House of Commons

Environmental Audit Committee

Oral evidence: The Role of Natural Capital in the Green Economy, HC 501

Wednesday 4 December 2024

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Watch the meeting

Members present: Mr Toby Perkins (Chair); Ellie Chowns; Barry Gardiner; Anna Gelderd; Pippa Heylings; Martin Rhodes; Alison Taylor, Cameron Thomas; and John Whitby.

Questions 366 to 419

Witnesses

I: Rt Hon Philip Dunne, Chairman (2020-2024) of the Environmental Audit Select Committee.

II: Judicaelle Hammond, Director of Policy and Advice, Country Land and Business Association; and Alan Carter, Chief Executive Officer, The Land Trust.

III: Helen Avery, Director, Nature Programmes and GFI Hive, at Green Finance Institute; Kate McGavin, Chief Policy and Strategy Officer, National Wealth Fund; and Dr Heather Plumpton, Head of Research at Green Alliance.

Examination of witness

Witness: Rt Hon Phillip Dunne.

Q366 **Chair:** Welcome to the latest meeting of the Environmental Audit Committee. I am very pleased to have my predecessor, Mr Dunne, previous Chair of the Committee, with us for part of the relook at the natural capital inquiry that the previous Committee did a lot of work on.

First, Mr Dunne, I will encourage you to introduce yourself and explain to the new Committee why the previous Committee felt this issue was so important. Welcome back.

Philip Dunne: Thank you very much for inviting me to join you. It feels peculiar, frankly, to be on the other side of the table from where you are sitting after more than five years serving on the Committee. I am very pleased that the Committee has decided to continue the work that the predecessor Committee was doing in looking at natural capital.

The main reason why we decided in the previous Parliament to undertake this inquiry was that this is a new concept. It is a new thing. The UK is at the forefront of the development of natural capital for a number of reasons. First, from a legislative point of view, I believe we were the first country to legislate at a national level for biodiversity net gain in the compliance markets. A number of states in the US and states in Australia, I think, have done it but not at a national scale. We are providing innovation to this sector around the world.

We also have the peculiar benefit of having the largest financial community outside of the US based here. So we are well placed in terms of developing new markets, and the carbon credit market developed significantly from the UK. We have a predecessor example in this sector, if you like, where the UK has led the world in developing the trading of carbon credits. We are also looked to as a source of good regulations and we are in a good place as a nation to, again, try to set standards that other countries can look at and decide whether they want to adopt or not.

For all those reasons, I think it is a very interesting thing for the UK to be doing. We thought that as a Committee, because our remit, your remit, covers the environment, it was a natural place to go if the EFRA Select Committee were not looking at it—and they were not, at the time. They may be doing so now; I do not know.

However, we thought this would give the Committee an opportunity to get in at a very early stage in the development of both the market and, more importantly, the policy and regulations surrounding it, and to have input into the development of that policy and those regulations before they were set in stone. That is why we decided to do it.

Q367 **Chair:** We know that in the 2021 spending review, the Government set a goal to grow annual private investment flows to nature to at least £500 million every year by 2027. I think the more recent evidence was that just under £100 million a year was being contributed. What was your sense as to how successfully we were capitalising on those opportunities that you just pointed out existed?

Philip Dunne: I think it is very early days. There is a lot of uncertainty across all stakeholders in natural capital as to how it will emerge. It is not surprising, therefore, that it is going to be taking a bit of time to get off the ground.

One thing that I think this Committee can very usefully do in the report that you eventually write is to set out whatever data there is out there to be able to demonstrate to the Government and to other stakeholders that this is real and it is happening, but it is not happening fast enough and what in particular needs to be done to try and accelerate the take-up. A lot of it comes down to confidence in all parties to these transactions because most of the transactions are not going to be in the compliant market. They are going to be in the voluntary market.

The private sector capital that is potentially available to be deployed will dwarf whatever Government is seeking to deploy itself, for very obvious reasons. One of the challenges that exists right now is that confidence in the agricultural market—and it is mostly the land users, land managers, land owners who are going to be providing the opportunities here, and marine users, but they are rather harder to define and Governments have a bigger role to play there perhaps—the confidence has been completely shattered as a result of the Budget, frankly, with uncertainty about what happens for decades to come in respect of the ability for existing land users to have confidence that they can continue to enter into 30-year agreements. We do not know at the moment where that will end up.

There was a body blow from that and last week it was compounded by the Government cancelling or suspending capital grants on SFI payments. This seems a most extraordinary thing to do mid-year. The SFI scheme, which had cross-party support—still has cross-party support—was going to allow capital works to be undertaken to provide farmers with an alternative to the basic payment scheme as that runs off. But you have to do the work in order to get the payment, and much of this is to promote environmental good. That is really why it is called the Sustainable Farming Incentive. If capital payments have been made and capital agreements have been entered into, and then the Government reneges on providing the funding, it is a significant blow to the confidence that people are going to be delivering this policy.

The Government must address those issues. If they want to see the natural capital market evolve in a way that I think it could in this country, the Government must restore confidence to people so that they can enter into long-term agreements.

Chair: Thank you very much.

Q368 **Cameron Thomas:** That might lead nicely into this. What evidence might you cite to support the view that a natural capital approach to nature recovery in the UK is worthy of private investment?

Philip Dunne: You need to look at what is happening internationally. The UK can only provide a relatively small amount of supply of natural capital because of the land mass here and the holding sizes of units. If you look internationally at funds seeking to be deployed in natural capital, in order to have a meaningful share of an investment portfolio within a financial institution, you have to be able to access, generally speaking, global pools of natural capital.

There is an anecdote—I cannot source it—that says that 10% of the demand globally for natural capital is managed out of the UK, but only 0.1% of the supply of natural capital can be provided by the UK. If this is to become an asset class and be regarded as something that financial institutions, investors and corporates need to have access to, it will be hard to do it—purely from within the UK market, it will be impossible to do. It has to be looked at internationally.

The UK has a number of funds that have been established by the major financial institutions already, seeking to put money to work in natural capital and we had some evidence on the previous Committee from some of those, which is available to you. From a financial institution's point of view, there is some demand. From a corporate perspective, there is demand. Many companies, particularly consumer-facing food companies, for example, are seeking to demonstrate their net zero credentials. Many of them have signed up to targets to have net zero product by some years off, 2030 in many cases.

Take just one example that I know from my own experience in agriculture. PepsiCo owns Walkers Crisps. Walkers Crisps is trying to develop net zero potato crisps, which is going to require changes in behaviour throughout their supply chain. I am not speaking for Walkers, but I am speaking as a potato supplier to Walkers and I know that they are looking at a number of measures to try to bring this about, which include encouraging different agricultural practices to achieve it.

Chair, I should declare that in addition to the bio you have in front of me, where I think I have said that I am involved in agriculture, I have also last week gone to the CLA Legal, Parliamentary and Property Rights Committee as a co-opted member, and I think they are appearing as a witness in a later session.

Chair: That is helpful, thank you.

Q369 **Cameron Thomas:** For companies less progressive than Walkers, who might need a little bit more persuasion, what argument might you make in a boardroom to try and bring those companies on board with these recovery schemes?

Philip Dunne: Going back to the first question, I will address that. As a Committee in the last Parliament, we looked a great deal at biodiversity following the Dasgupta report, and this inquiry sort of followed naturally on from that. It is very clear, from across the world, that there is, through the UN process, demonstrable demand to try to persuade the world to stop depleting nature and to start nature recovery across a range of different measures and Governments, and that is being expressed in boardrooms around the world.

How do we start to make our contribution to not depleting nature but restoring it? It is on the agenda, partly stimulated by, again, leadership from the UK and the Taskforce on Nature-related Financial Disclosure and other work that has been done leading into the UN process.

Many of the requirements now of bodies such as the Stock Exchange to require increasing disclosure of footprint on nature from corporate activities means that this is on the agenda already. What needs to be done, I think, is to provide sets of standards and metrics to allow corporates to be measured and held to account for their claims and their targets, and that is where I think this inquiry can have a role to play in helping to guide the Government into identifying standards that will avoid allegations of greenwashing, which is the big concern that this is very difficult to measure and therefore companies will make claims that they cannot uphold and cannot be held to account for. That is something that I think Governments around the world need to co-operate with to try to identify common sets of standards that apply as much as possible around the world.

Q370 **John Whitby:** Good afternoon, Mr Dunne. A question in two parts: on the basis of the evidence you heard, where do you think Government action is most required to encourage landowners to develop nature recovery schemes for the land and also to encourage investment in those schemes?

Philip Dunne: It probably goes back to setting the framework, the standards by which schemes can be measured. I know that work has been done by the British Standards Institution to try to come up with a set of standards. There is the green taxonomy consultation, which I am very pleased this Government have decided to continue with. These are very important components to try and get this right because we have really only got one chance to get this right and show leadership.

