

Oxon LNP Board Paper for Approval

Title:	Oxfordshire Nature Fund
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Summary:

This paper presents one method of operationalising the Oxfordshire Nature Finance Strategy – establishing a revolving fund for nature, or an Oxfordshire Nature Fund. This fund would offer short term loans/grants to farmers/landowners, enabling them to prepare to sell environmental credits (eg BNG or carbon) to developers or local businesses. Credit sales result in nature recovery actions being undertaken on land to support delivery of the Oxfordshire Local Nature Recovery Strategy.

Actions for the Board:

- Explore alternative ways of addressing the issues
- Suggest potential parties who might support the further exploration of the concept
- Suggest parties who may wish to capitalise such a Fund
- Support further exploration of this concept

1. Introduction

OLNP has recently produced the Oxfordshire Nature Finance Strategy, which aims to leverage private money to support delivery of nature recovery ambitions. The strategy identifies two main environmental benefits which are most readily monetizable – biodiversity (net gain) and carbon sequestration (credits). Both have existing, proven and growing demand. The challenge for stimulating and accelerating the flow of private money to fund nature recovery, in both instances, is on the supply-side - the lack of 'investment-ready' sites. Another way of framing this is to say there are not yet enough farmers ready to sell credits on their pieces of land.

2. Barriers to investment readiness

A number of barriers exist to farmer uptake:

- A lack of understanding of the incentives and policy framework
- A lack of clarity on central government financial incentives, such as ELM, SFI and issue around inheritance tax
- A desire to wait to see what happens to the price of carbon and biodiversity net gain (BNG) units
- A conflict between the wish to grow food and diversity land management
- A lack of disposable income with which to become 'investment ready'.

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3. Removing barriers

Clearly OLNP cannot provide clarity on government policy, nor can it predict future prices. However, OLNP can support information dissemination, and indeed actively does so, via relationships with farmer clusters and the NFU.

Currently, the BNG offset sites that are ready are either led by environmental charities, or by affluent landowners with adequate resources with which to pursue this option. Relying on these options a) does not result in enough sites to meet demand, b) has yet to result in at least one offset site per LPA area and c) prohibits any kind of spatial prioritisation, which we know is necessary in order to best stimulate nature's recovery.

4. A revolving fund for nature

The establishment of a finance facility would help address one of the key barriers to farmer/landowner uptake, which is resources and money. An Oxfordshire Nature Fund could provide money to those who are interested in better understanding their land's potential for selling environmental credits. This could be in the form of staged soft loans, whereby portions of money are released pending on certain criteria being met. This would reduce the risk associated with the provision of finance.

OLNP Manager has been discussing the idea with one environmental funder in Oxfordshire already, who is keen and has a small amount of capital with which they may do so. This report proposes that OLNP explore provision of support for this approach, including by supporting its design and establishment, and working with partners to increase the finance available. The Board is asked to endorse this proposal.

For clarity, funding provided by the facility/Fund would be provided for preparation, not for any groundworks. It is envisaged that private investors or other actors, potentially such as Finance Earth, Oxbury Bank or Triodos, may step in following the initial support we offer, to provide a more secured form of repayable finance if required.

5. The need for high integrity

Oxfordshire Nature Finance Strategy lays strong emphasis on high integrity markets, with Oxfordshire desiring to demonstrate the gold standard. Any Oxfordshire Nature Fund would need to work hard to ensure that it supports only projects and transactions that are ecologically excellent. This would need to be an early necessary step in taking this work forward. Any Fund would be directly aligned with the forthcoming Local Nature Recovery Strategy, for instance.

6. Examples from elsewhere in England

- a) Nationally, the Environment Agency-led Natural Environment Investment Readiness Fund has provided grants of up to £100,000 to over 75 projects in its first two rounds. This fund was to develop projects to 'investment readiness', or readiness to receive private funds, whether that be via repayable finance or by selling credits to buyers. NEIRF projects include:
 - o Heal Rewilding, which resulted in HEAL securing a £5million loan from Triodos to deliver huge a nature recovery project in Somerset

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- Wendling Beck, which has sold and is selling environmental credits to fund the transformation of farmland through river restoration, grassland and wetland creation to offset impacts elsewhere

A third round of NEIRF is open currently, available to farmers only. The complexity of application process and limited overall funding means this is extremely unlikely to solve Oxfordshire's supply problem.

- b) Cambridgeshire has secured £1.2million from the Combined Authority to establish a '[Doubling Nature Fund](#)'. This is not dissimilar from what is proposed here.
- c) Gloucestershire has the [Nature and Climate Fund](#), which supports farmers to prepare to sell BNG units. They hope to expand into carbon credits soon.
- d) Greater Manchester has an environment fund [GMEF](#) which is supporting the preparation of five sites ready to provide BNG units to developers who require them.
- e) The Big Nature Impact Fund will support high-quality Nature-based Solutions (NbS) projects and enterprises that deliver social and environmental impact, while generating financial returns for institutional investors driven by the sale of a range of ecosystem services. With a seed investment of [£30 million from the UK Department for Environment, Food and Rural Affairs \(Defra\)](#) for England-based investments, the fund aims to mobilise funds from the private sector to accelerate and scale nature recovery in the UK.

7. Recommendations

This paper recommends the Board:

- approves further investigation into the establishment of a fund
- considers potential methods of capitalising such a fund
- suggests alternative approaches to unblocking the BNG and carbon credit supply challenges

8. Post script – a note on the demand-side for other environmental service markets

This paper focusses on BNG and carbon credits, for which demand is clear and apparent. Markets for other ecosystem services may be considered even more nascent and confusing, but it is clear that a mixed landscape can supply a range of other environmental services alongside and simultaneously to food production. For such a market there has been relatively little demand-side investigation.

OLNP, with the Bucks and Milton Keynes Natural Environment Partnership (LNP), is seeking funding to deliver a project that aims to:

- Understand the range of nature-based services we can sell, and the range of customers we can sell them to
- analyse and advise on local capacity and infrastructure required to turn opportunities into transactions
- develop a step-wise plan for 'setting up shop' and building a pipeline of transactions.