

# Submission to the Environmental Audit Committee inquiry into the role of natural capital in the green economy by the Leverhulme Centre for Nature Recovery

## About us

The Leverhulme Centre for Nature Recovery acts as a hub for innovative thinking, discussion and analysis of nature recovery. It brings together researchers from a wide range of disciplines across the University of Oxford. Research themes include finance (scaling finance and investment for nature recovery), society and ecology. [www.naturerecovery.ox.ac.uk](http://www.naturerecovery.ox.ac.uk)

Our vision is to understand and support what it takes to deliver effective, inclusive and scalable nature recovery.

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## **Q1. What potential contribution can private capital investment make to measures to secure nature recovery?**

Current opportunities for private return-seeking investment come through the UK's voluntary offset markets (Woodland Carbon Code, WCC) and mandatory compliance markets (Biodiversity Net Gain (BNG) in England; possibly nutrient neutrality depending on current legislative process). These have a limited role to play in securing nature recovery (i.e. improving England's nature in line with the apex goals) because they are primarily compensating for an equal and opposite loss of biodiversity or carbon elsewhere, not increasing overall nature recovery.

BNG is aiming to mitigate the ongoing impacts of infrastructure and housing development in biodiversity, with a minimum 10% uplift in biodiversity for these sites. However, Defra have been explicit in their 2019 impact assessment that the 10% uplift is not designed to deliver biodiversity recovery, but is more of a safety buffer to ensure that BNG overall delivers no net loss (Defra 2019). So whilst this new market for BNG units does have the potential to draw in private financing for conservation, it will make a small contribution to nature recovery in line with overarching Government conservation goals. A recent assessment of the degree to which BNG could meet the overall nature recovery financing needs in Oxfordshire found that BNG could at most cover 13% of the county's financing needs (Hawkins et al. 2023), with the most optimistic scenario assuming that the 10% uplift delivered by BNG counts as contributions towards nature recovery, rather than just compensating for ongoing harms.

The potential contribution of private finance could be increased through various avenues, including increasing the uplift associated with compliance markets (i.e. to considerably above 10% for BNG) or by introducing a nature recovery obligation (as proposed by Wildlife and Countryside Link ([https://www.wcl.org.uk/docs/assets/uploads/Nature\\_2030\\_Report\\_Web\\_18.07.2023.pdf](https://www.wcl.org.uk/docs/assets/uploads/Nature_2030_Report_Web_18.07.2023.pdf))), making voluntary carbon markets mandatory in some form.

Private capital could also assist in addressing some of the main drivers of domestic biodiversity loss if incentivised to invest in less intensive methods of farming, although in this case it is essential that any reductions in agricultural production are accompanied by reductions in demand for agricultural products (e.g. through dietary shifts away from meat and dairy) to prevent biodiversity leakage abroad.

## **Q2. How can investment best be aligned with environmental benefits, so as to achieve or surpass the Government's targets for nature recovery?**

It seems likely that opportunities for ambitious, coordinated nature recovery are not being realised with the current nature recovery schemes, including BNG. Here, developers are likely to favour implementing on-site biodiversity gains, thus taking demand out of the biodiversity offsetting market, at least until the off-site biodiversity market matures.

We note that the greatest biodiversity gains are likely to come from investing in areas of strategic biodiversity importance throughout the landscape – reflected in the Government's

25-year Environment Plan, which requires natural areas to be “more, better, and joined up”. A piecemeal approach which could result from a proliferation of on-site biodiversity gains for puts this goal at risk. Mechanisms that supported the creation of new off-site actions would provide greater opportunities for synergy with wider, landscape-scale nature recovery efforts.

### **Q3. What measures are necessary to (a) establish and (b) maintain the high-integrity markets in ecosystem services which are expected to attract private investment? What confidence do investors currently have in the UK's arrangements for these markets?**

Existing nature markets in England are at risk from a range of threats that undermine their integrity. Recent ongoing work from the University of Oxford aiming for publication next year demonstrates that a major threat to the integrity of the voluntary carbon market associated with the Woodland Carbon Code is the financial additionality tests, which do not appear to be strong enough to prevent forestry from receiving revenues from carbon credits which would have gone ahead anyway, even in the absence of payments for credits.

In relation to BNG, which will come into force in November, academics have outlined some of their concerns in an Open Letter to the Secretaries of State and the Head of Natural England in relation to BNG (zu Ermgassen et al. 2022).

This identify specific areas where markets in existing ecosystem services could be made more robust in their delivery of positive nature recovery outcomes, particularly around monitoring and enforcement. This would provide confidence in the development of existing markets and support the evolution of new approaches and markets.

BNG allows developers to generate losses in biodiversity today with a consent requirement to deliver higher quality biodiversity at some point in the future. While this is sensible for the creation and restoration of habitats that take time to establish, there is no obvious mechanism to monitor progress or for local authorities to take enforcement action if consent requirements are not delivered. One academic study which surveyed developments where habitat enhancements were proposed at the application stage found that most of these did not meet the ecological criteria that had been agreed at the consent stage years earlier (Drayson & Thompson 2013).

While Government has proposed some potentially effective measures (e.g. habitat banks), for now developers will self-report the quality of their BNG delivery. Evidence from the USA suggests that third-party oversight is essential to achieve biodiversity gains: US legislation was adopted in 2008 for equal standards for both on-site and off-site mitigation, after recognition that developer-led offsets were of consistently lower quality than third-party wetland offsets.

Recent academic work has demonstrated that in early-adopter councils in England the majority of the biodiversity gains were being delivered on-site, via habitats within the development footprint (zu Ermgassen et al. 2021; Rampling et al. 2023). While the on-site/off-site proportion of net gain delivery will change as the off-site biodiversity unit market

matures, we argue that there is currently no credible system to monitor and enforce delivery of these 'on-site' gains.

The Government proposes monitoring and enforcement can be delivered by the existing planning enforcement system, but this is undermined by the Government's own guidance to local authorities not to take enforcement action unless the violation of the planning condition constitutes a 'serious harm to a local public amenity'. It is highly unlikely that a developer's failure to deliver a habitat of a given quality that was consented when the development was approved will trigger this threshold – leaving these biodiversity gains unenforceable.

Developers will be able to sell biodiversity units from their own developments as 'offsets' to their other developments. This creates perverse incentives, as an assessment of 'excess' biodiversity units being created on-site could be sold on and generate additional revenue. While there is potential for this approach to encourage developers with large land holdings to manage these for biodiversity gain, we believe this highlights the value of robust monitoring and enforcement to demonstrate that any 'excess' units are being delivered and avoiding any unintended negative consequences that will undermine the integrity of the BNG market and its ecological outcomes.

We propose

- An accelerated timetable to agree and implement independent evaluation systems (particularly on-site gains for BNG) to secure high-quality nature recovery, and to prevent problems arising from reliance on self-reported assessments alone.
- Government support for local authorities to pursue developers responsible for non-compliance. This would include provision long-term support for monitoring and enforcing planning conditions associated with nature recovery.
- For BNG, revision of the enforcement threshold from the currently unrealistically-high 'serious harm to a local public amenity' to a condition that is more closely aligned with nature recovery objectives.
- Adoption of the guidance provided in the industry's best practice guide and best practice Standards (e.g. British Standard 8683: 2021) a condition of planning consent for developments to assist with monitoring and to embed good practice.

## References

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