

Cabinet

16 July 2024

Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Strategy

Recommendations

That Cabinet

- 1) Approves the Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Strategy (NCIS) as set out in Appendix 1; and
- 2) Authorises the Executive Director for Communities in consultation with the Portfolio Holder for Environment, Climate & Culture to work with partnering local authorities through the establishment of the officer led NCIS Management Group to develop a Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Implementation Plan (NCIIP) (as set out in 1.4 and Appendix 2) noting that a further report will be brought back to Cabinet for approval of the NCIIP.

1. Executive Summary

- 1.1 Cabinet is asked to approve the Warwickshire, Coventry and Solihull Natural Capital Investment Strategy (NCIS) as the basis for utilising natural capital funding across the sub-region, noting that the strategy aligns closely with the following plans and strategies:
 - Council Plan: Sustainable futures and climate change – ‘investing in biodiversity and Net Zero targets’
 - Sustainable Futures Strategy: Natural Capital & Biodiversity – to support the 2030 Council net zero target plus the 2050 County net zero ambition through the ‘Establish innovative environmental markets to achieve Environmental Net Gain and fund nature recovery and enhancements across the county’ activity in order to meet the target of 30% of Warwickshire land protected and used to support the recovery of nature by 2030.
 - Warwickshire Coventry and Solihull Green Infrastructure Strategy: promotion of creating ‘the right habitat in the right place’.
 - Warwickshire Local Nature Recovery Strategy (in preparation): enable a delivery model to enable Local Authorities to delivery their responsibilities influences
- 1.2 The strategy will be integral to the Warwickshire Level 2 Devolution framework agreement under the theme of Nature Recovery where Government will work

with Warwickshire to ensure that relevant local environmental, climate mitigation and adaptation policies, including Warwickshire's Local Nature Recovery Strategy (LNRS) and existing and potential plans for protected landscapes, support the delivery of England's Environmental Improvement Plan.

- 1.3 In addition, Cabinet is asked to authorise the Executive Director for Communities to develop the governance arrangements that will be put in place to oversee the delivery of the strategy, including developing an implementation plan (the Natural Capital Investment Implementation Plan (NCIIP)) to address the elements set out in Appendix 2 and to establish a Warwickshire, Coventry and Solihull Natural Capital Investment Board and a Natural Capital Investment Management Group to have oversight and make decisions on behalf of the partner local authorities in relation to the NCIS. The NCIIP will come back to Cabinet for final approval.

1.4 Reasons for and background to the Recommendation

- 1.4.1 Natural capital can be defined as the world's stocks of natural assets which include geology, soil, air, water and all living things. It is from this natural capital that humans derive a wide range of services, often called ecosystem services, which make human life possible.
- 1.4.2 Warwickshire has led the country on a Natural Capital Investment approach through trialling Biodiversity Net Gain since 2012, which became mandatory in 2024 through the implementation of the Environment Act 2021. Biodiversity Net Gain (BNG) is an approach to development, which makes sure that habitats for wildlife are left in a measurably better state than they were before the development. Since this approach has been adopted in Warwickshire, other compensatory markets have been created (Warwick District Council's Net Zero Carbon policy, North Warwickshire's Nutrient Neutrality) and others continue to be progressed.
- 1.4.3 Developers have two options on how to compensate for their impacts:
- Find their own compensation habitat site 'provider' and contribute to the habitat created and managed on the site(s)
 - Pay a contribution sum to a local planning authority and 'broker' deal with a provider of a compensation site(s) on the developer's behalf.
- 1.4.4 Local Authorities can be both a 'provider', through enhancing areas within their ownership, as well as a 'broker'. However, in both instances the money must be spent on nature conservation enhancements in line with any planning obligations and any national rules and principles.

1.5 Natural Capital investment approach

- 1.5.1 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 by improving habitats for wildlife 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.

- 1.5.2 The NCIS provides a mechanism for delivering elements of the Council's Biodiversity Strategy. It provides the potential to use resources to bring the greatest benefits to biodiversity across the sub-region, by working together with other local authorities in the region. 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.
- 1.5.3 Officers have worked in partnership with the District and Borough councils in Warwickshire and with Coventry and Solihull councils to produce the Warwickshire, Coventry and Solihull Local Authorities NCIS (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 BNG) or other voluntary environmental markets.
- 1.5.4 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.
- 1.5.5 The overall strategic aim of the NCIS is that: "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."

1.6 **Benefits of a sub-regional approach to the NCIS**

- 1.6.1 Taking a sub-regional approach to natural capital investment has many advantages:
 - Together we are stronger than the sum of our parts,
 - Utilising combined resources,
 - Attracting greater levels of investment,
 - Develop a project pipeline,
 - Each local authority will benefit in the same way, proportionally, over the lifespan of the strategy,

- Best for nature – a ‘more, bigger, better & joined up’ approach delivered at a local scale,
- Delivering natural capital benefits, climate change mitigation and resilience which will benefit local people, and
- Working alongside other regional and national policies and strategies*.

