FEARANN COIMHEARSNACHD NA H-ALBA | COMMUNITY LAND SCOTLAND

Pearce Institute | 840-860 Govan Road
Glasgow | G51 3UU
e: info@communitylandscotland.org.uk
www.communitylandscotland.org.uk

Briefing: Natural capital financing and achieving targets for nature and Net Zero

Summary

Community Land Scotland (CLS) considers the climate emergency and associated biodiversity decline as existential crises deserving of significant public policy development. Many CLS members are already active in addressing the issues and more communities should have the opportunity to be leaders in climate and bio-diversity action.

Community owners already utilise private sources of finance for investment purposes and CLS has no principled objection to the utilisation of private finance into nature and net zero activity. However that private finance must support the achievement of related public policy goals which build and retain wealth in communities and Scotland more widely.

Wider policy questions arise when public finance is required to enable or even underwrite a private market from which large private profits will be extracted by exploiting Scotland's natural heritage. This is the 'de-risking' of private investment by public finances.[1]

These concerns are only exacerbated by a lack of exploration of other policy mechanisms to achieve Scotland's nature targets.

Community Land Scotland has identified three essential considerations for policy development in this area:

1. **Overstated financial pressures**

- Publicly available research for the Scottish government reveals an ambition for £12.5 billion of investment over the remaining 8-year period to 2032, or £1.5 billion annually.[2] Achieving this level of investment at best seems improbable when set against the achievement of current planting and peatland restoration being closer to £50 million of value annually.
- To achieve the ambition of securing £1.5 billion annually through to 2032 would require an immediate gearing-up of delivery by over 3,000% and does not seem in any way credible. Any job creation and wider economic benefits potential using these figures would be unrealistic.
- Much of this is driven by the £20bn figure from the 2021 report published by the Green Finance Institute. This figure has been discredited, as it was largely based on unnecessary land acquisitions – removing this the resulting figure is much smaller.[3] Future Economy Scotland has previously estimated that it could be as little as £118m per year, which amounts to around 0.2% of the Scottish Government's annual

[1] Can private finance fix Scotland's nature crisis? | Future Economy Scotland
[2] Executive Summary - Natural capital: economic benefits assessment - gov.scot (www.gov.scot)
[3] The-Credibility-Gap-for-Green-Finance-Jon-Hollingdale-19.08.2023.pdf (communitylandscotland.org.uk)

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Charity registered in Scotland SC041864, Company Number SC385572

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budget.[4] Whether the 'gap' is millions or billions has significant repercussions for the scale of private finance required.

2. Non-financial reasons for the lack of climate action

Whilst much of the current policy discourse focuses on leveraging in private finance to natural capital projects, the issue is not simply a financial one. The woodland and peatland grant schemes have been underspent by £30m and £20m respectively over the past two years.[5] The other considerations are:

- the necessary commitment to the land use involved (often involving standard security over land of up to 100 years duration)
- the immaturity of the policy approach and unknown risks – both financial and reputational- around carbon markets
- the current carbon price not being able to support viable investment propositions[6]
- a lack of availability of suitable tree saplings
- a lack of skills and labour supply to undertake all the necessary dimensions to the work
- the limitations crofting in particular place on progress (issues of ownership of trees and carbon credits)
- the uncertainty of what owners may need for their own in-setting over the longer term

3. Encouraging private finance does not reduce public spending

Due to these challenges the current system does not deliver commercially investable propositions with the returns necessary for private financiers.[7] Research commissioned by the Scottish Government has argued that public money needs to be used to 'de-risk' private finance through guaranteeing carbon prices, operating payments or 'first-loss' capital.[8] This has potentially considerable costs for public expenditure. These proposals have the potential to be a significant cost to public expenditure, and could end up being more expensive than direct public investment – while adding significant risk and uncertainty to Scotland's public finances.[9]

CLS believes that due to the ongoing pressure on public finances, any use of public money to incentivise private finance will not be at the scale required for the foreseeable future. It will also be politically challenging to use significant quantities of public money to incentivise private finance when areas of public capital funding such as housing have become heavily constrained in the recent Scottish budget.

[4] Is the finance gap for nature really £20bn? | Future Economy Scotland
[5] Written question and answer: S6W-17412 | Scottish Parliament Website and Written question and answer: S6W-18571 | Scottish Parliament Website.
[6] Microsoft Word - Final report.docx (sefari.scot)
[7] Can private finance fix Scotland's nature crisis? | Future Economy Scotland
[8] Mobilising private investment in natural capital (www.gov.scot), a more thorough explanation of this is made in Can private finance fix Scotland's nature crisis? | Future Economy Scotland
[9] Can private finance fix Scotland's nature crisis? | Future Economy Scotland

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CLS considers that public spending would be likely to deliver more long-term economic, social and cultural benefits if utilised for direct investment in land owned and managed in the public interest in perpetuity, rather than to underwrite an emerging private market in carbon credits.

What are the complementary policy approaches?

The uncertainty about the scale of the funding 'gap', potential associated costs and contingent liabilities on public finances in derisking the private finance model, as well as a lack of confidence in carbon markets means that complementary policy approaches need to be considered to tackle the climate and nature crises.

