do anything because of viability issues? Could they cope with viability if it were designated for residential, because the values are higher? Can you clarify that balance, because some people say, "It doesn't matter to me whether I get a warehouse on it or some nice homes, or whatever"? What is that tension?

It seems to me that we are coming towards some sort of thinking about whether local authority boundaries are too tight. Alex, you said that bigger schemes might be best for nature. I notice that the Government give out small grants for small projects, and I wonder whether that works against the idea of government perhaps saying that what is better for nature and better for a lot of developers are bigger schemes and whether the funding is not helping in that. Sorry, that is a bit of a mix, but I want to see the wood for the whatever.

Rob Wall: It is a good question. Again, housebuilding is probably more profitable at a high level, so viability may be a factor in certain brownfield sites. But a lot of commercial development happens on brownfield sites. The water neutrality example I gave is on a brownfield site. A lot of the regeneration taking place across the UK that is driven by our members is on brownfield sites. A lot of the development is mixed use—a mix of residential, offices and retail, and others. It is quite a complex issue, but it is a good question.

Alex Watts: Ultimately, we are waiting for the local nature recovery strategies, which will be implemented through local planning authorities, and will allocate areas where they would like to see biodiversity improvement. When those areas have been allocated in each local authority, we will have those designated areas, which have been highlighted as being strategically biodiverse and important to protect from development and therefore better to enhance from a biodiversity offsetting point of view. Until we have those, we rely on ecologists to make sure that they are positioning habitat offsetting in locations that are suitable. The Defra metric also provides an assessment of the strategic position of the biodiversity to help with positioning.

There needs to be a joined-up approach between local planning authorities, because ultimately a local planning authority will not want to see all the biodiversity loss in their area. If it is on a boundary line, we need to take a more pragmatic view to ensure that the habitat is relocated in a sensible location and is not lost.

There will obviously be constrained local authorities with a real lack of green space available. There is probably not a lot of space for biodiversity net gain in London, for example, which is where the Government's register will come into play. A big question that we are asking however is how those credits will be priced, because a developer is meant to demonstrate that they have followed all the approaches to ensure that they cannot do it on-site or off-site. Once they have done that, they will apparently have access to these government credits. How they are priced however is a real question that we are keen to have clarified in due course.

Q67 **Baroness Thornhill:** My official question is on the resourcing of local authorities, which you have alluded to. In particular, I am interested in how you find the regulatory bodies. I know you cannot bite the hand that feeds you, and all the rest of it, but I would like a little bit of candour about relationships and how you feel they are resourced. Are they doing the job? Are they hindering, or helpful, or other things that we could suggest that might be beneficial?

Rob Wall: Local authority resourcing is a huge challenge and it impacts on the planning process. I mentioned the sentiment survey that we ran at BPF recently. We asked members what the biggest strategic risks were to their business. Planning featured quite prominently: one in four members said that the UK planning system was one of the biggest strategic risks to their business. I think that shows you how far up the agenda this is with

CEOs and senior property professionals. The flip side of that survey is: what activity will increase development activity? Again, the answer was more efficient planning system; more planning resource at local level scored quite highly. It is a real challenge, and we know it is a real challenge.

The Chair: We have heard a lot of evidence on that. What about the Environment Agency, Natural England and all the other non-local authority agencies you have to engage with?

Rob Wall: We have less direct contact with those, so I would not have particularly strong views. I think they are challenged by a lack of resourcing as well. I am not sure I can say more than that.

Q68 **Lord Mawson:** Many sites, as you quite rightly say, have many elements to them, so do we need to encourage greater collaboration? I was in a meeting recently with a major developer and a local authority. It was the first time in 40 years that they had sat down and had that kind of collaborative, serious, honest conversation about how much money there is and to get real about the business model and what is possible. Does more collaboration, trust and joined-up behaviour need to be facilitated?

The Chair: Before you answer that, could I bring in Lord Berkeley, who has an additional question?

Q69 **Lord Berkeley:** Alex, in answer to a previous question you mentioned scrubland, implying that it had no environmental asset or benefit. I hope that is not true, because some scrub does.

The Chair: No, I think the point she was making was that it did have benefit, so removing it would count as a net loss, which meant that the offsetting gain required was even higher than it would have been. I think that was very much the point of the example.

Lord Berkeley: Sorry.