*A full list of strategies can be found in Appendix 3 of the NCIS (the NCIS is at Appendix 1 of this report) and illustrated on Figure 1 below.

Figure 1: Diagram illustrating the connection the Natural Capital investment Strategy has with other subregional strategies.



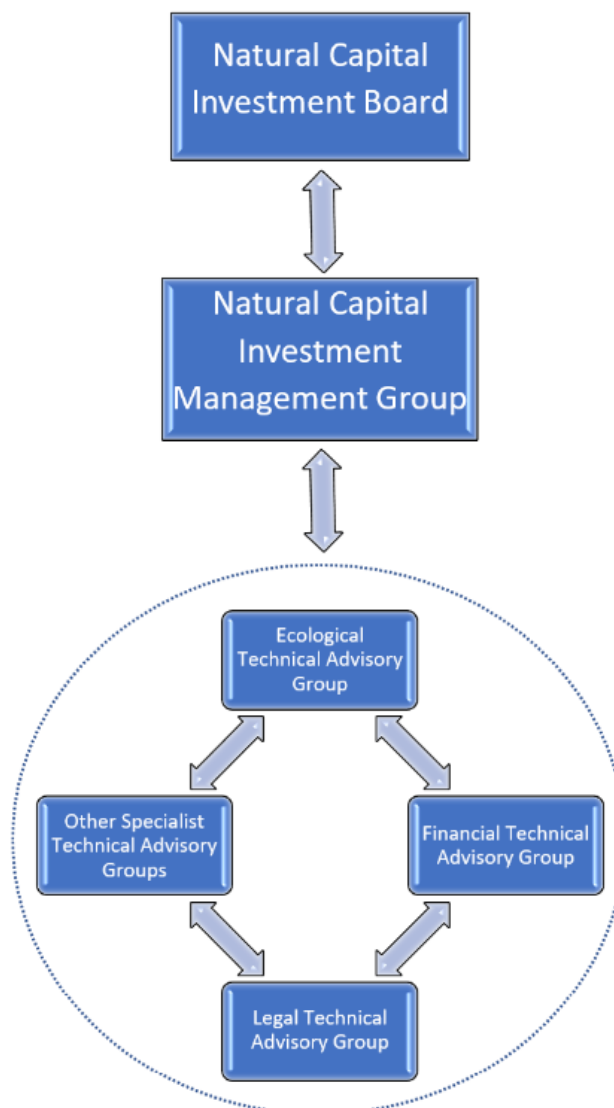
1.7 Governance

1.7.1 Governance of the Warwickshire, Coventry and Solihull NCIS will be managed by a 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 2).

1.7.2 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, where able, a 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.

- 1.7.3 The Warwickshire, Coventry and Solihull Local Authorities NCIS, see Appendix 1, has been developed and is now ready to be adopted by all eight local authorities in Warwickshire, Coventry and Solihull.
- 1.7.4 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.
- 1.7.5 To manage the NCIS and NCIIP, it is proposed that a Warwickshire, Coventry and Solihull Natural Capital Investment Board and Natural Capital Investment Management Group be established.

