

Title: Natural Capital Investment Strategy

Lead Officer: Dave Barber dave.barber@warwickdc.gov.uk

Portfolio Holder: Councillor Will Roberts

Wards of the District directly affected: All

<b>Approvals required</b>	<b>Date</b>	<b>Name</b>
<b>Portfolio Holder</b>	20/3/24	Will Roberts
<b>Finance</b>	12/3/24	Andrew Rollins
<b>Legal Services</b>		
<b>Chief Executive</b>	12/3/24	Chris Elliott
<b>Director of Climate Change</b>	N/A	
<b>Head of Service(s)</b>	N/A	
<b>Section 151 Officer</b>	12/3/24	Andrew Rollins
<b>Monitoring Officer</b>	12/3/24	Graham Leach
<b>Leadership Co-ordination Group</b>		
<b>Final decision by this Committee or rec to another Cttee / Council?</b>	Yes Recommendation to: Cabinet	
<b>Contrary to Policy / Budget framework?</b>	No	
<b>Does this report contain exempt info/Confidential? If so, which paragraph(s)?</b>	No,	
<b>Does this report relate to a key decision (referred to in the Cabinet Forward Plan)?</b>	es, Forward Plan item 1416 scheduled for 10 <sup>th</sup> April 2024	
<b>Accessibility Checked?</b>	Yes	

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## Summary

This report asks Cabinet to adopt the Warwickshire, Coventry and Solihull Natural Capital Investment Strategy as the basis for utilising natural capital funding across the sub-region, noting that the strategy aligns closely with the Biodiversity Action Plan (BAP) and has the potential to support the delivery of the BAP. In addition, the report proposes that, as the next steps, the governance arrangements are put in place to oversee the delivery of the strategy, including developing an implementation to address the elements set out in Appendix 2.

### Recommendation(s)

- (1)** That, subject to the other partners listed in Appendix 1 doing likewise, the Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Strategy as set out in Appendix 1 is adopted.
  - (2)** That the proposals to develop the Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Implementation Plan (as set out in 1.4 and Appendix 2) are agreed and a further report is brought back to Cabinet for approval on completion of that work.
  - (3)** That, subject to recommendations 1 and 2 being agreed, the Warwickshire, Coventry and Solihull Natural Capital Investment Board and Natural Capital Investment Management Group are established to enable the delivery of the Strategy as set out in sections 1.3 and 1.4 below.
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## 1.1 Reasons for and background to the Recommendations

- 1.1.1 Those who live, work, visit or do business in Warwickshire, Coventry and Solihull draw varied benefits and value from the rich and diverse natural environment of the region. Investing in our natural capital will help us to recognise and improve the value of the natural environment, the benefits it provides us and embed this within the approach we take to addressing a range of local priorities. This will enable us to develop income and funding streams, allowing us to invest in the protection, enhancement and recovery of our natural capital assets in Warwickshire, Coventry and Solihull. This work will be fundamental to reversing nature's decline and securing the continued provision of services and benefits provided by nature and the environment.
- 1.1.2 The NCIS provides a mechanism for delivering some element of the Biodiversity Action. It provides the potential to use resources to bring the greatest benefits to biodiversity across the sub-region. With the Warwick District it provides the opportunity to identify and fund investment in a range of natural assets to bring about benefits for biodiversity, flooding and carbon sequestration.
- 1.1.3 Officers have worked in partnership with Warwickshire County Council and the other Districts and Boroughs in Warwickshire to the Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Strategy (known henceforth as the NCIS), see Appendix 1. This is a top-level local authority strategy which specifically manages how the sub-region Local Authorities will utilise the nature-based compensation monies, and other income streams,

generated through the planning system (for example Biodiversity Net Gain (BNG)) or other voluntary environmental markets.

1.1.4 The NCIS gives a strategic direction for the local authorities to achieve and implement investment in Warwickshire, Coventry and Solihull's natural capital assets. It lays the foundations for a detailed Natural Capital Investment Implementation Plan (NCIIP) that will describe what actions are required, how they will be carried out, who will be involved and how funding will be distributed, monitored and reported. The proposed elements to be addressed in the NCIIP are set out in Appendix 2.