The Chair: That is how I understood it anyway. Very quickly, on Lord Mawson's collaboration question.

Alex Watts: I certainly agree. There needs to be collaboration not only with the developer and the local authorities but with the surrounding landowners, because ultimately, they will be the key to unlocking offsetting. There is a real lack of understanding and clarity on some of the key points for landowners at the moment. Certainly, we need collaboration between all three of those parties to make sure that this regulation does not act as a barrier to development. It is only when those three parties are aligned that we will be able to succinctly deliver the objectives of the regulation.

Q70 **Lord Faulkner of Worcester:** I am sure you will agree that much of the current debate focuses on the impact of environmental issues on housing development. Is the impact as great for commercial real estate, and do you think government and regulators give that sufficient attention?

Rob Wall: The impact is as great and is not given sufficient attention. We have asked ourselves and our membership in BPF why that might be. There is certainly a bias towards housebuilding in government and with policymakers. That is understandable. Clearly it is a huge priority. There is a massive housing shortage. But our sector does seem somewhat overlooked. I think that is because we are not well understood. People think of commercial real estate, offices and retail, and commercial landlords in a certain way, so maybe our reputation could be better. There is certainly an education piece there.

When it comes to sustainability more broadly, the built environment is not as front and centre as it should be. I know this debate is not about net zero, but the sector has a huge carbon footprint. It would be interesting to see in Government's Green Day announcement tomorrow how much space is given to the built environment and, in that, how much is given to commercial real estate. I suspect it is not much.

Q71 **Lord Carrington of Fulham:** This question is about green finance. I understand ethical finance and I have worked in it for a large part of my career. What do you think green finance is, particularly in relationship to development?

Rob Wall: There is certainly a growing market in green finance, and it is available for well-defined sustainable projects, not just in real estate but across all different industries. There is a huge pot of green finance available globally, and the commercial real estate sector is very good at tapping into international finance. Currently about 30% of all funding into commercial real estate comes from international investors. There is a huge opportunity for us to tap into that finance.

Lord Carrington of Fulham: If you are an international investor and you say, "I have green finance", and you have two lending opportunities and one has normal commercial characteristics, what would define the green characteristics?

Rob Wall: There is a range of criteria that the investor would want to see returned on behalf of that green finance. There is also a taxonomy, so if you provide green finance it has to go into certain activities. That is one of the challenges that we face. Our members are accessing green finance, but to qualify as green or sustainable finance currently it has to go into green buildings. We would like to see money going into brown buildings. Those are the ones that need it.

The Chair: Sorry, can you explain that to me? When you say, "going into brown buildings", you mean greening brown buildings?

Rob Wall: That is right.

The Chair: You mean greening existing buildings, and you are saying that there is inadequate green finance for that.

Rob Wall: That is right. There is finance, but to qualify as green finance it has to go into certain types of investment.

The Chair: Who says?

Rob Wall: There is a European or a UK taxonomy. The Government are currently consulting on this. In the recent Budget, for example, I think the Chancellor said that they want to consult on making nuclear green in finance terms so that it can access green finance. There is a framework that decides what these things are.

Lord Carrington of Fulham: That is very similar to ethical financing where you have investors who say, "We won't do armaments" or, "We won't do tobacco", and, "We won't do alcohol", if they are coming from Muslim countries or whatever. However, you are saying that it is investors who are saying that they want to put their money into something that is already green rather than necessarily into something that could encourage people to become green. In other words, going back to my ethical example, they will not buy up armaments manufacturers and shut them down, because that is not what ethical financing does, but they would invest in things that did not touch that at all. You are saying that they will not invest to change from brown to green, but they will invest in existing green.

Rob Wall: There is a difference between formal green finance and investment. To meet those formal green finance criteria you would have to invest in green buildings. But there is lots of investment available from good investors who want to improve—

The Chair: Do you have access to something that you could send us that examples that? It might be the criteria set by certain large investors or lenders. We can find the government taxonomy that you referred to, but it would be helpful to all of us if there are examples out there that we could look at.

Lord Carrington of Fulham: The other point, which you might look at at the same time, if you can, is that there are clearly banks that will lend in this, but they will tend to be short term. When we talk about green investors we are presumably talking about green long-term or equity investors, sovereign wealth funds, or rich family offices or whatever. Is that an overseas market and not a UK market? Where is it centred, as opposed to being a financial centre, because these things are in markets, not elsewhere? Anything you can give us to characterise that would be very helpful.

