FARMING

Biodiversity Net Gain moves step closer with more market updates

Land agent and surveyor expert **Hugh Townsend** gives an update on the Biodiversity Net Gain (BNG) market as the deadline approaches

AS we near the November launch date for the England wide requirement for a 10% Biodiversity Net Gain (BNG) on developments requiring planning permission and await the Government's legislation for this, we look at the BNG market following the latest Biodiversity Metric Version 4.0 update this March.

Changes to Version 3.1

Version 4.0 has provided updated general guidance, clarity on usage and an emphasis on ecological expertise there have also been several key changes to the workings of the calculation itself with new habitats introduced, renamed habitats and alterations to the assessment criteria for reaching certain condition scores.

New habitats include the addition of 'Willow scrub', 'Tall forbs', 'Rural trees' and 'Watercourse footprint', whilst 'Vacant/derelict land/bareground' has been split into two distinct habitats of 'Vacant or derelict land' and 'Bareground'.

Certain habitats have simply had names changed such as 'Cereal crops winter stubble' to 'Winter stubble'. Whilst this is fairly superficial, one notable change is to the calculation criteria of several condition assessment sheets.

There are no firm requirements at this stage, but it seems likely that an assessment completed under an older version of the Metric will need to be updated to ensure it is usable when validating the production of units. Whether this requires a further site visit or is simply a desktop exercise would depend on the habitat identified during the initial assessment. It is likely that this will be a case of simply inputting new data, subject to any other changes to land use.

Environmental gain appropriate for the area

There is some debate as to the extent to which habitat improvements should focus on environmental gain to the detriment of net units. Whilst metric guidance states that a habitat plan should only be approved if shown to be appropriate for the area and rather than purely for maximum units, ultimately to convince a farmer to take land out of production any agreement must be viewed commercially. This is where the benefits of using a land agent/chartered surveyor to oversee the project becomes apparent, working with their own ecologists to produce a report that suits the landowner's purposes whilst recommending a habitat mosaic of sufficient quality to satisfy the criteria of a LPA's ecologist.

Effect of LPA and NCA Spatial modifier and Priority Areas

One further point to consider is the application of the 'spatial modifier' when calculating units. When units are sold to a developer whose site is outside but adjacent to a site's LPA there will be a 0.75 multiplier, when further afield again there will be a 0.5 multiplier, in effect halving the habitat value to the developer. However, this also applies to a site's National Character Area which are not limited to a certain LPA so when considering a trade, there is actually a greater potential market before these multipliers kick in. There are 159 NCAs across England and identifying which ones apply is a vital part of the process. If the site is located in a priority area as identified by the local plan/strategy/policy, then there will also be a 15% addition to both baseline and enhancement unit numbers or 10% in an area that has no formal strategy but has appropriate ecological value.

Soil tests and further data collection

A decision should also be made on whether it is appropriate to carry out soil-testing or other data collection at the time of the baseline assessment, or whether these can be done at a later date. This really depends on the baseline habitat and types of enhancement/creation suggested. The important takeaway from this is that there may be further need for site visits especially if there is a chance of a change in habitat condition.

Stacking of environment credits and Government payments

Any vendor must also consider whether they have the option to 'stack' ecosystem services on the same land and how this will be approached in terms of timeframes. Whilst these markets are in an early stage, there is the potential that this guidance will change. Currently units or credits, whether BNG, Carbon, Nutrient Neutrality or Flood Mitigation, may be sold separately despite resulting from the same actions on the same piece of land.

To do this it must be clear what each sale contract is for, although there is some ambiguity surrounding the timings of this. At what point should land entered in one scheme be placed in another? If works have started on one, then surely the baseline will have started to improve. Logically you would simply take the baseline as the point at which an agreement starts (usually also at the point of a sale taking place) which would mean that unless agreements are entered into in tandem then there is a chance of less units/credits produced by one of the schemes due to enhancing the baseline.

Care also is needed to avoid using land that is in an ELMs or Countryside Steward scheme or where Government payments/obligations already involve actions that result in environmental benefits where the sale of credits would pay for the same benefit.

For example if a BNG agreement were to be used on land in an agri-environment scheme such as Countryside Stewardship or ELMs, the baseline used for measuring BNG is taken from what the land's condition would be after the scheme's works have been completed.

Habitat Banks

Another approach may be to create a BNG 'habitat bank' once a NN agreement is in place, regardless of whether a purchaser is lined up for BNG units. This would remove the issue of improving the condition of the baseline and indeed benefit the BNG aspect due to the 'time to completion' modifier of the calculation; resulting in more net units when completing a later sale than if you were to sell at the point of starting works.

There is also the benefit of using the proceeds of one type of credit/unit sale to cover the costs of setting up the other.

The conclusion is that when the land is in a suitable location for multiple schemes, communication and liaising with all potential parties and taking professional advice is key to choosing the right options to maximise both habitat improvement and commercial benefit.

> Demand for BNG is likely to be from more populated areas of England Jon Hawkins / PA

What affects the value of a unit?

- Habitat type and distinctiveness;
- Supply and demand for that type of unit;
- Cost of habitat creation/enhancement;
- Whether the site is within a designated priority area;
- Distance of vendor to purchaser in terms of LPA and NCA.

There are many factors that will impact the value of a unit, many of which are standard influences on the sale of any commodity, such as supply and demand. Each unit will be influenced by its habitat type and distinctiveness, in theory this will translate to higher distinctiveness having a greater price, however certain types such as lowland meadow may result in a high number of net units creating an abundance of this type in the marketplace. We will wait and see. The other angle to this is that the higher distinctiveness habitats may offset lower types of units (with a few exceptions which require direct replacement) and so have a wider potential market allowing a vendor to seek out more easily the best unit price across England.

Costs of sale and price of small lots

This leads into the other aspect, that of difficulty/cost to complete works. When selling units, it is vital to cost up both initial works and ongoing management costs, before agreeing a sale price. Once the agreement is in place it must be committed to regardless of what monies were initially received. One consequence is that factors such as the cost of the 30-year monitoring agreement, especially for smaller agreements, will differ as a proportion of the gross costs of an agreement; potentially there will be the option of the purchaser paying for or contributing to the monitoring plan.

It may be the case that units on certain small sites or in certain areas of the country will have to fetch a higher price than others of the exact same habitat type based on these costs and economies of scale. As with the sale of BPS entitlements, smaller lot sizes are sold at a higher price because of similar costs of sale.

National market

Demand will be from more populated areas of England where any land available for BNG offsetting will also have its own development value, exaggerating the lack of supply and pushing developers to buy from other LPAs and NCAs further afield. This will create a national marketplace although with multiple influences.

If selling BNG units one could be short-changing oneself if units are not offered on a national basis and one only considers local market demand.

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