

## **The Environmental Audit Committee**

### **Call for Evidence : Biodiversity and Ecosystems**

**Evidence submitted by Professor David Hill CBE DPhil(Oxon) CEnv FCIEEM**

**Chairman of The Environment Bank Ltd**

#### **Summary**

I am pleased to be able to submit this evidence on behalf of my company, The Environment Bank Ltd. I explain the Environment Bank's role in biodiversity net gain and offsetting and I set out the basis for the evidence, which concentrates on biodiversity net gain, the role of environmental markets and the private sector, and the framework that Government should provide in order to ensure the necessary funds are available to restore biodiversity at scale.

An overarching theme of my evidence is that we have to move away from biodiversity and nature conservation just being the domain of the environmental NGO's – it is critically important that private sector finance is leveraged into private landholdings to provide the scale we need to deliver biodiversity restoration and climate resilience. Only then will the Nature Recovery Network have a chance of being delivered. I set out how we should do that. The creation of a framework for environment markets will also generate significant job opportunities in challenged rural communities and provide swifter economic recovery from the Covid19 pandemic.

I also provide a critique of Natural England's role as there is a significant danger that their interference in a market for biodiversity credits will prevent a market developing, the result being substantially less funding available for the natural environment.

I highlight the role of Corporate Natural Capital Accounting as the means to leverage significant funding whilst improving a corporate's environmental performance, and the concept of Conservation Property Relief as an incentivising mechanism to ensure landowners bring forward land at scale.

#### **1. Introduction**

I am submitting this evidence on behalf of the company I founded in 2007, The Environment Bank Ltd. I established the company in order to lobby for, and deliver, a better way of managing biodiversity impacts within the planning and development sector, and I introduced the concept of biodiversity offsetting and net gain to the UK which is about to become mandated in planning law through enactment of the Environment Bill.

I am first and foremost a passionate conservationist. I chair Plantlife International and the Northern Upland Chain Nature Partnership which covers the Yorkshire Dales and Northumberland National Parks, Nidderdale, North Pennines and Forest of Bowland Areas of Outstanding Natural Beauty. I am a Board Trustee of the Esmee Fairbairn Foundation, a Commissioner with the Food, Farming & Countryside Commission, and co-founder and non-executive Director of the NatureSpace Partnership that has developed a more cost-effective and successful way of managing European protected species through the planning system using District Licencing. I was previously Deputy Chair of Natural England, a board member of the Government's Joint Nature Conservation Committee and a member of the Government's Ecosystem Markets Taskforce. I have worked for 30 years in the development sector advising corporate clients and developers on the environmental impacts of their projects involving ports, minerals and waste, housing, distribution centres, energy/renewables, recreation, highways, airports, infrastructure and water.

## **2. About the Environment Bank**

The Environment Bank is the UK's leading provider of Biodiversity Net Gain (BNG) delivery through habitat banking and bespoke offsetting and is the only organisation to have successfully delivered offset sites at scale in the UK.

We are a biodiversity compensation brokering and consultancy company. Established in 2007 Environment Bank has built a highly regarded national reputation, working closely with Government and its advisors and was a critical partner in the Government's piloting of biodiversity offsetting in 2014, providing pivotal support to Natural England and Defra during the development of the Biodiversity Offsetting Metric which has been established as the standard by which biodiversity impact accounting of all development is undertaken.

The Environment Bank holds the largest registry of suitable land available for use as bespoke offsets and habitat banks in the UK, enabling sites to be brought forward quickly and efficiently, reducing cost, delay and uncertainty during the planning process, and has a tried and tested delivery model for the creation and management of sites.

We measure biodiversity impacts caused by developments, we establish offset sites with landowners, farmers and conservation bodies that generate conservation credits according to a variety of management interventions, and we sell these credits to developers who require them in order to make their developments compliant with policy. This creates new wildlife habitat through nature recovery, doing so at scale as mandatory biodiversity net gain becomes embedded through the planning system.

