

Natural capital funding opportunities



Introduction

Natural capital is emerging as a lens through which rural land use decisions are being made. Society, policy and business are reacting to increasing concern over the climate crisis and nature's decline, and the environmental risk that this poses. A solution to mitigating this risk lies in investing in natural capital, and accounting for society's reliance on it in order to protect it, whether that be through investing in carbon sequestration, biodiversity uplift, or improving public access, among other ecosystem services.

Within England, agricultural policy is now defined by the Agriculture Act, which endorses the natural capital based concept of 'public money for public goods'. For rural land managers, unlocking the potential of their natural capital offers a new way to derive income from their rural assets. In England farmers are currently in the first year of the [Agricultural Transition Period](#), which lasts seven years and during which direct payment subsidies will be incrementally phased out, and new income support streams will be introduced. Many of these new income support streams such as Environmental Land Management (ELM) will incentivise farmers to invest in their natural capital, and farm in a way that protects and enhances the natural environment. Government has already announced several new funding and collaboration opportunities for natural capital investment, from location specific grants to species protection schemes. In this Briefing Note, we discuss two opportunities in particular – the recently announced **Natural Environment Investment Readiness Fund** and the **Nature Recovery Network**. On 9th February, a **new and simplified Countryside Stewardship** (CS) scheme opened for 2022. This note looks at what the new CS scheme entails and why land managers not already in stewardship agreements should take it seriously. Finally, the note discusses the responses to **Defra's ELM consultation**.

Natural Environment Investment Readiness Fund

The Natural Environment Investment Readiness Fund (NEIRF) was announced on 10th February 2021 and aims to stimulate private investment and market based mechanisms that improve and protect England's natural environment. It is intended to help projects get ready for investment and will be administered by the Environment Agency.

The NEIRF is a competitive scheme which provides grants of between £10,000 and £100,000. In total, there is £10 million of funding available. Businesses, not-for-profit organisations, charities and public bodies such as local councils and national park authorities are eligible to apply. Only central government departments, executive agencies and non-departmental public bodies are ineligible to apply, however they can be partners within bids. Projects must help achieve one or more of the natural environmental outcomes from the 25 Year Environment Plan, have the ability to produce revenue from ecosystem services to attract and repay investment, and produce an investment model that can be scaled up and reproduced. Defra's examples of ecosystem services that might be developed to produce revenue include the Woodland Carbon Code or Peatland Carbon Code accredited carbon credits, biodiversity units (as defined by the [Defra metric](#)), and selling catchment services such as improved water quality or natural flood management benefits.

The grants are intended to help applicants get support from professional advisors on how to present an attractive case for investment, build capability to attract financial investment and develop a market for ecosystem services through for example investment and trading platforms, verification codes or aggregator vehicles. Products and knowledge gained through the fund must become openly available for the benefit of others, in order to help the development of the natural capital investment sector and help future government policy and regulation align with the private natural capital market. Applications for the NEIRF grant close on 26th March 2021.

Nature Recovery Network

Defra and Natural England are bringing together partners, legislation and funding to create the Nature Recovery Network (NRN) for England. The NRN is part of a commitment set within the 25 Year Environment Plan, it will be a part of the forthcoming Nature Strategy. The Environment Bill, currently progressing through parliament, underpins the establishment of the NRN as it sets the framework for at least one legally binding biodiversity target, establishes Local Nature Recovery Strategies to agree local priorities for enhancing biodiversity, and creates environmental duties and incentives such as mandatory biodiversity net gain.

There are multiple objectives of the NRN. By 2024, the government aims to have used the NRN to restore 75% of protected sites on land (including freshwaters) to favourable condition. It also aims to create or restore 500,000 hectares of additional wildlife rich habitat outside of these protected sites, recover threatened species by providing

more diverse and better connected habitats, and support work to increase woodland cover. All of these objectives will achieve benefits such as carbon capture, flood management, clean water, pollination and recreation.

The NRN will be set up through coordinating local strategies, using maps and data to identify priority areas. The government is establishing a range of funding to underpin the NRN, including Countryside Stewardship and ELM and has explained that over the next four years, through ELM, it will establish ten Landscape Recovery projects to restore wilder landscapes. The low number of Landscape Recovery projects suggests they will be genuinely large in scale. The Nature for Climate Fund and Green Recovery Challenge Fund (which has recently been doubled to a total of £80 million) will create a 'pipeline' of projects to restore habitats, tackle climate change and connect people with nature. The government is also encouraging the private sector to invest in the natural environment, through incentives and increasing obligations.