1.1.5 The overall strategic aim of the NCIS is: *"Local authorities in Warwickshire, Coventry and Solihull will use the income raised from environmental markets and nature-based compensation schemes to enhance nature and the environment, benefit its people and help tackle climate change. They will do this through an agreed, region-wide strategy and Natural Capital Investment Implementation Plan."*

## **1.2 Benefits of a sub-regional approach to the NCIS**

1.2.1 Taking a sub-regional approach to natural capital investment has many advantages:

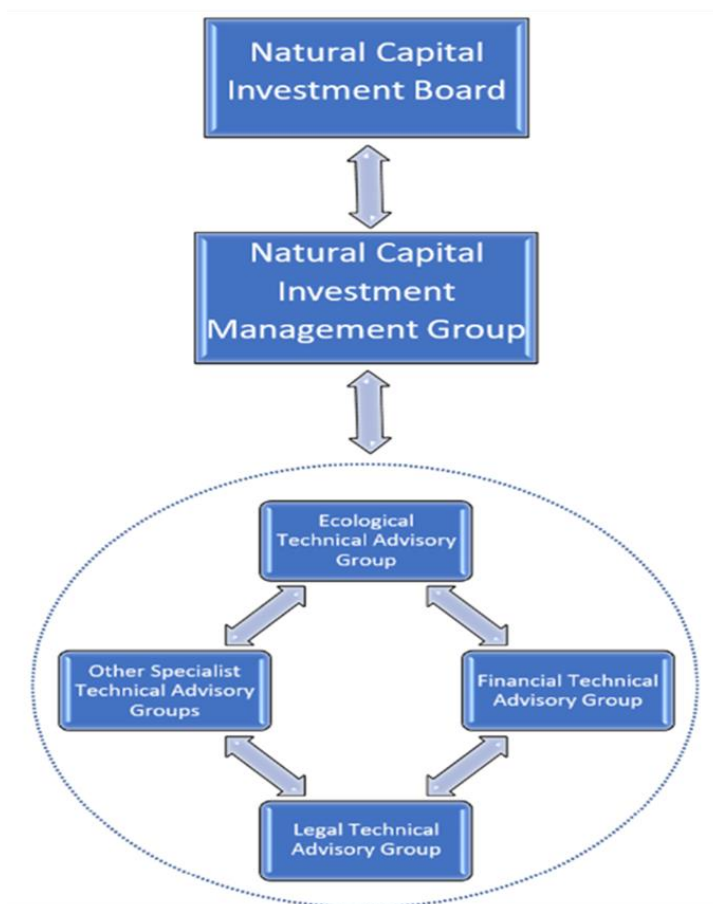
- **Together we are stronger than the sum of our parts:** By working together with a common approach, we can pool our resources and expertise in a cost-effective and efficient manner to create a more comprehensive and effective strategy for protecting and restoring our natural environment. We can also leverage each other's strengths to find innovative solutions and approaches that would be difficult for any single district or borough to achieve. .
- **Utilising combined resources:** By working together, we can combine our resources, such as staff, volunteers, equipment and funding to achieve more than we could on our own. This will allow us to implement more ambitious projects and achieve greater results.
- **Attracting greater levels of investment:** The NCIS and NCIIP will develop new investment, income and funding streams which will drive the development of ambitious and impactful projects. By creating a joint sub-regional Investment Strategy and Implementation Plan, we can offer investors a stable and low-risk platform for those looking to advance environmental goals or invest ethically.
- **Develop a project pipeline:** The Natural Capital Investment Implementation Plan will include a region-wide pipeline of shovel and investment ready projects. These will allow swift and efficient reactions to funding, buying or investment opportunities and further develop a regional environmental vision and identity.
- **Each local authority will benefit in the same way, proportionally, over the lifespan of the strategy:** Full details of how the benefiting environmental projects will be chosen and funded will be explained within the NCIIP and will be closely linked to the sub-regional Green Infrastructure Strategy, the respective Local Nature Recovery Strategies<sup>1</sup> (LNRS) and the ecosystem services trading protocol.