I do not think we can look at this in isolation as a purely UK thing. Whatever standards emerge through the taxonomy and the development of metrics, they have to dovetail with the international standards being developed at the same time. The US was developing a set of standards. The EU is developing a set of standards. We need to try, where we can, to ensure that we are not in conflict with those because if we are, we will find that rather than becoming a very attractive place to centre such development and to encourage our farmers to participate, the UK we will be isolated, and the pool of capital available for the UK will decrease, which it should not do, because as I have said earlier, it is already here at scale.

Q371 **Chair:** Biodiversity net gain: it was, as you say, a concept that was kind of groundbreaking. These are obviously very much early days. What was your assessment as to the extent it was working, was leading to real investments that would not otherwise have happened? Did you have any worries from the research you did that there some fairly ephemeral actual benefits coming out of some of these environments? Do you think the concept is in need of reform?

Philip Dunne: It is very new. It was introduced and only went live, I think, in April this year, so it is too early to say whether it is working or not. It is undoubtedly the case that there have been very few transactions yet, because it is new, but it is now a legal requirement for all planning consents to include biodiversity net gain. I think the risks to it are as much about the ability for local authorities to have an understanding of what it means.

There is a dearth of ecologists in the UK, full stop. There is a particular dearth of them within local planning authorities; without the ability to assess, local authorities will have to rely on external consultants. So we could be creating a new industry, which may be a good thing for ecologists, and employment but it may slow things down.

The Government have come in with an ambition to accelerate development, particularly residential housing development across the country. If we do not have enough capacity to be able to consent in a timely fashion, policy might slow down the ability to build houses, which would be counterintuitive and not a good idea. I think that we have to be relatively pragmatic. From the early transactions that have happened, it seems to be that developers are doing whatever they can to try and provide on-site BNG, on the site of a development. That would seem to me to be a good thing.

I do not think we have really yet seen too much evidence of the development of off-site capability. Some off-site supply is being assembled by some of the agents and principals within the property market, but it is just a bit early. Again, it is something that this Committee could seek evidence to update the data and get data reported. One recommendation might be to ensure that all planning authorities maintain a register of BNG within their area, so that there is some ability to assess how effective this policy is being.

Q372 **Chair:** You referred a few moments ago to some of the decisions made in the recent Budget. We were conscious, as a new Committee coming in, of the substantial amount of work that had been done in the last Parliament and we did not want it to be lost.

Do you think that those changes have changed the landscape so significantly that the evidence that you heard in the last Parliament should be at the very least, updated or somewhat diminished in importance? Or do you think that, broadly, the evidence you heard still stands, albeit there may be changes in terms that we have discussed?

Philip Dunne: That is a good question, and quite hard for me to give you an informed answer to. However, I would say that the evidence stands because it remains a very new area of activity. It was a year ago, and not much has changed to that extent.

During the election period, there was a debate about whether or not environmental schemes should benefit from then existing agricultural property relief and business property relief exemptions to inheritance tax, and I believe that was approved in the last Budget. It was one of the last things that the previous Chancellor did. It is absolutely essential that that happens.

This is a wider issue about business confidence, but I have no doubt that one of the consequences of changes to the inheritance tax and the removal of the exemptions is going to be a significant reduction in business confidence investing in privately owned businesses, family owned businesses—particularly once the proprietors are over a certain age, if they know that a significant amount of their investment is going to go straight back to the taxpayer when they die. I think that will have a chilling effect on investment in agriculture, amongst others, particularly because of the APR relief, and that inevitably will have a knock-on effect into investment in environmental schemes.

Q373 **Pippa Heylings:** Can I come in around that point? So did you have evidence about the kinds of timescales that it would take to be able to show real benefit to ecosystems, and therefore what kind of timescale landowners would need to commit their land to? I will follow up on the kind of impacts and implications of changes to the agriculture property relief that you have just mentioned.

Philip Dunne: We did take any evidence on the tax position because we were in a different environment—

Pippa Heylings: No, but taking the timescales first.

Philip Dunne: On the duration of schemes, we had evidence that the schemes, the transactions that were happening—they were very few in number, as I said—were looking at, typically, 30-year farm business tenancy arrangements, where a party would commit with the landowner that they would be paid, typically upfront, and the land would be managed in a particular way for 30 years, and part of the payment would go to ensure that that management would take place, whether it is establishment of a wood or wetland, or whatever it was. They were looking at generational-length agreements, which may or may not be affected by the new arrangements. We did not take evidence on that.

I am also aware of something that we did not take evidence of specifically: much shorter-term agreements being entered into, which have a more temporary impact, but I think may well become a bit more common in the early years, until such time as there is greater clarity about the benefit for a long-term solution. I am thinking, for example, again in my own case, about water companies, which have been entering into one to three-year agreements for providing overwinter stubbles with green herbal leys or other planting in the autumn to ensure that there is a green cover over winter, so that the soil is less likely to be washed into the watercourses. That is an eminently sensible thing. That is a year-by-year, or sometimes slightly more than one-year arrangement, and I think we will see more of that. That will continue to happen and might become more widespread.

There are other sorts of soil carbon sequestration arrangements available to farmers, which are done again year-by-year or year-by-five-year. Those schemes tend to be aimed at improving the sequestration of carbon in the soil, which is a good thing, aimed at improving the soil condition, which is another good thing, and that should have longer-term agricultural benefits as well as environmental benefits.

However, I think that while there is considerable uncertainty about the taxation system affecting land, it is going to be difficult to persuade landowners to make long-term decisions if they are irreversible, and unless they contribute to their wider objectives, which may be, if they are very young, just growing their business, or if they are very old, might be passing their business on to a next generation. I am afraid that if you look at the age profile of land ownership in this country, it is very much the latter that predominates.

Q374 **Pippa Heylings:** I am sure that many of us have been meeting people. Just last week I was meeting with a group of farmers, three generations, and they were looking at exactly this. They felt that the changes to the agricultural property relief inheritance tax—they also mentioned the suspension of the capital grants and also in previous Governments, the underspend on capital grants and the slowness in bringing SFI forward, which we have to recognise—were all things that led them a very insecure environment for them to be able to do that longer-term planning, especially if they are looking at having to sell portions of their land to pay the inheritance tax. Can you explain a little bit more about the schemes that you think would be intergenerational—and mentioning which of the ecosystems that would benefit—why you think this could be so detrimental to that market?

Philip Dunne: One of the issues that the Government have to get their heads around is that the way in which agriculture and estates are able to participate in natural capital very much depends on the nature of the ownership, the size of the holding, and the viability of the business.

The figures that the Treasury has been using for the average size of holding that has taken advantage of agricultural property relief are very much skewed to the smaller-scale enterprise, and in particular, how estates—estates, on death—of less than 50 hectares predominate among those people who take advantage of agricultural property relief.

I would postulate that there are a very, very small number of farming businesses that can provide a business with an ability to earn a living from less than 50 hectares. Those estates will invariably be hobby farmers, or people who live in a rural environment with a few fields around their house, who do not rely on those fields to provide a living, and they are taking advantage of agricultural property relief because it is there. The businesses are typically farm holdings nowadays of at least 50-plus, often 100 hectares-plus, where there is enough scale to be able to make a business—

Pippa Heylings: I think 300-plus.

Philip Dunne: Maybe 300-plus hectares—so they are not really businesses. Sorry; they are unlikely to be businesses where the livelihood of the owners is entirely dependent on agriculture. Therefore, if you have smaller and medium-sized holdings and you want to put a meaningful part of your holding into an environmental scheme, it is a little bit like a solar farm scheme. At the moment, you will not get a solar farm scheme for less than about 50 acres. Environmental schemes can be smaller than that, but generally speaking, in order to have some attractiveness for the counterparties, you have to put a reasonable amount of acreage into a scheme.

If you are taking a significant amount of productive agricultural land into an environmental scheme, you have either to be a large farmer or landowner who is doing it because they can afford to; you are unlikely to be able to persuade a small or mid-sized farmer to do it in a significant way because too much of their livelihood will be put at stake. That is why I think we will find that people will be very reluctant to enter into new schemes other than at the very large end of the market.

Q375 **Chair:** Mr Dunne, thank you very much for coming back and speaking to us. We very much value your experience and evidence. Thank you very much.

Philip Dunne: Thank you, Chair. I wish the Committee every success in this inquiry. Thank you.

Examination of witnesses

Witnesses: Judicaelle Hammond and Alan Carter.

Chair: Welcome to our second panel. Thank you very much for providing evidence to our Committee. I invite you to introduce yourselves, starting with Ms Hammond.

Judicaelle Hammond: I am Judicaelle Hammond. I am the Director of Policy and Advice at the Country Land and Business Association. We represent 26,000 members in rural areas in England and Wales.

Alan Carter: I am Alan Carter, Chief Executive of a charity called the Land Trust. We own and manage land all around England, and we use that to deliver social value, environmental benefits, health benefits, and wider social value for the communities who live next to those sites.