## **3. The basis of the evidence**

Much of my evidence will be confined to those areas with which I am directly involved ie largely the use of environmental markets for generating investment into the natural environment, such as through the deployment of the biodiversity net gain initiative. I will concentrate on the framework and mechanisms that Government needs to put in place to enable an effective market to function. My overarching point is that nature

conservation, biodiversity and ecosystem protection must not be simply the domain of the environmental NGO's. It must be a mainstream factor in everything we do as individuals, society, communities, business and industry.

The particular areas on which my evidence focuses are as follows :

- a) The state of biodiversity
  - Where should the four nations prioritise resources to tackle biodiversity loss?
- b) Evaluating measures to conserve and enhance biodiversity
  - How effective are the new measures to enhance biodiversity within the Environment Bill, particularly biodiversity net gain and Nature Recovery Networks? Do these measures complement existing regulatory frameworks and address issues surrounding how to value nature?
  - How should Nature Recovery Networks be planned, funded and delivered?
- c) Economics and biodiversity
  - What are the possible approaches to balancing economic growth and conservation of nature and its contributions? Is there evidence these approaches work and can be implemented?
  - What does the UK Government need to do to maximise human prosperity – in terms of health, economic, and social wellbeing—within the ecological and resource constraints of a finite planet? What alternative models and measures of economic welfare can feasibly help achieve this?
- d) Pairing nature-based solutions to climate change to biodiversity
  - How can funding be mobilised to support effective nature-based solutions to climate change? How can the private sector be encouraged to contribute to funding?

#### **4. Responses to questions**

##### **a) The state of biodiversity**

- Where should the four nations prioritise resources to tackle biodiversity loss?

Since the key losses in ecosystem functioning and biodiversity have been the result of impacts from agricultural intensification and built development, including infrastructure, the four nations should have a collective and cross-country standardised mechanism for restoring nature within these sectors of economic activity. All agricultural production practices should be assessed through an environmental impact assessment process, as is the case with development. Damaging operations and those that cause significant externality impacts and hence hidden costs, should be required through policy, to deliver environmental gain, which would include purchasing offset credits. Effectively, a biodiversity or environmental net gain approach should be introduced to farming systems as is being introduced to the development sector. In

agriculture, this would favour transition to an agroecological approach to food production. Similarly, all devolved nations should mandate biodiversity net gain into their planning systems.

**b) Evaluating measures to conserve and enhance biodiversity**

- How effective are the new measures to enhance biodiversity within the Environment Bill, particularly biodiversity net gain and Nature Recovery Networks? Do these measures complement existing regulatory frameworks and address issues surrounding how to value nature?
- How should Nature Recovery Networks be planned, funded and delivered?

We very much support the Government's excellent initiative of biodiversity net gain (BNG). It complements existing regulation by focussing on compensation for impacts on sites outwith the protected area series (ie SSSI's, SPAs, SACs). However, we are of the view, informed by our, probably unrivalled, experience in this area, that there are a number of flaws in the current approach which are likely to substantially impact on the effectiveness of the measure and place the initiative at risk unless challenged and resolved. These matters have been raised several times with Natural England directly, but we remain concerned as to how their intervention could impact on a market for offsets being developed.

Once these weaknesses have been addressed, however, BNG will enable the UK economy to bounce back from the economic hardships caused by Covid19, showcase how the UK's exit from the EU delivers for the environment and will support the government's recently announced ambitions to improve the health and wellbeing of its citizens whilst delivering the nature recovery at the scale that we need.

To drill down into our concerns, the key issues are :

- (a) why Natural England is engaged in bringing forward sites on which BNG funding (collected by Natural England) will be spent – this will be delivered by the market and Natural England does not need to be involved;
- (b) why a general tariff is to be available when habitat creation and 30-year management costs vary significantly across the country based on location, geology, geography, hydrology, habitat type created and managed. A general tariff will not work - we know that from our unrivalled experience in creating bespoke sites across the country;
- (c) why Natural England is engaged in the market for credits at all – this will prevent third party investors from coming forward and entering the market, creating sites upfront from which biodiversity credits are generated and sold to developers according to local demand. The result will be much less investment going into the natural environment and a continued overreliance on the public purse, something we have been trying to demonstrate to Natural England to be the case because we know how markets work;

- (d) why does Natural England instead not focus on the creation of an accreditation mechanism for (i) brokers such as the Environment Bank, (ii) habitat banks (sites), which will have the effect of keeping standards high and preventing a race to the bottom.