Q72 **Baroness Eaton:** My question is to Ms Watts and is about the green offset scheme. How would you describe its purpose to us? Who uses it, who manages the process, and how are its outcomes measured?

Alex Watts: The Green Offset scheme was created and built in-house at Fisher German and seeks to provide landowners with an opportunity to receive enquiries from interested parties, such as developers and corporate companies for delivery of environmental schemes. It encompasses natural capital as a broad term, but it includes biodiversity, carbon, water management, nutrient neutrality and renewable energy,

and provides an opportunity to kickstart this emerging natural capital market by facilitating transparent conversations with willing individuals. We wanted landowners to have an ability to understand these opportunities without necessarily committing themselves to anything.

Who uses it? Landowners can register their land on the platform. It is shown as an anonymous pin on a map to those who are looking to make an enquiry. It might be a developer looking for an area to deliver biodiversity net gain or a corporate company looking to sequester carbon. Alternatively, it could be a water company looking for areas to improve water quality. There is no restriction on who utilises it.

The process is managed entirely in-house at Fisher German. The Green Offset team uses the admin site, which sits at the back end of the website, to manage enquiries that come through the platform and to facilitate the conversation between the landowner and the seeker who has made that enquiry. We keep a note of all the enquiries that come through the admin site and manage whether they lead to any successful deals.

The Chair: It is essentially a brokerage operation.

Alex Watts: It is an introductory platform.

The Chair: A dating service.

Alex Watts: I did not want to say that, but yes.

The Chair: I should not have said it either, sorry.

Baroness Eaton: Do you advertise widely that you are there, because how do landowners know to sign up?

Alex Watts: I am based in the rural department, so we have a lot of landowning clients already. We are certainly making all existing clients aware of it. We set it up as a brand, as Green Offset, and not Fisher German, because conversely, we would like our competitors to use it. If they register their client's land, they might win a job in negotiating one of these deals. Ultimately, it is available for any landowner, whether they are a Fisher German client or not. There is no disadvantage to them in registering the land. It is entirely for free, and it does not commit them to anything. Also, their anonymity is protected. It just gives them an opportunity to receive an inquiry that might be of interest.

Q73 **The Chair:** Some land is highly valuable for food production and other land is less valuable for food production; it is much more marginal. Does your system distinguish between the alternative uses, the beneficial uses, of the land that is registered for biodiversity net gain possibilities?

Alex Watts: At the moment, it does not. We wanted to keep it simple, because it is a very emerging market and there is a real lack of understanding among landowners and developers alike as to how this space will be managed.

We would never recommend that prime agricultural land is utilised as a biodiversity offset principally because of the land value issue. Obviously prime agricultural land will be worth quite a lot of money, but if you enter into a long-term environmental scheme, it is likely to bind that land for a minimum of a 30-year term. Ultimately, it will probably be bound in perpetuity, because the likelihood of you being able to plough that environmental scheme up at the end of that 30-year term is probably quite low. We are still waiting on Natural England to clarify what happens at the end of that 30-year term, but that is basically what we are advising our clients. We would not recommend embracing biodiversity net gain for any land that has other better uses, whether it be development, food production or other forms of diversification.

The Chair: You are not in control of the price that people are willing to pay, and if there is constrained supply of land for biodiversity purposes the price might rise to exceed the value of the prime land. You do not have to answer that; Lord Mawson has a question on that. The question of the optimal use of agricultural land could be sorted out perhaps by local planning authorities designating some land for biodiversity purposes and refusing to designate others. Is that mechanism envisaged through the local plans?

Alex Watts: Not quite yet. I talked about the local nature recovery strategies being useful in helping developers and local authorities alike to know where to place these offsets.

Q74 **Lord Mawson:** When government starts pushing loads of money into something, my experience in the past has been that markets and all sorts of things often get massively distorted, because the market is very good at dancing to all sorts of tunes. What is happening in reality and what is appearing on paper might be completely different. I wonder how much thought you have had about the unintended consequences of some of this stuff and what is called greenwashing. There are lots of nice words, but in practice when you look in detail at something you see something quite different to what the words on paper are telling you. How sighted are you on all that?