Q376 **Chair:** Thank you again for coming to speak to us. Ms Hammond, if I could ask you first, in its written evidence to the inquiry in the last Parliament, your organisation said that there is a huge opportunity for rural land-based businesses to provide solutions to many of the challenges the country faces in developing its green economy. First, how will these businesses provide these solutions? What do you think are the main ways that they will be available to do that?

Judicaelle Hammond: There at least three ways to do it. The first one is by taking part in Government schemes—Sustainable Farming Initiative, obviously, but also very importantly, Countryside Stewardship and indeed Landscape Recovery, working with charities such as wildlife trusts, river trusts, and many others to provide land for nature recovery projects to be delivered.

The third way is through natural capital markets, so through private investment.

Q377 **Chair:** Thinking about nature's decline, we often hear that Britain is one of the most nature-depleted nations on the planet. How integral to and conscious of that do you think the farming community is? How much do they consider it to be a problem that they want to be a part of the solution to?

Judicaelle Hammond: I only speak for my members but there is a great deal of awareness, not least because we have now had quite a few reports by Natural England and others on the state of the natural capital. When the Dasgupta review was published, that also created another sort of pool of awareness. I think that people want to do the right thing. There are a number of barriers and reasons why this is not always happening, but we already have a lot of members who are in Government schemes, who are interested, and some of them are already involved in deals on the natural capital market, so it is happening.

Q378 **Chair:** Where do you think the balance currently lies between food production, investment in nature, Government-based nature schemes, rewilding and so on and the profitability and financial sustainability of the farming sector?

Judicaelle Hammond: Let me take those in turn. I will start with the viability and the sustainability. DEFRA published figures two weeks ago about the most recent statistics of the farm business income, which is equivalent to net profit. It did not make very positive reading. It is in decline and the measures, as Philip Dunne was saying, announced in the Budget—not just on the change to inheritance tax, but also some of the issues within DEFRA's control—are not going in the right direction. Therefore, there is a very much a drop in confidence, which manifests in people waiting to take decisions on investment, which will include natural capital investment.

Q379 **Chair:** Do you think that land-based businesses expect a financial return on any contribution that they might make to nature recovery on their land?

Judicaelle Hammond: Yes, because they have to derive an income from that land somehow, whether it is through food production, nature recovery or both at the same time—which is perfectly doable and most people would be considering doing it that way—or something completely different, like renewables or afforestation. There are a number of things that you can do with land but as a land manager, you do need to derive an income from it. The question becomes what do you do and where do you draw that balance.

In answer to your previous question, most people would not give up food production. Partly that is a question of culture. People are deeply attached to that culture. It goes through generations, remembering the Second World War. It is amazing, but it is still very much there. The question then is, either at the margins or in terms of strategy, do they want to take their holdings to be more nature focused. Are there markets available? Does that fit with the kind of land that they have? Not everybody will necessarily be in the right place. There will be a lot of things that they will need to balance.

Q380 **Alison Taylor:** Mr Carter, I believe that you are a chartered surveyor like me, so we are probably both looking at it along the lines of the financial returns as well, the land yields. Following on from the last question, how does the Land Trust benefit financially from a natural capital approach to the management of its landholdings and its operations? Can I also ask a couple of supplementary questions about what size of holding and what part of the development process you would typically get involved in?

Alan Carter: I am a chartered surveyor. I am also a farmer's lad so I look at it from a couple of different angles. I am chief executive of the Land Trust, which has been doing this kind of thing for the last 20 years. As a chartered surveyor, I was taught how to attractively sweat the asset, make the most money from the land property as possible and then as a charity taking that skillset and using it to deliver social value, which is all the environmental benefits, natural capital benefits, but also the wider social value from that as well.

Dealing with the first question, how we benefit financially from that as a charity, we are not for profit; any surpluses that we make are invested back into our sites. We have 90-odd sites around the country, 2,500 hectares of land. We do it to deliver more educational benefits, environmental benefits, health and other social benefits from that space, and the need is absolutely for that.

We produced this report just a couple of weeks ago in the building next door, which is about the needs over the next 20 years, environmentally due to climate change and the other needs as well. Therefore, we do not benefit financially. We are a charity. Do we get more sites and more land from this? Possibly, yes, and we already are doing that. Does that help us deliver more social value for the communities who desperately need it and for the environment? Absolutely, yes, which is really good.

To your supplementary questions about the size of our landholdings, our smallest site is probably 1.9 hectares of land, which is here in London. We can deliver significant benefit from that. Our largest site is probably 190 hectares and again can deliver significant benefit. The size of land holdings is a bit of a moot point; rather it is about how it is designed, managed, and funded for the long term.

Your second supplementary question was about what stage in the development process we get involved. Our preference is to get involved right at the start, at master-planning stage. In our view, if the green and public open space around whatever size of development it is, is designed right and planned properly, not only can it meet the statutory requirements, whether that is amount of green space or subsystems—sustainable urban drainage systems—or BNG requirements and 10% net gain, or more, it can also deliver significantly greater wider social value. It can make a difference to people's health and long-term health conditions, to educational needs, to reducing social isolation, all at the same cost of doing what is statutorily required. If we get involved early enough and other bodies like us get involved early enough, it will make a significant difference.

Q381 **Barry Gardiner:** Ms Hammond, picking up on what Mr Carter said about sweating the assets, if you have a landholding of £5 million value and you are achieving from that what the previous head of the NFU said and the DEFRA figures bore out, between zero and £25,000 a year as your income, there are only three ways of looking at that. I want to ask you which one. First, you may be saying that your members are incredibly inefficient in what they do because their return on capital is less than 0.5%; secondly, some other party somewhere down the supply chain line is unjustly taking the profit that is rightfully due to the farmers; or, thirdly, they have very good accountants and can show net zero profit. Which of those three is it?

Judicaelle Hammond: I am sure that there are even more than three, but let me respond to your question. What goes unseen behind the DEFRA average statistics is that there is a very wide range. Even within the same sector there is a very wide range of performance. That will depend on a number of issues, including where you are and whether your crop is doing well that particular year. The last set of statistics is about 2023-24. I dread to think what 2024-25 will look like, because of the weather.

Barry Gardiner: A wet year.

Judicaelle Hammond: Yes, there is some of that. Some people are better at business than others. That is not just farming; it is across all kinds of businesses, but also most of them are price-takers.

Back to your second issue, if they are growing commodities, they are selling on globalised markets. If they are selling into the supermarket chains, they will also be under pressure in terms of the price that they can command. This is why the budget announcement feels so iniquitous to many farmers. They will keep on at it because they feel that it is part of their raison d'être and it is a business that can work. The problem is that it is subject to the weather, to the supply chain and to geopolitics and that makes it very difficult to plan.

Q382 **Barry Gardiner:** In effect, you said that perhaps it is at different levels, all three, but principally you focused on the second—somebody else getting an unjust cut of what would rightfully be due to the farmers. What regulatory action do you recommend that Government should take in order to address that specifically, that this Committee could recommend?

Judicaelle Hammond: I am trying not to go too far away from natural capital, but I chaired a session at our rural business conference two weeks ago with the Groceries Code Adjudicator. He is definitely doing the right thing. Can we extend it to other people in the supply chain, aggregators, processors, and so on? Also there is the not-at-home sector, which at the moment is pretty untouched. Therefore, there are ways of extending the regulatory framework that is there at the moment, in order to improve things.

Q383 **Ellie Chowns:** Continuing the theme of how Government can intervene in in the sector, how effective do you think the existing Government schemes are, the schemes that Government provide to encourage landowners to deliver nature recovery projects on their land?

Judicaelle Hammond: It is still quite early, because there was quite a lot of stuttering at the start of the environmental land management scheme. I will talk about sustainable farm incentive first. We are now at a stage where we have a lot of good options but potentially still need options that are most suitable for the uplands. That is a particular issue at the moment; they are not well served. Nevertheless, we are expecting uptake to go up and it is helpful now that the stabilisers have been taken off, so to speak, and that everybody can apply.

In terms of the countryside stewardship scheme, again some good options. There are questions about stacking and bundling and whether or not that is possible. We do need clarity on those things, and also people who are in earlier schemes and how they can transition into the newer schemes. We still do not have a clear way forward so that those agreements are being rolled forward. That is not the ease for the customers who speak that we would wish to see.

On the third tier of the scheme, which is landscape recovery, that is where it becomes interesting and a bit frustrating. I have a colleague who describes those as perpetual piloting. We have had two rounds of landscape recovery. I am not saying that they have been unhelpful; I think they have been helpful. The question is how we get scale and where is the demand coming from those projects that are now at the ready stage.

This Committee is the right place to think about how we could give it scale and how we get out of the piloting phase. For me that is about setting up commitments and transitioning from a voluntary market to something that is a bit more mandatory. One of the levers that I would recommend is the Task Force on Nature-related Financial Disclosure. That forces businesses to look at their nature footprint and their nature impact and think, first, like carbon, how to reduce them and, secondly, "What I can't reduce, how do I offset or improve in my supply chain?" Those two things are important to get it out of this holding pattern that we are in at the moment

Q384 **Ellie Chowns:** Thank you. Is there anything that you would like to add, Mr Carter?