- **Best for nature – a ‘more, bigger, better & joined up’ approach delivered at a local scale:** A regional NCIS will allow us to take a more comprehensive, shared approach to protecting and restoring our natural environment. We can identify and address cross-boundary issues, such as air pollution and water quality, and work together to develop a more connected and resilient network of natural habitats.
- **Delivering natural capital benefits, climate change mitigation and resilience which will benefit local people:** The NCIS will help to deliver a wide range of benefits for communities across Warwickshire, Coventry, and Solihull. These will include improved air quality, cleaner water, increased biodiversity, healthier people, and a more resilient environment in the face of climate change.
- **Working alongside other regional and national policies and strategies:** This joint sub-regional Investment Strategy and Implementation Plan will make it easier to align our strategies with the environmental ambitions of the West Midlands Combined Authority (WMCA) and national initiatives including the Environment Act 2021 and emerging Local Nature Recovery Strategies (LNRS). This will also reflect and enhance the overlap between the Warwickshire LNRS and WMCA LNRS.

### 1.3 Governance

- 1.3.1 Governance of the Warwickshire, Coventry and Solihull Natural Capital Investment Strategy and Implementation Plan will be managed by the Warwickshire, Coventry and Solihull Natural Capital Investment Board. The Board will be supported by a Natural Capital Investment Management Group and Technical Advisory Groups (Figure 1).
- 1.3.2 Board membership will be comprised of the relevant Cabinet Members, or representative, from each of the eight constituent local authorities. Supported by the officer-led Management Group, the Board will be the key steering and decision-making body in relation to the allocation and investment of current S106 funds and future local authority environmental income streams. It will ensure that decisions made in respect of natural capital investment are transparent, sustainable and ultimately maximise the benefit to the environment and the local communities in Warwickshire, Coventry and Solihull.

Figure 1: Governance Structure



- 1.3.3 The Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Strategy (NCIS), see Appendix 1, has been developed and is now ready to be adopted by all eight local authorities in Warwickshire, Coventry and Solihull.
- 1.3.4 Once adopted, the next stage in the process will be to agree to the development of the Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Implementation Plan (NCIIP) and to fund this work.
- 1.3.5 To manage the NCIS and NCIIP, the Warwickshire, Coventry and Solihull Natural Capital Investment Board and Natural Capital Investment Management Group should be established.