Alex Watts: It is difficult because, as you said, money talks. If a developer wants to offset their development and they need to do it quickly, they might pay way in excess of the average value of what a habitat unit should be worth. Again, we are looking at encouraging this on more marginal land, but greenwashing is a huge issue. Corporate companies and investors are looking for quantifiable high-quality offsets, and they want to be able to understand where they come from and who manages them.

Ultimately, we need a strong understanding of the reporting and monitoring. That, again, has to come through the local planning authorities, because, as you said, it is all well and good paying a landowner to do this, but who is monitoring that? Who is responsible for ensuring that that habitat is being delivered? At the moment, we do not have a clear understanding of what monitoring requirements will be

required as part of that planning permission. Again, we need that to ensure that greenwashing does not happen for these areas.

Q75 Lord Best: Is a row of beans about the dimensions of this project? How much money has changed hands so far?

Alex Watts: Ultimately, quite a few local planning authorities are embracing biodiversity net gain ahead of the mandatory instruction. There are quite a lot of deals being done for offsetting, but it is quite locationally specific, because it is only happening in local planning authorities where they are requiring the gain to be delivered. I am not sure how much money has changed hands.

Lord Best: Are we thinking in terms of hundreds rather than millions of pounds?

Alex Watts: It is probably more like millions of pounds, because the developer's contribution that could be paid by developers to local authorities tends to be high. Habitat units are trading at very high values. Millions of pounds have been transferred to deal with these offsets.

Lord Best: Who is keeping track of this? This is your scheme.

Alex Watts: We cannot keep track of all of the agreements that have been negotiated with developers and local authorities across all areas. At the moment, there are three ways in which a developer can deal with biodiversity net gain. They can deal with it on-site. Historically, they have been able to pay developer contributions to the local authority. That is where they pay a sum of money and pass the obligation to deal with that gain to the local authority. That seems to be falling away now.

The third way is to establish habitat banks, whether that is working with a third-party landowner or purchasing the credits off a habitat bank. There are lots of ways in which a solution can be provided. We cannot keep track of all of those. It should be registered in each local planning authority, so each local planning authority, once it accepts those moneys, will need to detail where they are spent. That is what the government sites register will eventually help with.

The Government, with Natural England, are creating a register that shows where all biodiversity net gain moneys are spent, and each site is registered on that register.

Q76 Lord Goddard of Stockport: How have the developers and landowners responded to this scheme, and are there any geographical areas in the United Kingdom that are more in demand than others? Will there be sufficient land available for offsetting when this becomes mandatory in the UK?

Alex Watts: The response from landowners has been quite positive. Landowners are going through a difficult time and are facing the loss of their basic payment subsidy. They are looking for areas and ways in which they can diversify their income streams. The Green Offset allows

them to do that without committing them to anything, and it is free for them to register their land.

We have seen good uptake from developers and landowners alike in areas where local planning authorities are already requiring the gain. Warwickshire, for example, was pioneering in biodiversity net gain policy, so landowners in those areas have been able to benefit from supplying credits into the developers who need them in that area. This is obviously due to there being a live demand coming through the planning system.

We certainly think there will be sufficient land available, and again we will need those local nature recovery strategies to position biodiversity in the right place so that we do not lose areas that are better placed for other uses—development, food production, whatever it might be. We are hopeful, however, that we will get secondary legislation to guide us as to how we should be mandating this and how local planning authorities should provide that guidance to the developers and the landowners alike to ensure those environmental objectives are achieved.

The Government allowing the layering of schemes, such as nutrient neutrality and biodiversity net gain, is a positive step. This allows better use of land, because ultimately, we can derive more benefits from a single parcel. That is where we think it needs to go and what needs to be embraced to ensure that we have sufficient land available and get the most out of that single parcel.

Lord Goddard of Stockport: Is the south geographically using it more than the north at the moment?

Alex Watts: Not really. It is completely dependent on the local planning authority and its individual policy on biodiversity. As I said earlier, if it has a policy on a gain, developers will have to abide by it. I am based in Leicestershire, and we have seen a lot of traction in those areas because Warwickshire was so pioneering in delivering this policy. Leicestershire and Staffordshire have also embraced it, so there is quite a lot of heat in those areas, but, again, Oxfordshire has been very influential as well. It all depends on the specific local planning authority, but we have to remember that it will be mandatory apparently in November, so it is not long until everyone should be applying it at the 10% minimum.

The Chair: Thank you very much for your time.