Land use reform:

- Substantially reducing deer numbers as the single biggest measure needed to restore biodiversity
- The progressive re-alignment of agricultural support to deliver ever more nature friendly practises
- The regulation of greenhouse gas emitting land
- An enhanced role for local authorities in the identification and zoning of land for nature restoration
- Examination of the benefits of phasing out intensive grouse shooting as a significant land use

Fiscal measures:

- Reduce or end subsidy to commercial coniferous forestry in favour of supporting native woodland development for carbon sequestration, biodiversity purposes and recreation
- A refocussing of Scottish National Investment Bank activity
- The encouragement of increased government (UK and Scottish) led direct green investment with the public taking any return from investments
- The scope for a Biodiversity Bond Issue to raise peoples' investment in nature
- An increased role for the Scottish Government and its agencies and local authorities in the ownership and management of land for nature and for the insetting of national carbon credit needs
- Land valuation principles reformed

Ownership and joint ventures:

- An encouragement of new forms of joint venture between communities, public agencies, and the private sector for investment purposes – if the public or community own assets they take all of the income and returns from investments
- Support for the targeting of philanthropic giving into Scotland for nature
- Communities holding and managing land on behalf of the national interest
- The scope for GB Energy to help lead and facilitate greater community owned action on net zero

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The question for policy makers in Scotland is not whether in principle private finance may have a role to play, but to clearly define its place, realistic scale, the role where it engages public finance and wider policy goals, and ensure public interest safeguards against exploitation, excessive returns, and the leakage of wealth from communities and Scotland as a whole.

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Appendix

Current policy context and approach

The current Scottish government policy toward investment in nature that helps deliver net zero and restore biodiversity has become closely aligned with progress being dependent on private finance and a functioning market for carbon credits.

That market would see Scottish carbon credits being generated in respect of tree planting and peatland restoration (and other emerging areas for nature investment, including blue/green carbon) and traded within the UK's voluntary carbon market. The income from the credits funding the investment and the return on that investment to external financiers.

The Scottish Government has published a Statement of Interim Principles to guide the development of this market and is currently working on developing a *Market Framework* due to be published in last quarter of 2024 to further shape and promote the market envisaged.

Ministers have been driven by what they understand to be a multibillion-pound gap in the investment needed in nature. Together with the Forest Policy Group CLS has published an independently researched report by Jon Hollingdale which substantially questions that initial understanding.[10]

Ministers have made clear that, however viewed, there is likely to be a gap in investment that public spending alone cannot fill, and that private investment will be needed.

It is becoming clear that notwithstanding the positive signals from Ministers over the last three or so years, delivering significant private investment in nature is proving very challenging and there is as yet no investment at anything like the scale that would meet the aspirations to spend.

Currently there is little by way of new private finance being generated beyond that which is buying land, which has been the main attractor of private finance. It is public funds that is principally meeting the cost of the actual investment in nature.[11]

If targets cannot be met when there is generous public finance available, it makes using expensive private finance even more challenging.

Public risk and private profit

This has given rise to suggestions in Scottish government research papers that the availability of public grants `crowds out' private finance and that if re-structured to support private

[10] The-Credibility-Gap-for-Green-Finance-Jon-Hollingdale-19.08.2023.pdf (communitylandscotland.org.uk)
[11] BrewDog's Lost Forest at Kinrara - lost trees, lost carbon and lost finances - parkswatchscotland

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finance that could help `crowd in' private finance.[12] This appears as code for ending direct publicly funded grant support in favour of underwriting private finance investment. There would be profound implications for the opportunities for communities and private owners of land from any such change of policy.

Public investment to underwrite private finance for nature impacts the opportunity for other public investment in other areas of spending and needs to be assessed for the relative benefits.

Scotland's land ownership patterns are significant in how any progress is likely to be shaped and who the beneficiaries of the policy will be.

Work undertaken for the Scottish government strongly suggests that private finance is looking for their investment risks to be underwritten by future public spending commitments or contingent liabilities over many years to come, in order to protect any private investments from carbon price uncertainty.[13]

Parliamentary Question answers reveal the Scottish government have not undertaken any:

- exploration of the dynamics of the carbon price and future carbon pricing
- economic analysis on the approach and who the principal beneficiaries will be over the whole investment cycle and where they are located
- assessment of the risks in pursuing this policy

Scottish government has recognised within the Statement of Interim Principles that the market needs to be a "values led high-integrity" market, though what that means in practise is not yet fully clear. High-integrity, it appears, is taken to mean the framework and assurance provided by the Carbon Codes for woodland and peatlands, though these could not be said to be complete in their consideration of what might constitute high-integrity.

The Interim Principles also reference other important policy that the development of the market needs to serve community wealth building, a just transition to net zero, and that communities should benefit from this market. How this would be achieved is not at all clear.

CLS sees a tension between developing a market attractive to investors with wider policy goals toward a just transition, community wealth building and achieving a greater diversity in ownership and it is not clear whether this this tension can be addressed satisfactorily.