We applaud and commend the visionary leadership from Government over the past 10 years to bring about the maturity of thought and political consensus for BNG to the point it is to be made mandatory. We brought the concept to the UK back in 2007 when we established the Environment Bank and supported the Conservative Government's inclusion of it in the 2011 Natural Environment White paper. Whilst we welcome the role that Government will play in supporting the mechanism needed to deliver BNG during the early phase of this visionary and ground-breaking policy, we do have concerns about this well intentioned intervention and its negative impact on the free market and we would like assurance from Government, especially HM Treasury, as to how it will ensure Natural England do not undertake anti-competitive practices, distort market pricing mechanisms and create barriers to entry; and that it has in place an agreed, transparent exit criteria and strategy with Natural England. The effectiveness of measures to enhance biodiversity within the Environment Bill relies on these issues being resolved.

Specifically, we would urge Government to determine :

1. How Natural England will ensure that when calculating offset credit prices, it does so in a way that it includes return on investment provision, shareholder dividends provision and profit margin. These are all features of a private sector pricing mechanism, but because Natural England is financed by the taxpayer, and does not have shareholders, then by omitting these costs from its pricing mechanism it will distort the market and be anti-competitive thereby artificially driving down the price of the credits offered.
2. How Natural England will ensure that when calculating its offset credit price it excludes the economies of scale it derives from being part of the central government procurement mechanism. Private sector organisations do not benefit from the centralised purchasing power of central government and will be at an immediate disadvantage if these cost savings are not omitted when Natural England sets its offset credit price within the market. Moreover, Natural England benefit from Treasury backing which negates the need for a raft of insurances and the associated costs which private sector companies need to have. Failure to omit these benefits from the Natural England credit price will distort the market and be anti-competitive thereby artificially driving down the price of the credits offered.
3. How Natural England will ensure that the economies of scale derived from the very successful Defra shared services model will be omitted from its offset credit price calculations. The shared service is hosted by Defra and delivers services to Natural England that include its ICT infrastructure, an enormous and highly effective communication and marketing provision and its HR function- achieving millions of pounds of savings annually to Natural England. If these savings, which are derived as a result of working cross-departmentally across a number of

publicly funded organisations, are not omitted from the Natural England pricing calculations then the Natural England credit price will distort the market and be anti-competitive thereby artificially driving down the price of the credits offered.

4. Finally, how Natural England will guarantee to exit the scheme after a maximum period of two years. If there is no date for exit, the market for biodiversity credits will not mature (or even develop) leaving a serious shortfall in the investment that the private sector will otherwise make into the natural environment, placing ever further pressure on public funding if the whole system is not to collapse.

We raise these weaknesses because we fear that if left unresolved they will at best artificially distort the market by allowing Natural England to use the public purse to drive down the market price of biodiversity credits. This will cause the existing companies in the market to leave and will prevent new entrants and investors from joining the market; ironically artificially creating the market conditions that require a prolonged or permanent presence by Natural England in the market. At worse, it will result in those opposed to this flagship and visionary policy to challenge its implementation on the technical grounds I have identified above.

I would suggest that this could be a policy agenda that is better delivered by MHCLG and Local Authorities who are much more able to deliver across multiple policy areas, rather than by Natural England who could then focus on their main statutory duties concerned with protected sites and species in the terrestrial and marine/coastal environments.

A further issue concerns the practical delivery costs of BNG. We have modelled the costs of retaining/creating BNG within the development site boundary versus using off-site areas. Locating just 10% of the overall BNG requirement on site costs c.18 times that of placing all of the requirement off-site as a result of impacts on the development's viability by reducing the net developable area and by taking up development land for which development land prices have been paid. There therefore has to be flexibility and choice on the part of the developer as to how and where they will deliver their BNG. There will therefore be pressure to off-site as much of the biodiversity net gain requirement as possible and the market will provide offsite areas as long as Natural England do not interfere in the market.