Alan Carter: Within that, the focus for us is to get the most out of this space, using all the initiatives that there are. There is certainly an issue with the short-term constant trying one thing, then another, then another. It is good to try things out and not just use the same methods all the time, but some of the conversations we have are, "Let's try this for a few years, then try something different". If you are looking at nature recovery, this is a long-term environment, in the broader sense, that we work within.

Thirty years, although it is a long time for BNG, is just a short time. If you look at the BNG legislation, that is there for 30 years. What happens after 30 years? In theory the landowner could come and plough up that habitat that has been carefully created and maintained during that time and sell the credits again. Is that the intention of the parties? Not at all, but in theory that could happen. Therefore, moving from the short term to long term is key, in our view. We are an in-perpetuity organisation, so that is what we are looking for.

If you look at the examples of some of our sites, the difference that we can make long term over that period is significant. BNG is on 30 years. SANGS—suitable alternative natural green space—put in place as part of the development process to protect protected areas, needs to be maintained for 80 years and that needs a different funding mechanism. We are one of the country's largest owners/operators of SANGS. That is important. Moving to that long-term nature is what we think is critical.

Q385 **Ellie Chowns:** You are saying that SFI is working pretty well but would you agree that there is significant scope for some tweaking so that they are operating more long term, tying landowners into longer-term agreements.?

Judicaelle Hammond: You need a flexible model of short term, medium term, long term because depending on your business model and your geography, you would not necessarily want to do just one thing. You might want to dip your toe in or some of your farm might be particularly suitable for a short-term quick hit and some that you would want to look at almost in perpetuity.

The only problem with perpetuity is what happens after the 30 years. Nobody in their right mind would be ploughing it up and trying again, and in any case that probably would not be allowed. The question, however, is what is the income source after those 30 years because the only reason why this needs to happen is that the market is not paying for the externalities. The market is not paying for the benefits. If they knew that after the first 30 years there was going to be another scheme or there would be the benefit of the ecosystem, that would not be a problem, but unless there is commitment long term and thinking in DEFRA as well about what happens in the next 30 years, people will not enter those schemes because they will say, "What do I do next? Am I going to be lumbered with potentially a permanent land-use change that I cannot then get any livelihood from?"

Q386 **Ellie Chowns:** My next question was going to be about how we can encourage greater participation in these schemes, but it is challenging to get Governments to commit to financial commitments beyond the next year, let alone beyond 30 years.

Judicaelle Hammond: Yes, absolutely. That is where potentially the private sector comes in because depending on what they need to commit to they might have a way of looking at it. It would not be the only asset class where patient capital is being encouraged, but at the moment there is not a mechanism. There needs to be a mechanism and the Government probably need to be behind the design, not the delivery but the design of it.

Alan Carter: May I come in quickly on two points about that? The first is that looking at some of the long-term cash-flow modelling, for the same amount of investment at the start of the 30 years, with the right investment strategy in place for that sum of money, that can be put in place to deliver an in-perpetuity management solution at no additional cost. That 30 years is important in terms of how the discounted cash flow works.

The other point, which is very important and has not been touched on yet today, as far as I have heard, is that a lot of focus is on farmers and landowners who are producing food from land. That is by far and away the significant landownership proportion within the UK.

However, let's not forget the third sector. It is not just the private sector or the farmers and associated businesses. The third sector is a significant landowner in this country. Most of them own the land outright and are there in perpetuity, and that is governed by charity law. Charities can make a significant investment, in partnership with the private sector, to maintain that value long term and constantly enhance it. There is a temptation to dig into the short term and, forgive me if I say it, party politics within this, but the third sector is there and is ready and willing to work with legislators and the private sector to deliver this for the long term.

Q387 **Martin Rhodes:** Picking up what you have said there, Mr Carter, and what you said in your opening comments, Ms Hammond, was that there are Government schemes, there are third-sector charity schemes, and there is private capital. Government schemes and the charities tend at the moment to be the biggest part of nature recovery schemes. How do we encourage private capital to invest more in nature recovery? I put that to both you.

Alan Carter: Money comes from the private sector in one of two ways: for a cash return, a straight investment, private equity or whatever else—and there will be others who will give evidence to this panel who will have more experience of dealing with that and can comment on that fully. The other main way is through the development process. That is where there is significant investment for return and land is changing hands and development is happening.

What can be done to streamline that? There is obviously a new NPPF, which is under consultation at the moment and which will come out soon. What we need from our perspective, working with a lot of developers up and down the country—and we are not a campaigning charity; we are there to implement whatever local democracy decides is right to happen in a certain situation—we will take that decision and use that for the benefit of the local community and the environment in the best way possible.

Early consultation through the planning process, being mandated through the NPPF and whatever else—not to slow down development but to make sure that it is enacted in the right way to squeeze as much possible benefit from it for the environment and for the wider communities—is one way in which that can be improved.

Another way is to have the flexibility, working with the local government planning committees and officers, to have that flexibility of approach so that organisations can be involved through the section 106 agreements that are in place, or other such agreements, so that there is that long-term delivery from that.

We have already signed quite a significant number of section 106 agreements to deliver BNG transactions and units. Trees are already being planted and landscapes are already being created on our sites for that. We have the very first transactions being undertaken now through the legislation. There has been a few months' lag as you would expect, but they will be kicking in soon as well. This kind of thing is already happening but scale that needs to come from that, and good advice, good planning through that process.

Judicaelle Hammond: I agree with Alan about scale. We were thinking about how you create a return. I will go back to my idea of having something like mandatory nature-related financial disclosure because then there will be an interest in derisking businesses' nature footprint.

Philip Dunne talked about the issue of how to build confidence in the buyers. Again two thoughts for the Committee. The first is that there needs to be standards for the private sector schemes and the private sector codes. The work that the British Standards Institution is doing on that is definitely the right way. However, there are also issues of methodology and calculation that come up in pretty much every single conversation that we have with members about this because at the moment there are a lot of ways of calculating not just carbon, which is an absolute minefield, but how you assess biodiversity units, for example, in a way that does not vary depending on the method or the tool that you use. Buyers need some certainty on that, but similarly the sellers too, because otherwise there is no trust in that market.

We are noticing issues, which it sounds as if Alan does not have, about scale and how big a project needs to be in order to be investable. Most of my members are interested in small scale, but they do not find a buyer for that unless it is somebody who wants to do it for the purposes of environmental or social responsibility, and then small is good. However, those things are few and far between. They depend usually on marketing budgets. If the marketing budget goes, does the project fold? Therefore, that is not a very reliable way of getting money.

Aggregators exist and they are probably a good way of dealing with that. There are quasi-environmental co-operatives, called the environmental farmers groups, that are also enabling people to aggregate. The problem is that at the moment the costs, if you are too small, are absolutely disproportionate because you still need to meet the legal cost of having agreements and so on.

One question for the Government, through this Committee perhaps, is about whether there could be templates. Otherwise lots of legal firms are redoing the same work all over again. Can that be looked at? At the moment advice is not yet of the right quality or in the right quantity.

The lack of ecologists has been raised. There are issues in other professions. Capital natural investment is still very new and if you are a landowner, a farmer or a land manager, where do you go?

Finally, I think it would be good to have a natural capital baseline assessment as part of Government schemes—you have heard this before from me—as part of the ELM, because that is a good place to get people to look at what they have on their farm and to start thinking about it and start valuing it in a different way.

Q388 **Martin Rhodes:** Picking up on what you are saying, what are the key things that Government should do to encourage more private capital?

Judicaelle Hammond: Targets, standards, advice.

Alan Carter: All that would work well, I agree. Consistency is good, work around templates is good so that we are not reinventing the wheel all the time. We have developed our own templates; we have had to. We have just been awarded responsible body status so we can now enter into conservation covenants with providers of BNG and other environmental provisions, which is great but we then have to pay for solicitors to draft the conservation covenants and so on. There is work to be done on that and we are getting on and doing it because it needs to be done, but some help around that would always be useful.

Q389 **Pippa Heylings:** Picking up on the difference between timescales, the short, medium and long, I would like to come back to you on the longer timescales, because one is the confidence in those who are offering this as services within that market. The other is what is being purchased and the confidence that what is being purchased will deliver for the ecosystems. Usually most people expect that you cannot just turn that tap on and off. As you said, it gets to a particular point, you have not bought it just for 30 years, you are buying it to be able to produce improved nature recovery or ecosystem services to us and the wider ecosystem. As I understand it, in perpetuity at the moment in legal terms is 30 years, but the covenants that the Land Trust is working on is in perpetuity as we would all understand in perpetuity, which is for as long as we can imagine—it is endless; it is in perpetuity.

However, legally, is it right that at the moment perpetuity is 30 years unless you have a conservation covenant over that land? What do you think, if it is not 30 years, is the right timescale necessary to be able to demonstrate that we have got those ecosystem benefits?