The government explains that collaboration and working in partnerships is essential to deliver the NRN. The NRN Delivery Partnership has been set up to support partnership working, as a broad network of cross-sectoral organisations that work together to carry out action for nature. Organisations within any sector can join the partnership, including private businesses, charities and the public sector. Natural England will encourage partners to pledge support to achieve the objectives of the NRN, for example through financial investment, time, expertise and advice, or land for nature recovery. To express an interest in becoming an NRN delivery partner, organisations should [email](#) Natural England's NRN partnership team.

It appears that the government's intention is for the NRN to be an overarching umbrella concept through which all future environmental schemes, funding, regulation and objectives are tied together. It is important for land managers to be aware of its role and engage with opportunities that arise through it.

Countryside Stewardship 2022

The new Countryside Stewardship scheme has opened for applications to join the scheme in 2022. Defra has explained that it has broadened out the options available within the scheme whilst also making it easier to apply to. In terms of the changes, there are new options to help improve air quality, reduce ammonia emissions, improve water quality and increase the advice available from catchment sensitive farming officers. There are also new wood pasture options for upland areas, as well as improved woodland options. The woodland creation and woodland maintenance grants have been combined and there are an increased number of capital items that farmers can apply for, covering water, hedgerows and air quality. There is also an improved capital grant offer, with 67 options available that can sit alongside a CS wildlife offer.

Within these additions, there is a clear focus on principles included in both the Environment Bill and Agriculture Act – addressing air and water pollution and making woodland creation easier. The drive on woodland creation is likely due to the government's need to hit its tree planting target of 30,000 hectares of new woodland planted annually by 2025. There are more options available for upland land management, which is important as upland farmers will be amongst those most affected by the loss of BPS payments and the uplands have high natural capital potential.

Defra has stressed that farmers should enter CS now in order to benefit from ELM once it is fully rolled out in 2024. Farming Minister Victoria Prentis said *"we are guaranteeing that anyone who enters a new Countryside Stewardship agreement will be able to leave early in order to join the Environmental Land Management scheme once fully rolled out in 2024, so there is no reason not to apply today"*. The ambition to make the scheme simpler, and to reinforce the RPA's recent success in issuing CS payments is to encourage more farmers into CS agreements.

Environmental Land Management consultation

Defra recently published its analysis of responses to the ELM consultation. There were 1,672 responses, which Defra says will be integral to the policy design and delivery framework for ELM. Savills rural research submitted a collaborative response to the consultation last year. There were common themes within the responses, such as, somewhat unsurprisingly, a strong desire for schemes to be simpler and less bureaucratic. There were also requests for more advice in the application process and suggestions that expert advisers and local knowledge is needed. There was support for different payment mechanisms, a desire for flexibility in the way payments are calculated, and respondents welcomed a blend of public and private finance in supporting outcomes. There was a call for monitoring through self-assessment, using photos and apps for location and date tagging. Finally, respondents were in support of the tests, trials and pilots for ELM. There are 69 test and trials underway, involving over 3,000 farmers across England. The first phase of the Sustainable Farming Incentive (component 1 of the ELM scheme) is due to be launched this spring.

The general themes of these responses won't come as a surprise to many, as they are issues that have previously been raised and debated. However skilful design will be needed for the future scheme to strike the right balance between high ambition, flexibility and simplicity in order to ensure that it delivers for the environment both in terms

of its environmental outcomes on ELM land and agreement coverage. It is good that these issues are being taken seriously, and that they will be acted on in the future framework of ELM. It is important to remember that Defra is taking an agile approach to the development of agri-environmental support schemes, with farmer collaboration and the room to make policy design iterative, regularly reassessing the success of schemes.

Conclusion

Natural capital is set to significantly influence the use and value of rural property in the future. This Briefing Note demonstrates that in England, there is already substantial policy and public funding set up with the intention of increasing investment in natural capital and ecosystem services. These schemes represent the first steps in converting natural capital from a theoretical concept into a tangible reality. A key question within natural capital thinking is whether new income streams will be driven by the private market or through policy and regulation. The recent funding announcements we have seen from Defra are clearly aimed at promoting private investment alongside public support. These funding opportunities indicate a positive direction for natural capital market creation, however land managers have to be aware that ecosystem based income streams will not simply appear - suppliers will have to innovate, collaborate and actively seek out opportunities for investment. A collaborative approach can be incredibly beneficial in this, for example through a cluster group or local cooperative. Collaboration enables economies of scale, increases ecosystem service provision potential and increases the chances of obtaining public sector funding in some applications. This is important, as farmers and land managers who are looking for natural capital funding are competing with a range of other businesses and organisations. There is concern that funding might not reach the land managers who can provide the ecosystem services, instead be lost in authority and bureaucracy. In order to avoid this, land managers need to ensure that they understand the developing market and collaborate and innovate to secure their place and the opportunities for their land and business within it.

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