The ambition to create a 500,000ha Nature Recovery Network (NRN) as enshrined in the 25-year Environment Plan and Environment Bill to be enacted in early 2021, is to be hugely welcomed, but will not happen if it remains only the domain of the environmental NGO's. One of the barriers to entry for the private landowner is how inheritance tax is applied. Land put down to conservation needs to have the same treatment as land used for agricultural production in terms of how it is treated for inheritance tax. I have written a short piece (Annex 1) introducing the concept of Conservation Property Relief which would treat conservation in the same way that Agricultural Property Relief treats farming for the purposes of inheritance tax.

Fundamentally, there needs to be the means by which private investment can be invested in private landholdings, at scale. It is therefore critical that emphasis is placed on how the NRN is financed.

I have published papers on creating the *restoration economy* using three sources of funding which the Committee may find helpful - a) the Environmental Land Management scheme (value eg £3.2bn per annum), b) biodiversity net gain from development (value eg up to £1.2bn per annum), c) sales of credits from corporate natural capital accounting ie natural capital/biodiversity disclosure (value eg £3bn per annum). These three funding streams could deliver the NRN within 2.5 years (based on Ridley & Hill 2018, extracted table attached at Annex 2). A think piece on corporate natural capital accounting is presented in Annex 3 to this evidence.

It is, though, important to recognise that over the past 20 years we have had a number of spatially-literate 'plans' for restoring wildlife habitat/nature/ecosystems - for example, Ecological Restoration Zones, Nature Improvement Areas, Local Nature Partnership plans, Important Biodiversity Delivery Areas, Wetland Vision, Futurescapes, and Living Landscapes. These have each, and in combination, delivered limited biodiversity value at scale. I am therefore sceptical of the local nature recovery strategies initiative that is expected to feed into the Nature Recovery Network at a national level. The eNGO's and Government (most recently Natural England) are spending a lot of resources in mapping where they would like funding to be targeted. However, the two key problems of the approach are the lack of access to the land and the lack of access to finance at a scale sufficient to restore nature.

There therefore needs to be significant flexibility in the locations of habitat creation, restoration and enhancement otherwise the perverse outcomes will be a) inability to deliver because the landowner is unwilling to participate, b) ransom values attributed to land management if a landowner's site is included on a map of desirability, for example to unlock development. Any network plan needs the flexibility to be modified according to what is practically achievable on the ground. It would be perverse not to establish a habitat bank that will ultimately restore nature at scale, purely because the site doesn't conform with a nature network strategy. By having too strict a regime many landowners will be prevented from bringing forward land for nature recovery purposes and the whole system will be brought into disrepute.

### **c) Economics and biodiversity**

- What are the possible approaches to balancing economic growth and conservation of nature and its contributions? Is there evidence these approaches work and can be implemented?
- What does the UK Government need to do to maximise human prosperity – in terms of health, economic, and social wellbeing—within the ecological and resource constraints of a finite planet? What alternative models and measures of economic welfare can feasibly help achieve this?

It is critical that we change the whole narrative around economic growth and nature. The OECD reported in 2012 that over 40% of global GDP (though it is acknowledged that GDP is a poor measure of progress) relies on what nature provides. Many observers believe this is an underestimate.

All corporates, institutions, businesses and public sector bodies should be required to undertake natural capital accounting (see Annex 3), reduce their own impacts and those of their supply chains as much as possible, and then pay to offset the residual, buying into nature-based solutions under capital expansion programmes to facilitate ecosystem enhancement and protection, habitat and species conservation, water conservation, carbon sequestration and a fast transition to agroecological approaches to farming. We need a series of large-scale pilots.

Alignment of major fund managers so that they demand natural capital accounting by listed companies would be a start (this is already happening but needs to be escalated). Investment risk needs to be attributed to those businesses that will not participate, impacting on their ability to attract the investment they need, switching investment to those who are accounting for their impacts. Economic activity needs to demonstrate environmental net gain in order to restore the systems on which we and future generations rely.

In terms of maximising human prosperity, we need a major shift in our perception of quality of life based on consumption. In all walks of life we see value and worth based on how much we consume. This is a major ask but reversing our values away from consumption will be critical. Whilst our own consumption is someone else's livelihood, ultimately if we continue our consumption patterns as we have done during the 20<sup>th</sup> and 21<sup>st</sup> centuries, we will create a massive negative impact on equality.