Alan Carter: I think that "in perpetuity" means forever. It is a straightforward definition within the BNG Acts. I am not a solicitor, I am a chartered surveyor as we have established, and perpetuity is for 30 years. I do not think that anyone ever imagines that that is for "in perpetuity". Even SANGS is for 80 years, which is not in perpetuity but is much better. To get those benefits over a reasonable period of time for those habitats to develop so that the species will come—and the species may not come just because you have created the habitat, but let's say they do—to become established and breed successfully and continue and fully colonise, that has to take more than 30 years in most instances. Therefore, it is that long-term thing that happens.

What is interesting, though, is that it can also happen quite quickly. If I may just give one example within the Chair's constituency of Avenue Coking Works in Chesterfield, formerly one of the most polluted sites in Western Europe, cleaned up significantly by Government grants over a series of different Governments. The freehold of that site has now come to us, with some of the remaining issues within that site. It is a complex site with complex problems.

You walk over that site now and the site looks stunning. It is a country park and we have football pitches and cricket pitches. However, the biodiversity that is happening there is significant. The habitats that have been created and what are now calling that place home, as well as the thousands of people that use it regularly is quite stunning. We can then layer on BNG and other benefits as well to enhance those habitats further, and our encouragement will be to keep them going. Again, the financial modelling is key to make sure these can be made.

This is not cheap to do and you cannot just say that we will get a lot of volunteers to do it. If volunteers are being managed and facilitated properly, that costs a lot of money. You need to train them, you need to equip them, you need to get materials and you need to get tools for them. However, the benefit of doing it and doing that properly is that not only is the environment looking great and creating a great habitat, you are getting so many other benefits from that volunteering activity, whether that is reducing social isolation, building resilience within those communities, mitigating some of the long-term health conditions, musculoskeletal issues, chronic stress and cardiovascular issues—all those issues can be dealt with and mitigated quite significantly with volunteering. If you stack all of that up together, long term, that will make a long and lasting difference not just to the habitats but to the wider community. If you are doing that in perpetuity, that is significant and you start to see savings elsewhere.

Going back to some of the environmental baselining that needs to be done, there is also a standard around social value so that everyone who is delivering these benefits is using the same level of consistency, much like within natural capital accountancy. There is now fairly much a standard methodology for doing that. There is not in social value. Natural capital accounting is just one small part of social value. Therefore, maybe a recommendation that this Committee may want to give is around establishing a standard social value methodology to understand what the long-term value of this is and can be in perpetuity.

That is a long answer to a question, sorry.

Q390 **Pippa Heylings:** May I ask one more question about scale? We have talked about BNG, but there is also the LNRS, the Local Nature Recovery Schemes. Would you suggest that those also come into greater statutory significance because they provide a longer-term framework for beyond just smaller BNG scale but for what your landowners, perhaps even more than farmers, over a whole mosaic of an area would be providing?

Alan Carter: To give a very short answer, as opposed to the long answer I gave before, yes, absolutely.

Judicaelle Hammond: They are already statutory. They are being developed, as I am sure you know. If we were sure that the data that they are based on was accurate, they are reviewed frequently enough and people are engaged sufficiently to be able to ground-truth them, we would be less nervous than we are at the moment about giving them greater significance.

We were having a discussion with members this morning about that. We understand the opportunities and the benefits. We are fearful of having white squares on that map where your land is not captured as an area of significance or whatever, as a result of which you do not get any funding and the opportunities are very restricted. Therefore, we are we are nervous about LNRS.

Q391 **Pippa Heylings:** Do you understand LNRS as being part of this natural capital financing?

Judicaelle Hammond: Yes and no, in the sense that if they work well, they should be able to give an indication of where the opportunities are and then be a way of funnelling funding, absolutely, which is why it is so important that they are done well. They will not of themselves, provide funding; there needs to be something else. However, yes.

Q392 **Barry Gardiner:** Ms Hammond, you used the key word earlier: "externalities". The question that all this revolves around is who pays for the depletion of public goods, which are those externalities? On the one hand, it could be the person who pollutes, on the other hand it could be the public, or under an ecosystem services payment scheme it could be the recipient of the benefit of the ecosystem services. Who pays for the depletion in your scenario?

Judicaelle Hammond: Are you are thinking in the future or at the moment?

Barry Gardiner: You posed the question, quite rightly, of how will the farmer or landowner derive an income after 30 years or, with the SANGS, 80 years. How do we think of this as increasing our stock of natural capital as a country, which benefits everybody, but also recognising that there are people, some of them farmers and landowners, who are depleting that stock of natural capital through what they do, through run-off, through fertiliser and pesticides? Who pays?

Judicaelle Hammond: There needs to be a split. It is unlikely that one category of people would pay. It depends on where you are looking. In ecosystem services, in which case I would say the beneficiary should pay, or at least should pay more. The question is, is it a social good, in which case it should be socialised and we are talking taxpayer. Is it a benefit to a particular recipient? In which case, question mark. Is that for a private market? The reason why polluter-pays is so complicated in the case of food production is that it is difficult to pass costs on. If we were going for that only, you would probably see a rise in food prices, which would not be a good idea or good news or anything that we would want to see or that the Government would want to see, for the reasons that Henry Dimbleby put in his report. However, that does not mean that there does not need to be recognition and action to avoid the biggest problems, and that is already limited by legislation and it needs to be implemented properly. Therefore, enforcement is absolutely critical to making sure that people operate within the law.

Chair: Thank you both very much for coming in to provide evidence to us. We very much appreciate what we have heard.

Examination of witnesses

Witnesses: Helen Avery, Kate McGavin and Dr Heather Plumpton.

Q393 **Chair:** We come now to the third panel that we will be hearing from today as part of the natural capital inquiry. Could I invite all three of you to introduce yourselves and the organisation you represent?

Helen Avery: I am Helen Avery; I head up nature programmes at the Green Finance Institute. We work across nature markets and also we host the Task Force on Nature-related Financial Disclosure, which you have heard a lot about today.

Dr Plumpton: My name is Heather Plumpton and I am head of research at Green Alliance, which is an environmental charity and think-tank looking at UK environment policy.

Kate McGavin: I am Kate McGavin; I am chief strategy and policy officer at the National Wealth Fund. We are a public finance institute. We have grown out of the UK Infrastructure Bank. A colleague of mine came and presented to this Committee in its previous guise before the election. We have additional capital from the Government and we will get a broader mandate to invest beyond just infrastructure when we have legislation next year.

Q394 **Chair:** Thank you very much. I will just say to our panellists that there is a possibility of a vote. We hope to get through your evidence before that comes, but I flag up that possibility.

First, Ms Avery, in terms of scaling up nature markets to deliver the aims of the Government and to increase the natural capital in our country, what role do you believe that private investment can play in principle in driving ecological recovery and stimulating the development of natural capital?

Helen Avery: Nature markets are one tool in our toolbox and I would argue that there are many other tools that we probably should be developing at the moment. We have the voluntary markets, woodland and peat and carbon, and the prices of carbon are quite low and some of that is because there is no push on UK plc to be buying nature-based carbon.

Although we have net zero pathways, there are not really and teeth to it that would push those prices up. We also have BNG and nutrient neutrality and compliance markets. If you look even around the world, that is what drives private sector engagement and keeps money flowing. We have heard about some of the challenges around those at the moment, but they are good mechanisms if we can get them to work for nature recovery. What we see from the private sector, though, is that those markets are one way of engaging. They are quite limited in scope, and beyond that, there is really no push on the private sector to pay for nature restoration, for nature-based solutions or for nature-positive outcomes at all.

Q395 **Chair:** How much of an appetite do you think there is currently within the private sector and particularly within the investment community for there to be easier pathways into that? Is there a real appetite or not?

Helen Avery: There is, which is the great news. For example, on TNFD we have about 1,300 members in the UK National Consultation Group and 600 companies. We already have 68 early adopters of TNFD and 12 reports already done. We know from work that we do with groups like Aldersgate that businesses want a level playing field, so they are pushing for TNFD to be mandated, although there are other pathways towards disclosures that we could talk about.

One thing that we floated is the environmental improvement plan and we have targets, should we create sectoral contributions in the way that we have with net zero pathways. We have already had 25 very large UK plc offer their expressions of interest, and some offer statements of support, which we are still gathering to say, "This is what we need, because we want to know what we can do to start contributing to our broader environmental targets beyond net zero". There is a lot of interest from the private sector. They want to know what they need to do.

Q396 **Chair:** Thank you very much. Ms McGavin, broadly on the same subject what is your experience as to the extent to which there is an appetite for schemes if those schemes were better understood and resourced?

Kate McGavin: As you have heard from other witnesses, this is a very nascent market. There is activity. Because a lot of it is done over the counter, because it is voluntary, it is quite hard to get the transparency to understand fully the scale of the activity that is going on. It is nascent. There are a number of investors who are interested. There are definitely barriers to investment but, for example Aviva's £40 million commitment to Nattergal, a spin-out from NEP is one of the examples where the market has taken hold.