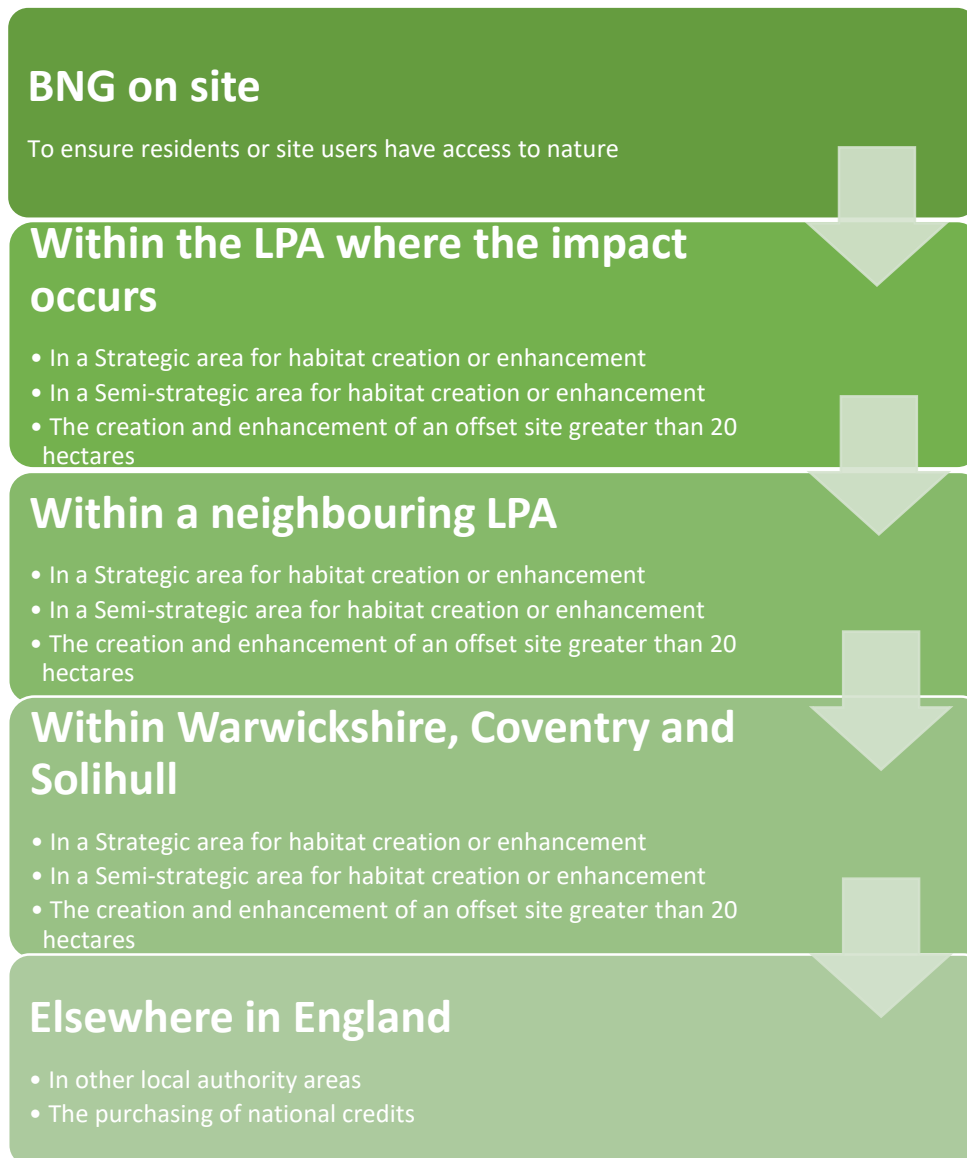
#### **1.4 Funding the NCIS and NCIIP**

- 1.4.1 Income will be generated through planning contributions, trading credits/units from ecosystem service markets (such as Biodiversity Net Gain (BNG), carbon offsetting, Green social prescribing, etc) and/or regulatory compensation mechanisms linked to local authority regulatory functions.

- 1.4.2 Existing funds relating to the already established Biodiversity Offsetting scheme are held by Warwickshire County Council within various local authority Section106 accounts. Where these are held to be paid incrementally to project delivery organisations on an annual basis (in other words released on annual basis over time – sometimes as much as 30 years), there are significant interim funds which are available and could be invested, subject to applying strict criteria to manage risk and deliver benefits. In addition, some of these offset schemes have also delivered financial surpluses.
- 1.4.3 Until recently the Warwickshire Biodiversity Offsetting scheme has seen funding from WDC area being provided to Warwickshire County Council to oversee the funding of offsetting initiatives, including funding for ongoing management. Whilst this money should not be viewed as Warwick District Council's, the process until now has not had a strong local input at District level. The NCIS provides an opportunity for more local influence over where and how natural capital monies are spent.
- 1.4.4 Current, or nearly established, ecosystem services markets applicable to Warwickshire, Coventry and Solihull are:
- Biodiversity Net Gain - already established in Warwickshire through planning and mandatory from 12 February 2024
  - The Net Zero Carbon Buildings Planning Policy providing capital for Woodland Carbon (through implementation of the Warwickshire Carbon Standard and Woodland Carbon Code)
  - District Level Licensing funding (e.g. great crested newts)
- 1.4.5 Other ecosystem services markets which could be applicable to Warwickshire, Coventry and Solihull are:
- Future carbon markets, including soil, grassland and hedgerows.
  - Air quality
  - Flood risk mitigation
  - Nutrient neutrality
  - Water quality
  - Green social prescribing
  - Health and wellbeing
- 1.4.6 The NCIIP will investigate the funding mechanisms to deliver the NCIS and NCIIP under the instruction to follow a full cost recovery principle.
- 1.4.7 Figure 2 below sets out the hierarchy that will be used to allocate, noting that the lowest level ("Elsewhere in England") will only be used in exceptional circumstances and then only with the agreement of the Natural Capital Investment Board.

Figure 1: Biodiversity Net Gain sequential mitigation hierarchy for Warwickshire, Coventry and Solihull (based upon the Warwickshire, Coventry and Solihull Green Infrastructure

Strategy) presented as an example of a mitigation hierarchy.



## **2 Alternative Options**

**2.1** The Cabinet could choose not to adopt this Strategy. This would either

- a) leave the Council without a strategy approach to investing in natural capital, meaning that investments are made in an ad hoc way, thereby leaving the District vulnerable to missed opportunities, slow delivery and reduced benefits, or
- b) require a local strategy to be developed which could still deliver a positive approach, but would fail to deliver to the multiple benefits set out in paragraph 1.2 above.

### **3 Legal Implications**

- 3.1** Taking a sub-regional approach to the Investment Strategy and Implementation Plan will make it easier to align our strategy and delivery with the Environment Act 2021 and emerging Local Nature Recovery Strategies (LNRS). This will also reflect and enhance the overlap between the Warwickshire LNRS. It will also provide a platform for the effective delivery of Biodiversity Net Gain.