Figure 2: An indicative governance structure for the NCIS

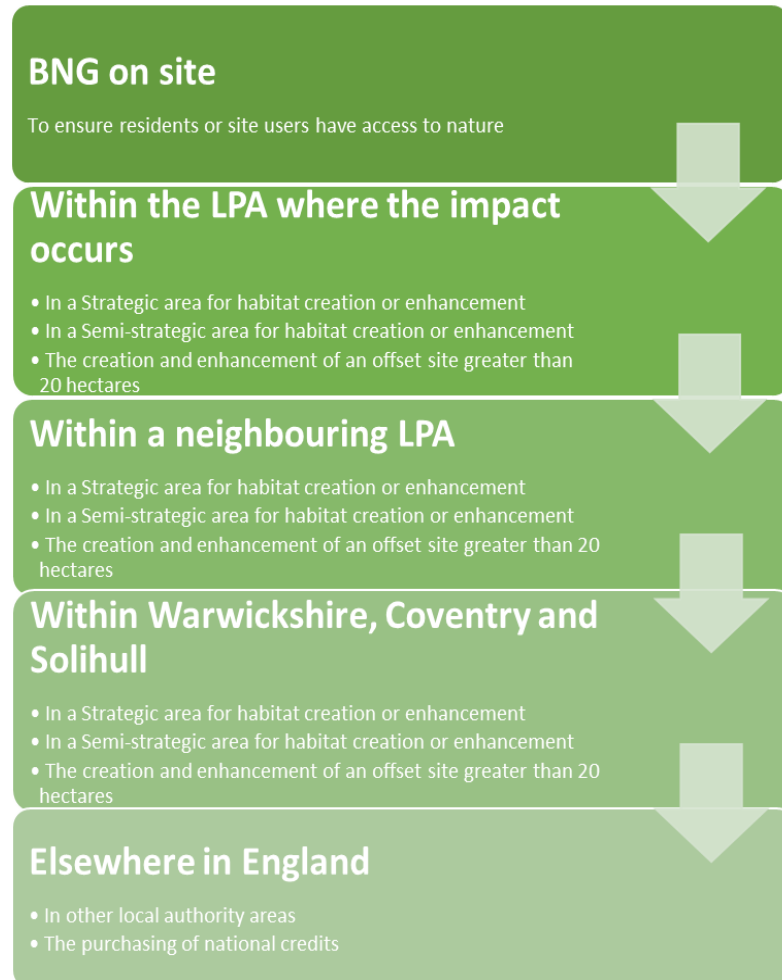


1.8 Funding the NCIS and NCIP

- 1.8.1 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.
- 1.8.2 Existing funds relating to the already established Warwickshire, Coventry and Solihull Biodiversity Net Gain requirements are held by Warwickshire County Council within various local authority Section 106 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.
- 1.8.3 Until recently the Warwickshire Biodiversity Offsetting scheme has seen funding from District and Boroughs areas 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 the County Council's the process until now has not had a strong local input at the local level. The NCIS provides an opportunity for more local influence over where and how natural capital monies are spent.
- 1.8.4 Current, or nearly established, ecosystem services markets applicable to Warwickshire, Coventry and Solihull are:
- Biodiversity Net Gain - already established in Warwickshire through became mandatory for planning applications from 12 February 2024
 - The Warwick District Council 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)
- 1.8.5 Other ecosystem services markets which could be applicable to Warwickshire, Coventry and Solihull are:
- Future carbon markets, including soil, grassland and hedgerows.
 - Air quality mitigation
 - Flood risk mitigation
 - Nutrient neutrality
 - Water quality mitigation
 - Green social prescribing
 - Health and wellbeing
- 1.8.6 The NCIP will investigate the funding mechanisms to deliver the NCIS and NCIP under the instruction to follow a full cost recovery principle.
- 1.8.7 Figure 3 below sets out the hierarchy that Local Planning Authorities (LPAs) will use to allocate investment, 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 3: 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.



Alternative Options

1.8.8 If the NCIS is not adopted then this would either:

- a. leave the Council without a strategic approach to investing in natural capital, meaning that investments are made in an ad hoc way, thereby leaving the local authority vulnerable to missed opportunities, slow delivery and reduced benefits; or
- b. require a local strategy to be developed for Warwickshire which could still deliver a positive approach but would fail to deliver to the multiple benefits that could be realised by working with other local authorities in the region, as set out in paragraph 1.6 above.

1.8.9 Taking a sub-regional approach to the NCIS and NCIIP will make it easier to align our strategy and delivery with the requirements of the Environment Act

2021 and the need to submit 5-yearly Biodiversity Net Gain (BNG) reports. It will also support the Local Nature Recovery Strategy (LNRS), which in preparation for a March 2025 completion date. This will also reflect and enhance the overlap between the Warwickshire LNRS. It will also provide a platform for the effective delivery of BNG.

2. Financial Implications

- 2.1 Taken as a whole and over time, the NCIS through the NCIIP will seek 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 investable projects in areas where underspending has occurred, it is expected that over time and fair balance will be struck.
- 2.2 The development of the NCIS was funded by Warwickshire County Council through the LNRS government burden grant. The cost was £25,000 and this covered the external consultant time. It is estimated that a further £75,000 will be required to complete the NCIIP and it is proposed that, the development of the NCIIP is funded from the existing Section 106 offsetting funds held by Warwickshire County Council where the related s106 funds are permitted for this purpose. Therefore, it is not expected that there will be any additional calls on Warwickshire County Council to fund the development of this strategy, the NCIIP and associated workstreams.

3. Environmental Implications

- 3.1 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.
- 3.2 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.
- 3.3 It is expected that some of the projects delivered on the basis of the NCIS will help to mitigate climate change by sequestering carbon; and to enable our environment to adapt to the changing climate.

4. Supporting Information

- 4.1 The NCIS sets out the overarching parameters as to how the Local Authorities within Warwickshire, Coventry and Solihull will invest in nature through combining ecological compensation contributions from planning (e.g. via section 106 obligations), plus other appropriate regulated compensation streams.

5. Timescales associated with the decision and next steps

- 5.1 Proposed timescales are
- Commencement of the NCIP: August 2025
 - Completion of the NCIP: July 2025
 - Bring the NCIP back to Cabinet: September 2025

Appendices

1. Appendix 1: The Warwickshire, Coventry and Solihull Local Authorities Natural Capital Investment Strategy (NCIS)
2. Appendix 2 – NCIP Contents

Background Papers

1. see Appendices

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The report was circulated to the following members prior to publication:

Local Member(s): None – this is a County wide report
Other members: Chair & Spokes of Communities OSC