#### **d) Pairing nature-based solutions to climate change to biodiversity**

- How can funding be mobilised to support effective nature-based solutions to climate change? How can the private sector be encouraged to contribute to funding?

We should largely move away from the predominance of 'grant-based' funding models in the environment and instead identify how to build and support the development of environmental markets. We have been wedded to handouts to achieve environmental outcomes for many years but, ultimately, we need to see the environment as a series of investable assets rather than treating it as a charity case. There is obviously room for grant funding (at even enhanced levels) but in order to deliver the scale of change needed to build climate resilience and reverse biodiversity loss, the impacts from which it is almost unanimously agreed represent existential threats to our own civilisation, we will need substantial finance. This will not be paid for by the public purse, the third sector, philanthropy or supportive foundations. We have to focus on creating environmental markets that enable investment into the natural environment where that investment generates a return.

This is already happening to an extent but there is a huge amount more that Government can do to create the framework for investment and the creation of markets. It is often difficult to see the value in some of the institutional bodies that have or continue to operate in this space. For example, the Green Investment Bank had a mandate to invest in biodiversity offsetting but never did. Similarly, the Green Finance Institute doesn't seem to be able to operate at a scale that will really make a difference.



It appears 'from the outside', that both organisations have only really invested in renewables; the environmental challenges need far greater and wider investment.

Government should focus on the scale and direction of the investment required to ensure the effective restoration, enhancement and protection of natural capital and natural resources and set up the framework for doing so. This requires global cross-country collaboration and delivery. What Government must not do, however, is interfere in the development of a market, to which I have already referred.

We should make it a requirement that the environment features across all Government departments in an interconnected way, rather than being siloed within Defra, competing for funds from other sectors.

People's quality and extent of life is inextricably linked to the quality of their environment at both micro (local, regional, national) and macro (global) scales. The changing perceptions, priorities and policies of previous, successive and future governments represent one of the major risks to delivery of an holistic framework for environmental recovery. That risk must be removed if we are to truly tackle the problems we face from environmental collapse.

## **Reference**

Ridley, M. & Hill, D. (2018). The effect of innovation in agriculture on the environment. Institute of Economic Affairs. Current Controversies No.64. pp 106. IEA November 2018.

## Annex 1

### Conservation Property Relief

The Environment Bank are regularly being asked by landowners and farmers as to the treatment of land that they may put into bespoke offset sites and habitat banks in respect of inheritance tax. Not only does this affect our (bespoke offset and habitat bank) sites but when one considers that the Government has the admirable ambition for the creation of the nature recovery network (NRN) of 500,000ha, and full roll-out of biodiversity net gain (the majority of which will need private sector landholdings because that is more effective than using developable land within the boundary of the development site), in addition to the likely scale up in corporate natural capital accounting whereby corporates are looking to buy conservation credits to offset their own impact on natural capital, then the treatment of the land for tax purposes will become a critical issue.

We believe that forestry is exempt (because it produces a crop), Agricultural Property Relief applies to productive farmland, but what happens with wildflower meadows, conservation woodlands, wood meadows and wetlands that Environment Bank are promoting with landowners that will be the backbone of the NRN? Whilst the eNGO's and Natural England are engaged in working out local nature recovery strategies, the sites they may choose will largely involve other people's land and access to that land for the purposes of the NRN is not guaranteed. The eNGO's certainly don't have access to that land, nor will much of the NRN be delivered by the eNGO's because they operate at too small a scale to make a major contribution to nature recovery in the wider countryside. The NRN and nature recovery as a whole can only be delivered through private investment into private landholding.

It is therefore most important that we understand the disincentivisation of inheritance tax in facilitating nature recovery at scale. Surprisingly, Natural England do not have this on their radar. In my view, therefore, we need to establish a system of Conservation Property Relief so that land put into nature recovery isn't penalised over intensive agriculture which would indeed be a perverse outcome.

I have set out my understanding of how APR operates and how conservation by private landowners may or may not be covered based on questions recently raised by landowners to our staff. My understanding may, of course, be incomplete.