Can I talk a bit about how we come in to support that? The work of the National Wealth Fund is based around a set of tools. First, we have built some skills internally, which is seen as a market-leading set of expertise within the organisation. We have some banking expertise, who have deep expertise here. In my team, in the policy team, we have someone with an ecology background, which you have heard about as being a skill in short supply. We bring those two together to look at transactions that we might be able to invest in.

Secondly, we sit at that nexus between the private sector and Government. We spend a lot of time talking to the policy teams in DEFRA and talking to Treasury about where policy direction is going and what the Government want to achieve. That allows us to interpret that and think about where we might be able to place investment. Thirdly, we are able to invest more patiently than other investors and patience is important, given the amount of time that it will often take for some of these investments to mature, and we can take a bit more risk as well.

So far we have made two investments. We have done a bridging loan to Highlands Rewilding. For that we lowered what is normally our minimum ticket size, which is about £25 million. We went down to about £12 million because we recognised that the scale is small and some smaller investments will be required. Our investment is in a fund and we will probably do some more investment in funds here. I think that it will be quite a good tool. We invested in Greensphere Capital's fund. Both those investments support the foundational level for the market. They are supporting the science and the data needed to underpin and to build the certainty and the standards and the metrics that will be needed to for certainty in this market.

We have a couple of other investments in the pipeline; I cannot talk about those in any detail. Despite it being a nascent market, we are seeing some activity and we are positive about it and very keen to keep looking for those investments and keep talking to the Governments in Westminster and in Wales, Scotland and Northern Ireland. Some of this is a devolved policy area, so we make sure that we are engaged fully with the policy teams across the UK.

Q397 **Chair:** Ms Avery, we know that in the 2020-21 spending review, the Government set a goal of £500 million a year by 2027. Can provide any more up-to-date figures about the amount of private investment and the extent to which the Government is close to achieving their goal?

Helen Avery: We were asked by DEFRA to survey financial institutions and understand what their investment is. That is different to private-sector investment, of which there is a lot and we did not capture that. That might be something that was captured in the Green Alliance report; I am not sure. We have had some early feedback from that survey. It is not fully in, but we are estimating that for the year 2023-24, it will be about £200 million, so it is off, but just bear in mind that that does not capture private-sector investment.

Also, just to let you know, some of that was loans from banks to businesses that were then going to pay back through the woodland carbon credits, so there could be some double counting. Therefore, it is important that we collectively collect that data beyond just what financial institutions are investing in but what whole private sector is investing in. We do not really know, but we think that it is not £500 million.

Q398 **Chair:** It sounds from what you are saying that the quality of the data we have for Government to be able to assess whether or not that target is being met is not there right now.

Helen Avery: No. We spent an extensive period with Government and some consultants looking at what you could ask. The challenge is you ask, "What's your investment in nature restoration?" We do not know what nature restoration is, which is why it is important to use something like the environmental improvement targets as what you are looking for.

Q399 **Anna Gelderd:** Welcome, everyone. The Government have an international obligation to restore 30% of the UK's natural assets, land and sea, by 2030. On current trends, what contribution is the financial sector likely to make to that target for nature restoration through investment in natural capital schemes? Kate McGavin, I will come to you first.

Kate McGavin: That is hard for me to answer. We do not have a team within the organisation doing that kind of analysis. Perhaps Heather or Helen might be better placed to answer.

Dr Plumpton: The basic answer is that I am not sure that we know exactly. We have some data that Wildlife and Countryside Link has published on where we are towards 30 by 30 in general, and we are not on a great pathway. It is 3% of land at the moment and maybe 10% of seas, and we are aiming for 30% of both of those by 2030.

Yes, we are not greatly on track. I am not sure exactly whether we can say more detail about how the private sector is contributing towards that. One of the things to understand is that national parks and areas of special scientific interest are good candidates for where this could happen on land, but a lot of the land inside national park authorities is privately owned. Therefore, we are looking a lot of action on private land. It is important that we look at the farming schemes and we look at how private investment can be involved in those farming schemes to help deliver.

Public investment is obviously needed—I do not want to make the case that it is not, because it absolutely is—but we also need private investment to be pointing in the same direction. We cannot have a situation where public investment is doing one thing and private investment is doing another, or public investment is mopping up what has happened due to private investment. We need them both to be pointing in the same direction. They both have a role to play in delivering things such as 30 by 30 inside national parks and special landscapes as well as outside.

Q400 **Anna Gelderd:** Are you looking at that at sea as well as on land?

Dr Plumpton: We do not have a lot of expertise on the sea side of things, but is massively important and marine net gain has a role to play there. We would like to see the Government expanding biodiversity and net gain into the marine environment.

Helen Avery: I would reiterate this point. They have not been asked to contribute and so they are not going to—and they do not know what they would contribute even if you ask them to contribute. That is why this this idea of these sectoral transition pathways across the EIP targets is important. WWF and we fought for transparency. WWF's ideas are called nature positive pathways, but ignore that term: it is more reflecting how you deliver your domestic environmental targets. They are important and we have been talking to DEFRA about how we might start those next year for certain priority sectors such as construction and the agrifood sector.

That is what everyone is waiting for. If you want to take your NBSAP and your global commitments like 30 by 30 with your domestic targets and then ask what we are expecting businesses to contribute, in the same way that we have done for net zero, we need that. We often look to the financial sector, but from what we have seen, it is the business sector. The finance sector is ready and waiting to invest in anything that the business sector is willing to pay for in that switch between seller and landowner and business but we do not have that bit in the middle yet. There is no demand driver.

Q401 **Anna Gelderd:** Do you have any reflections on the best or the worst prospects for private investment in nature recovery? You are looking at those industry specifics, but do you have some ideas about the best or the worst place to be looking? Do any particular ones come to mind as good spaces for us to be looking at in the first instance?

Helen Avery: Do you mean which sectors to focus on first?

Anna Gelderd: Yes.

Helen Avery: The agrifood system rather than the sector administers many different players within it. We heard from Judicaelle earlier that everyone needs to pay, that it cannot just be left at the door of farmers. Construction is key to some of the Government's targets, so that is important, and then water. Our biggest nature-related risk in the UK is water shortage and water quality.

Q402 **Anna Gelderd:** Are there any other reflections about the best or the worst prospects for private investment?

Dr Plumpton: I would echo what Helen said. The priority sectors that we identified were the agrifood and the large food companies and the supermarkets and looking at what that looks like across the supply chain. That is one of the primary sectors that we would recommend looking at.

One of our recommendations is that the Government should set up a commission that works with stakeholders from the food industry, brings in nature academics and civil society to hash out what that might look like—what it would look like to have a policy where you are regulating the food sector and creating that real demand from the food sector to invest in nature-based solutions or to invest in nature recovery throughout their supply chain. That would be critical.

Water is another good candidate; there is a lot of discussion at the moment about regulation of the water sector. It feels like a prime time to integrate some of this nature stuff into that and think about how the regulation of the sector encourages rather than in any way prevents investment in nature from the water sector.

Q403 **Anna Gelderd:** Before I finish, are there any particular sectors to avoid that you think would be a bad prospect for us to be looking at?

Helen Avery: They all need to be looked at, at some point. Energy, for example, will up there. For the design of nature positive pathways and how they might look, we have gone through those three because they seem the most critical in terms of their impact and dependencies on the natural environment. However, obviously energy is also up there and you could keep adding and adding and adding over time.

Dr Plumpton: There are some things that you probably want to do economy-wide, like the Task Force on Nature-related Financial Disclosure. That is an economy-wide measure. There are some things that you need to do across every sector. Then if you want to look at developing specific kinds of compliance markets, maybe that is a more sector-specific job and you want to look at food and water and those things first.

Kate McGavin: I agree with that. We do not take a sector-based approach. Those disclosures are not the sole tool, but they are helpful demand drivers and an important part of the toolkit.

Helen Avery: Within those sectors, however, it is probably important to separate SMEs from larger companies. I know TNFD has some guidance around SMEs for the broader nature-related disclosures, but that would be a very different ballgame for SMEs than it is for larger companies in delivering against targets.

Q404 **Pippa Heylings:** If I hear what you are saying, would it be fair to say that even though we are leading on this in the UK, as we heard from Philip Dunne, this is not yet a market and the way that we create the market is by saying that this is the gap that is needed? We are saying that the target and therefore the gap that could create the incentives for any market within this would be set through the environmental improvement plan and then through our NBSAPs coming together, which then looks at each sector across that? That is where businesses, through compliance mechanisms, would then be financing this. However, you are saying that we have to create the market. It is a subsidised, regulated market; it is not a free market for natural capital.

Is that a fair summary of what you are saying to us at the moment?

Therefore, our next steps, our recommendation, are to define the boundaries of what we are purchasing and how.

