

# Natural Capital Committee

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**Advice to government on net environmental gain**

**May 2019**

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## Context

In its 2017 advice to government on the 25 Year Environment Plan (25 YEP),<sup>1</sup> the NCC proposed that the concept of natural capital net gain (environmental net gain) should be incorporated as a key policy intent within the government's 25 YEP. The Committee welcomed its inclusion in the 25 YEP published in January 2018.

The NCC was, however, disappointed that the revised National Planning Policy Framework (NPPF) produced in 2018<sup>2</sup> maintained the much narrower concept of net biodiversity gain. The revised NPPF did introduce net environmental gain language and a reference to natural capital enhancement, but it lacked a requirement for wider net environmental gains. Although the principle of reversing biodiversity decline is inherent within the NCC's original recommendations, the natural environment is an interconnected system. Changing one element inevitably affects the whole system and the ecosystem services it can deliver. Hence it is vital that the wider system and outcomes are considered.

The government's consultation on net biodiversity gain<sup>3</sup> was a missed opportunity to introduce a net environmental gain approach for development. The Committee recognises that in the consultation, net biodiversity gain is based on habitat creation and has some potential to deliver improvements in certain natural capital assets. The gain, however, is not as great as it would be if it had a natural capital focus and considered the environment as an integrated system.

The NCC also notes the commitment in the Chancellor's Spring Statement 2019<sup>4</sup> to use the forthcoming Environment Bill to mandate net biodiversity gain for development in England. The NCC considers this to be a further missed opportunity. In addition, the Committee notes that the net biodiversity gain requirement only applies to development approved under the Town and Country Planning regime. It will not apply to nationally significant projects, which are determined by the Planning Inspectorate, nor to marine developments considered by the Marine and Coastal Access Act under its licencing regime. The NCC is disappointed by these omissions and considers them to be a major flaw in the proposal.

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<sup>1</sup> NCC, *Natural Capital Committee advice on government's 25 year environment plan* (2017): <https://www.gov.uk/government/publications/natural-capital-committee-advice-on-governments-25-year-environment-plan>

<sup>2</sup> Ministry of Housing, Communities & Local Government, *National Planning Policy Framework* (2012): <https://www.gov.uk/government/publications/national-planning-policy-framework--2>

<sup>3</sup> Defra, *Net gain consultation* (2018): <https://consult.defra.gov.uk/land-use/net-gain/>

<sup>4</sup> HM Treasury, *Spring Statement* (2019): <https://www.gov.uk/government/topical-events/spring-statement-2019>

## Net environmental gain

### Specificity of the natural capital assets

The 'net gain' approach that was presented in the government's consultation on net biodiversity gain is one where biodiversity is viewed within 'habitat units' and their connectivity. It is based on broad habitat types, with hedgerows, lines of trees and rivers and streams as additional extras. It fails to appreciate the fact that many natural capital assets:

- are spatially and context specific;
- operate at a number of scales including river-catchment, coastal-sea and landscape;
- are often not linked to biodiversity 'habitat' types.

An example of this is a combination of soils and trees in upstream drainage basin catchments which prevents soil erosion, improves the quality and quantity of water in rivers, reduces downstream flooding risk and improves the quality of water at the coast. These are often relatively small blocks of trees growing on a particular soil types on a specific slope in a drainage basin. These blocks of trees may not always be considered as a 'designated habitat type' and within this 'net gain' approach it could be seen as perfectly acceptable to remove these trees and replace them elsewhere with another block of more biodiverse forest. However, these assets (trees) provide a service because of where they are located.

Pollination is an example that demonstrates the importance of context and spatiality. If pollinators are located more than 1.8 - 2.0 km from the fields (crops) that need these services (pollination), they are in effect useless – so 'net gain' is not meaningful outside of this geographic context.

Cultural services such as recreation, and mental and physical health and well-being are often provided by landscapes and green spaces. These may be poor in terms of biodiversity but very important in terms of the services they provide because of where they are located i.e. near to populations that need them.

The proposed net biodiversity gain approach therefore potentially falls short of many of the goals of the 25 YEP as it fails to address most of the natural capital assets that are included within the plan. This approach might benefit some types of wildlife in England, but even this is difficult to see in most cases because it could result in greater fragmentation of habitat types – which is a clear road to extinction for many species.

### Investing in the delivery of an improved natural environment

The government's proposal within the 25 YEP to introduce a net environmental gain requirement for new development offers a potential source of a long-term investment in the delivery of an improved natural environment. To gain the greatest benefits, this approach must be applied in a considered way, addressing the following questions:

- *What should be compensated for?* Compensation should consider losses of all the benefits provided by the natural environment. Simple definitions of environmental loss as being just the impact upon wild species or biodiversity are inadequate. Development can generate multiple impacts either directly on environmental assets or mediated through environmental impacts. Some examples include impacts on wild species, recreation and related physical and mental health benefits, water quality, quantity and flooding, air pollution emissions and greenhouse gasses. It is the losses of benefit value generated by development which should be compensated for.
- *Who should pay?* Those whose activities give rise to the environmental damage should pay the associated costs of compensation. This scheme should be compulsory rather than voluntary.
- *Where should compensation be targeted?* Net environmental gain proposals associated with development should adopt an avoid, minimise, remediate, compensate hierarchy. For net environmental gain to be a reality, the compensation needs to include a distinct investment component that delivers a gain over and above the starting baseline. Sufficient funding is also required to maintain the new assets that have been created.