### **4 Financial Services**

- 4.1** Taken as a whole and over time, the Strategy seeks to ensure a proportionate distribution of the funding to enable all communities within the sub-region to benefit in a fair way. In the short-term, the flexibility offered by working together means that some funding arising in one part of the sub-region may not be spent directly within the area if there are no suitable investable projects. However, by focusing on bringing forward investible projects in areas where underspending has occurred, it is expected that over time and fair balance will be struck.
- 4.2** The development of the NCIS was funded by Warwickshire County Council. It is estimated that a further £75,000 will be required to complete the NCIIP and it is proposed that, subject to legal confirmation, the development of the NCIIP should be funded from the existing Section 106 offsetting funds held by Warwickshire County Council. Therefore, it is not expected that additional funding will be required from Warwick District Council to prepare the NCIIP. However in the event that there are legal impediments for using existing Section 106 funds in the way proposed, the eight participating authorities may be asked to consider funding the NCIIP for up to £10,000 each.

### **5 Corporate Strategy**

- 5.1** Warwick District Council has adopted a Corporate Strategy which sets three strategic aims for the organisation.
- 5.2** Delivering valued, sustainable services – The NCIS has potential to attract external funding to deliver the Council’s strategic ambitions for the natural environment. By working sub-regionally, it is expected that a more effective and efficient approach can be taken to identifying and delivering investment opportunities, meaning that funding can be used for its intended purpose more quickly.
- 5.3** Low cost, low carbon energy across the district – There are no implications relating to this Strategic Priority
- 5.4** Creating vibrant, safe and healthy communities of the future – The NCIS provides the platform to deliver significant biodiversity and natural environment benefits for our communities with associated benefits for health and wellbeing, climate adaptation and climate change mitigation.

### **6 Environmental/Climate Change Implications**

- 6.1** The NCIS and NCIIP will provide long-term, sustainable funding and income sources to support the delivery of Warwickshire, Coventry and Solihull’s Green Infrastructure Strategy and the Local Nature Recovery Strategy (in preparation), as well as local strategies.
- 6.2** Funds generated from environmental markets and nature-based compensation schemes will be available to support environmental initiatives within the sub-



region, specifically those focussing upon enhancing biodiversity and tackling climate change. These will be exclusively natural capital related projects.

- 6.3** It is expected that some of the projects delivered on the basis of this Strategy will help to mitigate climate change by sequestering carbon; and to enable our environment to adapt to the changing climate.

## **7 Analysis of the effects on Equality**

- 7.1** To ensure that all citizens impacted by the source of the funding benefit from the investment, a sequential mitigation hierarchy similar to that used for Biodiversity Net Gain will be applied to decide where the compensation is to be sited (fig 2 above).
- 7.2** As a result, each local authority will benefit in the same way, proportionally, over the lifespan of the strategy. Full details of how the benefiting environmental projects will be chosen and funded will be explained within the NCIIP and scrutinised by the Natural Capital Investment Board. Each project will also be closely linked to the sub-regional Green Infrastructure Strategy, the respective Local Nature Recovery Strategies<sup>2</sup> (LNRS) and the 'Warwickshire, Coventry and Solihull Ecosystem Services Trading Protocol'.

## **8 Data Protection**

- 8.1** There are no data protection issues associated with this report. Future GDPR implications will be explored in the development of the NCIIP.

## **9 Health and Wellbeing**

- 9.1** Enhanced natural capital in the District is expected to have associated health and wellbeing benefits by supporting mental wellbeing and enabling physical activity. The potential to create a natural capital market linked to social prescribing (i.e. bringing in resource to support volunteering schemes) has the potential to deliver further health and wellbeing benefits.

## **10 Risk Assessment**

- 10.1** A full risk analysis will be developed as part of the NCIIP to be scrutinised by the Board before any formal adoption as required by each partner local authority.
- 10.2** For all ecosystem services markets a mitigation hierarchy will be developed in the NCIIP (similar to the existing BNG hierarchy in figure 2) which will influence and determine what mitigation will be required and where it should be carried out. See section 7.

### **Background papers:**

### **Supporting documents:**

- Appendix 1: The Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Strategy
- Appendix 2 – NCIIP Contents