



BNG credit prices give open market a steer on values

From November, developers must demonstrate improved biodiversity associated with their sites. **Suzie Horne** looks at the process and implications for landowners

The publication in late July of indicative prices for statutory Defra biodiversity net gain (BNG) credits surprised many. Starting at £42,000 a unit and rising to £650,000 for lakes, the values are pitched high to make this a market of last resort.

These credits are being created on Natural England (NE) pilot sites. A double surprise in the Defra release was that developers needing to resort to the national bank of BNG credits must buy two credits for each BNG unit they need. Defra and NE hope, however, that the

private or voluntary market will supply the vast majority of BNG units.

The Defra prices are nevertheless being taken as an indicator and are designed to put some confidence in a market where many landowners are nervous about this option.

Compared with the £42,000 Defra starting rate, the private market is currently offering in the region of £30,000 for “medium distinctiveness” habitat units, with some geographic variation, says Savills’ head of natural capital, Jon Dearsley. Taking standard arable land and

converting this to medium distinctiveness habitat would create four to six BNG units a hectare, he estimates. Assuming five units/ha, this gives the potential at current open market prices to deliver £150,000/ha over a 30-year agreement.

Jon expects BNG open market unit prices to dip slightly over the next few months as more land becomes available. “However, if the market dips below £25,000 a unit, it will be hard to justify offering it for BNG,” he says.

Tax uncertainty

Putting a brake on offering BNG for many is the lack of certainty over the tax position of land in schemes such as this.

A 2023 Budget consultation seeking views on payments for ecosystem services and long-term environmental uses of land closed on 9 June. The government has yet to state whether such uses will qualify for any tax relief.

Other considerations include the financial security of those funding private agreements in this market and long-term value of the land. Many are assuming that once the land has been the subject of a BNG agreement for 30 years or more, it is highly unlikely to be allowed to revert to conventional productive agricultural use.

WHAT IS BIODIVERSITY NET GAIN?

The Environment Act 2021 obliges developers in England to deliver at least 10% biodiversity net gain (BNG) associated with new residential, industrial or commercial developments. This takes effect from November 2023 and aims to benefit nature.

- Developments must avoid or minimise damage
- They must seek to mitigate or enhance the biodiversity impact on-site
- Where on-site mitigation is not possible, then the biodiversity

impact of the development must be compensated off-site, within a local planning authority’s (LPA) area or, in some cases, outside the LPA

- Where none of the above is possible, statutory biodiversity credits can be bought from Defra. These are being created on Natural England pilot sites
- BNG measures are generally being secured through Section 106 agreements attached to planning permissions and must be maintained for at least 30 years



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FIVE FACTORS WHEN CONSIDERING A BNG PROJECT

1. Think long-term

Biodiversity net gain (BNG) is for 30 years or longer, so discuss plans with likely successor(s). It could provide a guaranteed revenue for decades, but you need to be comfortable tying up ground in the long term, possibly in perpetuity. There also could be inheritance and other tax implications.

2. The fit with farming

The project must dovetail well with current and future farming enterprises. A biodiverse-rich environment could

turn the key, for example, on recreation and tourism opportunities. However, consider the knock-on implications on fixed costs, for example, or the possible need to introduce a livestock enterprise to graze a new meadow.

3. Opportunity cost

Calculate the income that alternatives to BNG could yield. The potential for other enterprises may be limited on some parcels of land, but elsewhere there may be multiple options. Also, take into account any reduction in land value.

4. Is it really me?

Be honest with yourself about your track-record in creating and maintaining habitats and biodiversity. If you have a proven pedigree and are genuinely enthusiastic about BNG, you are more likely to hit the ground running and make it work.

5. Start small

You don't have to put the whole farm into a project. You could start with just a field or even a portion of a field.

Source: Anthony Weston, Complete Land Management

Demand

Demand and prices for BNG units will vary widely between planning authorities depending on development pressure and the availability of local habitats.

The statutory credits are deliberately designed to be uncompetitive pricewise, says Devon-based Hugh Townsend, of Townsend Chartered Surveyors. He also cautions that a "responsible body" is required to monitor a BNG project and ensure it meets the agreed aims and objectives.

"We await further clarification on the potential for responsible bodies to monitor agreements, while also being the ones selling the units to developers or managing habitats on the offset land and acting for offsetting landowners at the same time as drawing up the conservation covenants," says Hugh.

"Both LPAs and private organisations may try to fulfil this role, and this may lead to potential conflicts of interest...causing unnecessary complications. This adds to the list of checks needed if offsetting landowners are approached by businesses offering to do everything with 'no risk' to those landowners, as these businesses may be taking up to 75% of the project's total expected sale proceeds," he warns.

At Sussex-based consultancy Complete Land Management, director Anthony Weston has been advising the Iford Estate, which took part in NE's BNG pilot and is now concluding BNG deals directly with developers in the private market.

While the Defra credit prices give farmers and landowners a clear steer on what BNG units are worth on the open market, they are only indicative prices, says Anthony. Mandatory credit prices will be released in November, but in the meantime these new figures

will act as a good guide for landowners and developers considering selling units.

"BNG payments at these rates can represent far, far higher returns on a per hectare basis than BPS or stewardship did, but projects are often very front-loaded in terms of costs, so you need to be mindful of cashflow considerations and be prepared to commit to them for the long-term. Dedicating your land as biodiversity gain land will also change its value," says Anthony.

For those considering BNG on their land, the first step is a baseline habitat survey to establish the type of habitats on the ground and to enable modelling of those which could be enhanced or created, he advises. "Having credible, authoritative data will help you win the confidence of developers looking to do BNG deals. It also means you won't be reactive if an opportunity presents itself."

For any BNG creation project there must be a realistic and achievable vision, taking into account existing habitats, soil types, and the potential BNG provider's experience of this type of project. "For most people, for example, the medium distinctiveness grassland [£42,000 a credit] would be eminently more achievable than the high distinctiveness grassland [£48,000]."



STATUTORY BIODIVERSITY CREDIT INDICATIVE PRICES

- Low distinctiveness habitat BNG credits start at £42,000
- Medium distinctiveness credits £42,000-£125,000
- High distinctiveness credits £42,000, £48,000, £66,000, £125,000 and rising to £650,000 for lakes

Confirmed prices to be published in November when BNG becomes mandatory.

Developer pressures

Lawyer Shruti Trivedi, a partner in Roythornes Solicitors, says that some development proposals which had mostly historic planning permission are no longer viable due to BNG delivery requirements. She also sees a big discrepancy in local councils' preparedness for the implementation of the BNG provisions.

BNG is one way to ensure land has a positive environmental impact and economic growth while also generating income, says Shruti. However, she also warns: "It is worth noting that there will come a time when land becomes more finite, so it's worth seeking advice on whether it's the right time to set it aside for BNG, as it could be more profitable to hold on for now. In many cases we have advised landowner clients not to make hasty, immediate decisions but to make a considered judgement in due course." ■

DEFRA HABITAT CLASSIFICATION

- "Distinctiveness" is a measure based on the type of habitat and its distinguishing features. It measures different ecological factors, such as the rarity of the habitat and species richness within a habitat
- "Broad" and "specific" habitat types are terms the Defra biodiversity

measurement tool uses to describe different kinds of habitat

- "Broad habitat type" describes the general habitat - for example, grassland or wetland
- "Specific habitat type" describes it in more detail, such as traditional orchards or reed beds