There are various approaches that can be applied to where remediation and compensation projects are targeted. Changes in the location of projects will alter the consequences and benefits they deliver. Choice of location should include considerations such as: maximising ecological gains; promoting a coherent network of habitats across the country; providing benefit to those people who currently experience the lowest quality environments; proximity and providing benefits as close as possible to where the impact occurs. Consideration needs to be given to the principles underpinning the objectives and hence rules for locating compensation projects. It may be that different rules are applicable to the remediation and compensation aspects of net environmental gain.

- *What is the baseline for assessing compensation?* The net environmental gain principle tends to be considered as a binary comparison between the existing use and the proposed new use. For example, land in the Green Belt might currently be of little environmental value because it has been degraded. But it might be capable of being of high environmental value if properly managed. Net gain needs to take account of all options, and not just the narrow one of comparing current use with housing or infrastructure. If land is in a poor environmental condition and landowners have no reason to improve it, a net environmental gain approach that is based simply on the comparison of the existing state and the proposed new use can create an incentive for landowners to allow the condition of their land to deteriorate prior to development so as to reduce compensation requirements.

## NCC Recommendations

On the basis of these observations the Natural Capital Committee recommends that:

1. A net environmental gain approach that considers first and foremost key natural capital assets, should be developed as a priority and then introduced as soon as practicable. The approach should include an assessment of the losses of all the benefits provided by the natural environment and should present the individual benefits and losses – it should not be reduced to a single netted off figure.
2. The net environment gain approach must recognise that many natural capital assets:
  - a. are spatially and context specific;
  - b. provide a service because of where they are located;
  - c. operate at a number of scales including river-catchment, coastal-sea and landscape;
  - d. are often not linked to biodiversity ‘habitat’ types.
3. Those whose activities give rise to the environmental damage should pay the associated costs of compensation and investment in net gain. The scheme should be compulsory rather than voluntary.
4. Net environmental gain proposals associated with development should adopt an avoid, minimise, remediate, compensate hierarchy. The approach needs to cover the costs of remediation as well as including a distinct investment component that delivers a gain over and above the starting baseline. The investment aspect should be a minimum of 20% of the full remediation cost (including the so called insignificant impacts that are often not included in the damage assessment). Net environmental gain must result in a demonstrable, evidence based increase in natural capital assets compared with the baseline.
5. The NCC does not support the use of a tariff based system<sup>5</sup> as it has the real potential to be bureaucratic, costly and distortionary. Consideration should be given to the design of simple principles which obviate the need for a centrally controlled tariff system.
6. An agreed methodology for establishing baseline habitat and natural capital conditions should be developed by government. This should be based on the NCC’s How to do it workbook<sup>6</sup> and the recommendations in the NCC’s 2019 Annual Report. Baseline assessments need to evaluate the potential natural capital that an area could support (e.g. were it in a non-degraded state).
7. The perverse incentive to allow the environmental condition of land to deteriorate should be addressed, so that existing land owners are not deterred from improving natural capital on their land.
8. The maps and data sets that would enable a baseline natural capital assessment to be carried out for England should be specified and collated centrally by government. These maps and datasets should then be made freely and widely available.

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<sup>5</sup> Defra’s consultation document on net gain proposes the following: “Where a development was unable to mitigate biodiversity loss on site or purchase the required biodiversity units locally, the developer would be required to pay a cash tariff on their shortfall against net gain obligations. The price for a tariff on biodiversity units would need to reflect the costs of creating and managing compensation habitat in a suitable location, strongly incentivise the protection of existing habitats and encourage suitable local compensatory habitat creation when necessary.”

<sup>6</sup>NCC, *How to do it: a natural capital workbook* (2017):

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/608852/ncc-natural-capital-workbook.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/608852/ncc-natural-capital-workbook.pdf)

9. The location of the remediation and compensation aspects of the net environmental gain approach should include considerations such as: maximising ecological gains; promoting a coherent network of habitats across the country; providing benefit to those people who currently experience the lowest quality environments; proximity and providing benefits as close as possible to where the impact occurs.
10. Remediation activities should be as local as possible to the development giving rise to the impacts whilst investment in the gain aspect (over and above dealing fully with the impacts) can be located elsewhere based on costs and benefits based approaches. In all cases sufficient funding is required to maintain the existing as well as the new assets that have been created. Natural capital opportunity maps should be drawn up covering local to national opportunities.
11. In the advice to government on the 25 YEP the NCC recommended that everyone should have access to local greenspace and recreation for the health and wellbeing benefits it provides. Specific targets should be set; for example, one hectare of local nature reserve per 1000 people, two hectares of natural green/blue space within 300 metres of where they live, and a 20 hectare site within two kilometres. Such considerations are important in the design of new housing developments.
12. A net environmental gain principle should be applied to all projects, programmes and development covered by the Town and Country Planning regime and by the work of the Planning Inspectorate. Simplified methodologies are appropriate for small development sites and changes of land use and exemptions may be appropriate for developments below a yet to be defined threshold.
13. Clear monitoring, verification and quality assurance processes carried out by designated competent people are required, which will provide confidence in the net gain outcomes. The overall system should be as clear and transparent as possible so that those providing data along with those scrutinising it, such as local planning committees, are readily able to understand the information and data they are producing and reviewing.
14. All of the impacts and net gain information needs to be collated on a periodic basis and should provide an important input to tracking progress against the 25 YEP targets.