1. If the land continues to be part of the farming operation in that the land produces an agricultural crop such as premium meat from the grazing of livestock, which are used to manage the habitat, then it would qualify for Agricultural Property Relief and would therefore be excluded from the farmers/landowners estate for inheritance tax purposes. In most types of habitat that Environment Bank create and would continue to create ie wildflower meadows, wet grasslands, neutral grasslands, wood meadows, it

would be necessary to have some grazing since this is more cost effective than using machinery for cutting (though a hay crop taken by machinery would be used on the wildflower/hay meadows but then the aftermath would be grazed).

2. All other land is considered to attract inheritance tax treatment. There are exceptions for land taken out of agricultural production and put into nature conservation if they are part of the 'Habitats Scheme,' which, as I understand it, is a series of nature-based conservation interventions including woodlands. However, as it stands at the moment the allocation of land to a Habitat Scheme as defined by HMRC is based on its historical inclusion in eg Countryside Stewardship, set-aside (which was terminated), or Habitats Regulations sites where management for nature conservation is the key theme.
3. There could therefore be a grey area where farmers and landowners enter into a habitat bank or bespoke offset site and are not generating income from it through farming and the land would not be in a Habitats Scheme compliant scheme. It is therefore possible that the land would be exempt from Agricultural Property Relief and its value would attract inheritance tax. However, many of the estates Environment Bank works with have their land protected from inheritance tax if they operate the landholding under a Trust. Then there would be no inheritance tax to pay, again as I understand it.
4. The key question is therefore why should landowners obtain 100% tax relief on land that, whilst it produces food, also generates significant externality costs to the taxpayer, when land that doesn't, ie because it is put down to conservation, is exempt from the relief? This is a perverse outcome. Indeed, if one considers the Government's plans for a Nature Recovery Network of 500,000ha, and the fact that this will never be delivered by the eNGO's because they do not have access to sufficient land (land rarely comes on the market and if it does it is invariably in the wrong place to deliver coherent ecological value) let alone access to the finances to achieve it, then Government should incentivise land being put down to conservation, and should therefore introduce Conservation Property Relief. This is especially the case in view of the fact that land management for nature recovery will create a diversification to the income streams for farmers and landowners which is going to be especially important post-Brexit. In doing so, nature recovery will be mainstreamed, the income generated from biodiversity net gain, environmental net gain and corporate investment into ecosystem resilience, will support challenged rural communities and nature delivery will transition incomes from reliance on farm subsidies.

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## Annex 2

How the three funding streams could finance the Nature Recovery Network if based on 'habitat banks'. (From Ridley & Hill 2018).

		Unit
Cost of creating, enhancing and managing a 40ha habitat bank (neutral grassland-wildflower meadow with structural boundaries)	£1.585	M
Capital and management cost represented as an annual sum per year	£1.58	k/yr/ha
Period over which fund applies	25	Years
Value of fund from Pillar 1 CAP	£3.2	bn/yr
Value of fund from Pillar 2 CAP	£0.4	bn/yr
Value of fund from net gain/offsetting (NG)	£1.2	bn/yr
Assumed value of fund from corporate natural capital accounting (CNCA)	£3.0	bn/yr
Area of land brought into habitat banking – exc. CNCA and NG	90,850	ha/yr
Length of time to deliver the 500,000ha Nature Recovery Network – exc. CNCA and NG	5.5	Years
Area of land brought into habitat banking – inc. CNCA and NG	196,845	Ha
Length of time to deliver the 500,000ha Nature Recovery Network – inc. CNCA and NG	2.5	Years

## **Annex 3**

### **The next big thing: Corporate Natural Capital Accounting**

It goes without saying that one of the key components needed to address the emergencies we face from climate change and biodiversity loss is how we use land in the years ahead. The transformations we need involve changes to cropping regimes through a switch to agroecological approaches to growing our food through regenerative agriculture, protection and enhancement of existing and creation of new habitats, better water resource management and much greater consideration given to the appropriateness and location of development and infrastructure.