Helen Avery: I can have a go at summarising what is in my head. Maybe that will play back to what you have said. We have several options. One is we have nature markets as a means of getting money out of the door. They are mainly offset-type markets at the moment, other than biodiversity net gain, which you could argue does not go far enough, in the 10%. We have those and they are a great tool.

What we need to also do—and it will be much bigger and get billions going, not the tens of millions that we will get through nature markets—is to get businesses to understand that they need to pay to restore nature and for nature-based solutions because it impacts their business risk. That might be that their labour force cannot get to work because of floods, so they need to pay for natural flood management. It might be that they have to prevent wildfires so that the labour force can come to work. It might be their supply chain. That is the bit that we are missing.

There are ways around that. One is the TNFD, which will be very helpful because it takes them through a framework of assessing that risk, but it is voluntary. Another way that we are looking at is can we go in and talk to businesses about doing that climate and nature risk assessment on a regional level and then match that up with the supply side so that you can then start investing in nature-based solutions in a region, for example. That is another option.

What would be very helpful is if we do have those environmental important targets assigned to sectors because that also drives that demand for businesses to say, "Okay, I'm going to sit down and look at my climate and nature-related risk. I've got these targets I need to meet. What can I invest in, in my landscape where I exist at that moment?"

There are a lot of different things and sometimes nature markets can get a bit confused with whole thing, but there are many options. Nature markets are probably the smallest of our options and we need a whole mindset shift for business. However, I do not know what my colleagues think.

Dr Plumpton: My take on it would be that markets need three things. You have to have market architecture, you have to have standards and governance and all those things, which in our view is where past Government policy has spent a lot of its time focused and thinking about. It matters and it is definitely important. You also need supply. That means high-quality projects coming through. That will be things that come out of landscape-recovery-type schemes. Those are the things that are at that scale, and those high-quality projects are things that investors can invest in, but you also need demand. Those are the three key elements.

Demand is where we have not seen sufficient focus from the Government and that is where the Government need to go now with their nature-financing programme. That could look like markets and they could be voluntary but that will not get us far enough. They could be compliance. They could be created by regulation. We could discuss how much that is like a functional market. Maybe it is just regulating business. However, other options go beyond markets and Helen said that out nicely. You could charge levies. You could look at fiduciary duties of companies. There are other ways of approaching the same problem of driving the demand. You are right that the investors are keen. The farmers are keen. It is the people in the middle. We need to require or heavily incentivise the businesses to make that investment in the middle. That is the key.

Q405 **John Whitby:** I have a question to any or all of you. How important is security of tenure over the land for investors considering investing in nature recovery schemes?

Kate McGavin: Investors love certainty. It is an important part of driving investment. The greater certainty the better, but there is always a trade-off. Some of the discussion on the previous panel was starting to explore this. Given it is a nascent market, I suspect we will need to test and learn a bit. We are starting to that, but it is clearly an important element for us to unpack and wrestle collectively with both investors and suppliers.

Helen Avery: I wholly agree. We are in such a dynamic field that I do not envy Governments in trying to set policies around it because even BNG will change all the time as we learn about whether it is working to deliver on the nature recovery need, but yet we do need that certainty.

On the testing and trialling at the moment, it would be wonderful if we were a bit braver in that. For example, the National Wealth Fund is fantastic and does an incredible job, but it is commercial returns. A lot of these projects need long, patient capital until we get the business demand online and probably 3% rates of return. Highlands Rewilding is an excellent case that did amazingly to get NWF funding to finance the bridge loan and it has done wonders for the reputation. It was 8% to 13%. That is like £1.1 million in interest that will have paid back. We need a different mechanism to maybe complement the NWF that offers patient capital so that these projects can get off the ground and the large estates and aggregated models that we heard from earlier can start to test some of this through. It feels like we might penalise early movers in this market when we do not in other industries. It is a little strange. I recommend that to your consideration as well.

Kate McGavin: If I clarify a little bit on that. We can do concessional finance and we can make a lower return and the cost of our capital is lower, which is enables us to do that, as well as the fact that when we look at our return, we do not just look at financial return. We look at a set of impacts as well that the Government ask us to prioritise.

The Highlands loan is a bridge loan and so it is a slightly different financial instrument that we would use compared to, for example, when we cornerstone the Greensphere fund. We have a range of financial tools at our disposal.

We always look for investments to make, but we are also conscious that we are managing public money and we are managing taxpayers' money. We need to take risk, but we need to take it prudently.

Q406 **John Whitby:** I have a topical question. Are the changes to inheritance tax relief on agricultural land likely to cause any issues for schemes that are required to be in operation for, as described earlier, 30 years to get realised benefits?

Helen Avery: It is not my area of expertise and so I will clarify. It probably will make some farmers nervous. To reiterate the point earlier, we need farmers to deliver. Otherwise, we will never reach our environmental targets. At present, we do not support them to do that. We expect them to take on a lot of the risk. That is as much as I can offer.

Kate McGavin: I cannot comment on the inheritance tax relief, I am afraid.

Q407 **Barry Gardiner:** Ms McGavin, in introducing the National Wealth Fund and the transition that you have made from the National Infrastructure Bank, you spoke of broader capital from Government. What did you mean by that?

Kate McGavin: We have two things. We have more capital. We have an extra £5.8 billion to deploy over the course of this Parliament. We will have a broader mandate. Under our previous guise, we were restricted to investing in infrastructure, but one definition in that underpinning Act is that natural capital classifies as an infrastructure class, which has enabled us to make investments in this area.

Q408 **Barry Gardiner:** I was worried that when you said it, you seemed to allude only to money and the greater financing that the Government had put in, but you recognise that we are now talking about natural capital alongside produced capital, roads, bridges, buildings and social capital.

When you spoke a moment ago, you talked about needing to ensure that you had a return on the investment. That is absolutely right. Why should the return on that investment have to take the form of money rather than of improved natural capital? If it were a bridge or if it were a road, you would quantify the benefit and say, "Here is our return." Why are you not yet in a position to do that or are you in a position to do that for natural capital?

Kate McGavin: When we make investments, the first thing to say is that this is in our financial framework from our shareholder, the Treasury. We are required to make a return across our portfolio of 2.5% to 4%. That is set by our shareholder.

However, when we go into investments, we look at what we call the triple bottom line. We look at making sure that we are in that overall blended return target. We look at making sure that things are within our mandate. We also look at whether they have an impact against the objectives the Government have set us around supporting net zero and/or local or regional economic growth. That allows us, when we assess an investment in front of us, to think about, as you say, the return and the impact that makes as well as ticking the financial return box.

Q409 **Barry Gardiner:** Yes. We are still adopting a model that says our economy has different sectors and one is nature, whereas in fact it is the other way around. Nature undergirds the entirety of our economy, whether we talk about the financial economy and the return the Treasury wants on it.

I wonder. Dr Plumpton, the Green Alliance has suggested some changes to how the National Wealth Fund might operate along the lines of the definition of nature-based solutions as infrastructure being defined in the Act and extending the fund's statutory objectives to include the UK's biodiversity targets, rather than always going back to pounds and pence in assessing the rate of return.

Would you like to advocate for what your organisation has already said it believes in? Maybe, Ms McGavin, you would like to respond.

Dr Plumpton: Yes, absolutely. Thank you. First, the UKIB as it was and now the National Wealth Fund has done some great work on natural capital, and we absolutely want to see it continue.

Barry Gardiner: Absolutely. I am not trying to beat people over the head here.

Dr Plumpton: No, absolutely. I probably should say first off that we absolutely want to see it continued. We are concerned that there is a risk in the transition to the National Wealth Fund and that that nature-based remit could get lost in the process because that was part of the UKIB structure. It needs to become a more formal part of the National Wealth Fund's structure. Bringing that legislation before Parliament will be a good opportunity to make that clear.

Q410 **Barry Gardiner:** Do you wish this Committee to make that recommendation in its report?

Dr Plumpton: I absolutely encourage the Committee to make that recommendation in its report.

Barry Gardiner: Thank you.

Dr Plumpton: Part of that is about getting nature as one of the statutory objectives. They have climate at the moment. They also have economic goals. Nature should be up there as one of those three statutory objectives. The meeting of environmental targets beyond carbon should be enshrined within the bank's achievements.

That could be operationalised partly through asking the bank to meet a certain set of KPIs, which could include a natural capital KPI or a natural capital target, and investment in nature, and for those returns to be evidenced for natural capital. Potentially, you could retain that rate of return investment across the portfolio. We need to maximise other things at the same time as those alternative KPIs. That would potentially help the National Wealth Fund to do more natural capital investment, which we would like to see.

Q411 **Barry Gardiner:** That would create greater national wealth. It is important that we get back to the good name of what used to be the Infrastructure Bank and say it is about creating wealth in this country. As we all know and as Dasgupta made clear, as well as many others, GDP is a poor indicator of wealth. It is an indicator of productivity, perhaps, but not of wealth.

You advocate that we replace the duty to generate a return on investment in the Treasury sense with a broader set of metrics of success, including nature restoration and building natural capital, as part of the return on that investment, rather than seeing, as it is at present, a nice-to-have add-on?