I've spent the last 14 years addressing the latter and with the imminent introduction of mandatory biodiversity net gain I believe we now have a mechanism that will generate significant investment into the natural environment by enabling development to pay the true cost of the use of land.

But of course, development represents only part of the story of impacts. Practically every business and corporation creates impacts on natural capital in some way. Work is afoot to enable those impacts to be measured. When they can be measured they can be reduced. Where reductions in impacts cannot be viably achieved then corporates need to offset their impacts and I am promoting the idea that they could buy conservation credits to build resilience into ecological systems. In so doing, we will have a natural environment that improves the opportunities for future generations, improves the sustainability of our economy and improves productivity.

#### **Initiatives and ambitions**

Over the past three years there has been a 'revolution' in ambition and policy development to tackle these existential threats, notably the Government's 25-year Environment Plan and Agriculture and Environment Bills currently progressing through parliament. Embedded within these are initiatives such as Biodiversity Net Gain (BNG) already mentioned, and the creation of a 500,000ha Nature Recovery Network. These initiatives require both access to land and access to finance.

In parallel, a number of major philanthropic initiatives to restore nature at scale have been established and these are creating some spectacular examples of nature recovery.

But if we are to see the much-needed transformational change in how we value and use land we need private investment into private landholdings at an unrivalled scale. That investment could be provided by the mechanism of corporate natural capital accounting. Essentially, this about a company's future value being directly linked to how they interact with and use the resources that nature provides. Carbon disclosure has been deployed with varying levels of success to identify and then remedy a company's emissions profile. As investors press for transparent disclosure of impacts on natural

capital, however, a company will only achieve its investment potential if it can demonstrate net zero or a gain in natural capital as part of its normal operations.

There is already growing demand to reduce natural capital impacts to enable businesses to become better investment prospects. This is beginning to drive a demand for natural capital or environmental credits generated on land. It is pretty much a certainty, given the current economic climate, that the public purse will not be able to fund the scale of interventions required to tackle the problems and make the transformational changes necessary. Which means that only by leveraging private investment into private land will we be able to achieve our ambitions to restore nature, making our lives, our economy, our food and our ecosystems more resilient in the future.

If we fail to deliver on the initiatives in the Environment Bill as enacted and on the 25-year Environment Plan, it will be because Government has failed to set the framework within which the private sector can invest. Government must not intervene in the markets that are needed to deliver on these initiatives – just to set the framework and the standards and then let the markets go to work.

### **Developing a market in environmental credits**

So how would a mechanism work? The good thing about biodiversity net gain is that it is based on a metric for measuring the attribute (biodiversity) in units in a standard way. Standards are good – they set baselines and enable markets to develop because everyone is (or should be!) using the same standard. So, we need metrics to enable corporates to measure their impacts and risks. We also need a metric to measure the gains that can be delivered on land as a result of the range of possible management interventions – eg. converting damaged arable farmland into woodland, wetland, wildflower meadow, wood meadow or even areas for rewilding/managed wilding. To a large extent the biodiversity impact accounting metric already enables that.

At the Environment Bank we have seen a major increase in interest in this whole area, from both corporates wishing to improve their investment potential and their attractiveness to fund managers, and landowners and farmers wishing to bring forward sites for investment. We are now building a large registry of sites and we are working with a number of the large estates to demonstrate how the mechanism would lead to a diversification in income streams whilst recovering nature. These large estates are particularly interested in how they can generate biodiversity credits from changes in the way they manage land. Very recently I had a conversation with the brilliant Sustainable Food Trust and we think that significant changes to food production that also generates biodiversity value, could be captured through a credit-based mechanism as a co-product of that change to the farming regime. Everyone benefits.

I think it is critical to see natural capital conservation and nature recovery move away from just being the domain of the environmental NGO's. The latter generally do a good job; I'm a member of many of them and as a Board Trustee of the Esmée Fairbairn Foundation I'm conscious of how much money we give to these organisations because of the great work they do. But it is nowhere near enough. We cannot delegate the protection of our environment to just a few organisations – everyone, every business,

every authority, every landowner and farmer, needs to play a part and should be allowed to do so. And there is no better way than through a proper business approach. Environmental protection is not a charitable exercise, it is much more important to us than that.

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