Dr Plumpton: Yes, absolutely. I absolutely advocate that. I echo your statement on wealth there. If ever there was an institution created that encapsulated what the Dasgupta review asked the UK Government and other Governments around the world to do, it would be a national wealth fund that looked at nature as one of those assets that builds our natural and national wealth base. A national wealth fund in that view or a Dasgupta version of it would invest in nature as part of our national wealth for that purpose.

Q412 **Barry Gardiner:** Do you wish to see us move to what does Dasgupta called an inclusive wealth model?

Dr Plumpton: An inclusive wealth model, absolutely.

Q413 **Barry Gardiner:** Thank you. Ms McGavin, would you like to respond now that I have set up the skittle for you to knock down?

Kate McGavin: Yes. The debate about wealth is interesting. Our shareholder has not defined exactly what sits under that. It is an interesting topic. The Government have been clear that they want us to support their growth agenda in all its many guises and we are at an early stage of that.

I would say about your remarks, Heather, and your good report that these decisions are for the Government and Treasury as our shareholder and so it is hard for me to comment on that, but certainly at the moment we already have a set of impact metrics that sit alongside our return target. Our shareholder, I am sure, will look at all the definitions of impact and will give us a steer on how it would like us to do that when it gives us a new strategic steer next year.

Q414 **Alison Taylor:** Thank you. Dr Plumpton. The Green Alliance's proposals for increasing private investment in nature markets seem to rely on Government action to increase obligations on developers and companies. Would you care to comment on that?

Dr Plumpton: Yes, in our view of the situation of the policy at the moment, it has focused on creating the conditions for the voluntary market, those standards pieces that Philip was touching on earlier and moving towards having the governance in place to govern that market, which we are hoping to see the consultation on soon.

That will only take us so far, building on what Helen was saying earlier about the voluntary space being well and good, but it will not deliver the scale of nature restoration that we need to see to meet our commitments, like 30 by 30. We will have to seriously look at what would drive demand for business to invest at a serious scale. Part of that is about like making those risks clear and making those pathways clear. The work that GFI and WWF are doing on nature-positive pathways for business sectors is super important and useful, but we cannot rely on the enlightened interest of businesses that are willing to put the money forward. We will have to look at moves to make this work at scale.

As part of that, you could look at mechanisms that create obligations on businesses and different sectors. Regulation can be designed smartly and can incentivise innovation inside business supply chains. Regulating business does not have to be negative. You can do positively and you can do it in dialogue with business.

One of our main recommendations is to start by looking at the food sector and to open up a commission that brings in people from industry and to talk to supermarkets and other large food companies about what they are trying to do and where they are trying to get to and what they think is possible, in combination with the input from academics and civil society about what good would look like for nature and to work through those knots and those tricky issues and find something that could be workable and design from there.

Then I suppose the other way to look at it is to change the incentives for companies themselves. One recommendation we put forward was about changing and expanding the duties of company directors to include nature protection. The advantage of that is that it takes action right at the top of the mitigation hierarchy, before any damage has been done. You do not compensate for it after the fact. You change the incentives that drive business operation in the first place. Coming at it like that would change the purpose of business action in the first place.

Q415 **Chair:** Dr Plumpton, you said earlier that public and private sector investment needed to be pointed in the same direction, but is there an argument that some of these are well suited for private investment where maybe the returns are clearer, where there are other cases, which is about public spending rather than investment ultimately leading to profit? Is there a danger that this push towards markets prevents the Government doing fundamental Government responsibilities? Do public and private sector investment need to be pointed in the same direction? Is there an argument that sometimes they are different?

Dr Plumpton: That is a good question. The public sector definitely has a role. The principle that underpins the agricultural policy in the UK that public money should pay for public goods is fundamentally right and good. I would not want to do anything to contradict that. That should remain.

The trouble is that you could have a perfect system where public money paid for public goods and private money paid for private goods and it would all be completely aligned. In reality, it does not work like that and it is much messier. You sometimes get public money paying for private goods.

The Environmental Land Management Scheme as it is set up at the moment is an example. Previously, things might have been paid for through private sector joint working. 3Keel set up schemes called landscape enterprise networks. Businesses come together to pay for soil carbon restoration and work on farms that improves the sustainability of their supply chain. Previously, they paid for that through private money. SFI now pays for some of those things.

We use public money to pay for a private good in some instances. There are lots of messy lines here. It is not easy to work out.

I guess my overarching view on it is that the public sector cannot pay for the damage that has been done to nature by the private sector. That cannot be the endless loop that we get stuck in where the private sector damages nature and the public sector steps in to restore it, partly because those two flows of money are completely different in scale and so you will never be able to restore all of that with public money. You have to redirect to the private finance flows so that they contribute to the recovery and the restoration of nature.

Q416 **Chair:** Okay. Ms McGavin, what is your response to that whole question about whether public spending and private sector investment—maybe partnered with Government—are distinct and we should accept that?

Kate McGavin: Having a clear common goal and a clear set of objectives is important for both partners. I agree with Heather that the gap is too big for public finance to ever bridge in and of itself, but some grants and some public intervention will always have a role.

When you make support for natural capital part of that cost of doing business, you will help unlock other private finance flows. We have talked about some of the different ways that that is made possible.

Also, institutions like ours are important because that is where the blended finance models start to become apparent. We can, as I say, test some of that out and learn from it. We can, hopefully, also provide some international leadership to show what is and is not possible. That blending is an important part of the mix.

Q417 **Chair:** Ms Avery, we heard from an earlier panel about biodiversity net gain. It is in its infancy but, nonetheless, is being closely monitored. What does that tell us about this subject and the success or otherwise of its current implementation?

Helen Avery: It is early days of biodiversity net gain. The model should work. As I mentioned earlier, it remains to be seen if 10% will deliver on the nature recovery need. As has been well said before, LPAs not having access to ecologists and the right resources is a challenge. We wanted offsite habitat banks and developing onsite seems to have some loopholes, which does not get to the root of the reason it was set up.

Many other countries have mitigation banking models. I know we often say BNG is a first, but it is not. They do work for the fact they are regulated, but you have to keep constantly being on them and improving on them. I feel like we have said that that will happen with BNG.

My concern is that we are at a point—and we know this—where we cannot roll back public sector funding in the environment and pretend that the private sector will pick it up. Both public sector investment and private sector investment have to push forward and increase. The only concern people have at the moment is that we look at these markets as a means of saving money on the environment and having the private sector pay. That will not work. If anything, the private sector will say, "Where is your skin in the game as well?"

That is what I say about the markets piece. There is a high focus on it and a concern that we will not put extra money in from the Government.

Q418 **Chair:** Thank you very much. I have one final point as we bring this session to a close. Would you like the Committee to consider any final points before it makes its recommendations that you may not have had the opportunity to cover or any points you want to stress? I start with you, Ms Avery.

Helen Avery: I made the point on the fact that we have to turn the EIP targets into practical delivery for business. That will help us to understand some of the challenges between delivering net zero and nature together, the cost of that to business and the investment we then need. That is where the National Wealth Fund could step in with those big investments.

We still need a delivery mechanism that can offer patient, low-rate loans to smaller projects. I know the mandate is not there for the NWF. There are mechanisms around that. The Transition Finance Market Review suggested a transition finance lab could be part of that. Those two are probably my key points.

Q419 **Chair:** Dr Plumpton, what are your key points? Also, the final stage of this inquiry will be to hear evidence from the Minister responsible, Minister Creagh. Would you like to add any responses or any additional points and, also, any asks you would make of the Minister or questions you would ask her?

Dr Plumpton: Thank you. Yes. What I would like the Committee to consider in its final report for this is to ask the Government to look seriously at the demand side of this market, if it will be a market or if it will be beyond a market, what we will use to drive demand, and to set out a roadmap. We have called for the Government to set out how they plan to drive demand from private finance, partly so that the private sector itself can have some visibility of what is coming. That could look like the timeline for when TNFD will be made mandatory. They also need to go further than that as a "yes and". TNFD is the bare minimum for getting some action in the voluntary space, but we need to go much further than that. That is the main recommendation I would like to recommend to the Committee.

Then, as one main mechanism that you could consider recommending to work out the details of that, we should have some formation of a commission or some public body like that that brings the food industry together with the academics into a room to hash out those details, work out what can be done and move us forward into something agreeable to all or possible at least for all sides. Those are the two main policy recommendations.

I suppose my question to the Minister if I got to ask the Minister a question would be: how does she see the demand side of things developing? Where does she see that going? What sectors would she like to focus on? How do they plan to work out what that will look like? Who will they engage? Will they engage industry? Will they engage civil society? What will that look like? Yes, we would love to be involved in that if she goes down that route.

Chair: We have taken a note of that question. Ms McGavin?

Kate McGavin: No further remarks from me. Thank you.

Chair: Okay. Thank you to all three of you for the excellent evidence you provided. I bring this session to a close.