[12] https://www.gov.scot/binaries/content/documents/govscot/publications/research-and-analysis/2023/04/mobilising-private-investment-natural-capital/documents/mobilising-private-investment-natural-capital/mobilising-private-investment-natural-capital/govscot%3Adocument/mobilising-private-investment-natural-capital.pdf

[13] https://www.gov.scot/binaries/content/documents/govscot/publications/research-and-analysis/2023/04/mobilising-private-investment-natural-capital/documents/mobilising-private-investment-natural-capital/mobilising-private-investment-natural-capital/govscot%3Adocument/mobilising-private-investment-natural-capital.pdf

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CLS envisages external direct investment, while capable of delivering some jobs (mainly visiting contractors) and supporting other local economic activity across Scotland, is however likely, over time, to extract substantially more from the economic potential of localities and Scotland than it invests.

CLS considers the number of jobs stated in publicly available research documents on this issue relate to currently unachievable investment levels and as such are considerably over-stated.[14]

CLS considers that the approach to deriving community benefits from private investment such as seen historically in windfarm developments is no longer appropriate in its scale or approach and advocates a new approach in developing thriving community partnerships against gold, silver, and bronze standards.[15]

In short, the demands of private finance for as little regulation as possible collide with the public policy demands for alignment with other public policy goals.

Carbon market development and regulation

The crofting counties hold within them perhaps the bulk of the resource potential for Scotland's nature restoration and carbon sequestration, but that potential is unlikely to be achieved without securing absolute clarity of ownership of the carbon credit potential in a way which favours crofter interests.[16]

CLS believes that Scotland's carbon sequestration potential is a shared community and public asset requiring strategic management, not principally a private commodity to be traded in a largely unregulated marketplace, and believes participation in carbon credit trading should be regulated to secure the public interest:

- Government support for peatland restoration and forest planting from which carbon credits will be traded should only be permitted through Scottish Government approved trading schemes that ensure sequestration of carbon does not allow a continuation of business as usual in causing emissions
- Preference in approved schemes should be given to those that prioritise the needs of the Scottish economy and public services and the potential need to offset residual emissions from Scotland's own economic activity
- Carbon traders in Scotland should require to be licensed by the Scottish Government
- Being licenced to trade in carbon credits will require:

[14] https://www.gov.scot/publications/assessing-cumulative-cross-sector-economic-benefits-investment-natural-capital-scotland/pages/2/

[15] Beyond-Community-Benefit-a-New-Deal-for-Thriving-Communities-Community-Land-Scotland-October-2023.pdf (communitylandscotland.org.uk)

[16] Public Papers for 6 December 2023 (scotland.gov.uk)

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a) evidence of how communities in the area of land impacted by the trading will share significantly in the benefits of carbon credits traded

b) that the principles of free, prior and informed consent are observed

Would progress be possible without private finance?

There is a long tradition of private sector involvement in land management and tree planting, alongside significant public incentives to private action.

Many community organisations and private owners already use private finance to capitalise projects they own.

Suggesting there is no role for the private sector would cut against current practise.

Where there is a private or community owner of land willing to enter a private finance deal that each party find mutually beneficial, that is a matter solely for them.

Where an established private market for investment, such as energy generation and distribution exist, that should be encouraged to keep delivering within overall energy policy.

Wider policy questions arise when public finance is required to enable or even underwrite a private market from which large private profits will be extracted by exploiting Scotland's natural heritage.

What has perhaps been understated in the current debate is discussion on what role the state necessarily must play in strategic delivery, the role local authorities and that which community ownership could play.

In principle, private finance could have a role to play, if the lessons of past engagement of significant private finance in achieving public goals has been learned. To do so could ensure that:

- risk is fairly shared by the private sector
- there were controlled returns to private investors
- absolute transparency in dealings was paramount
- an explicit outcome is the delivery of increased community wealth for the long-term
- a just transition can be shown to be being achieved
- land ownership diversity is advanced

In short, perhaps these `golden rules' for a new private investment market are needed to safeguard national interests.

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There is a danger that in the absence of a policy discussion on alternative approaches to securing the desired nature outcomes, the debate on currently undeliverable large scale private finance is a distraction from a well-considered joined-up and long-term public policy.

Specific complementary policies to achieve nature goals

Land use reform

1. **Progressively reduce deer numbers.**

The biggest single action that could be taken to promote biodiversity and support emissions sequestration in Scotland is to significantly reduce and control deer numbers.

Recent Scottish government evidence suggests there are areas of Scotland where deer populations, of all four species, may be in excess of 20 deer per square kilometre and will be causing significant damage.[17] They recognise that the successful establishment and sustained management of natural regeneration can require low to very low deer densities of 1-5 deer per square kilometre, and for many woodland and open ground habitats may need to be sustained at densities as low as 2-3 deer per square kilometre.

This would take time to achieve but is a relatively low-cost option which can be implemented principally by regulation of landowner behaviour.

2. **The progressive re-alignment of agricultural support to deliver ever more nature friendly practises.**

Agriculture remains a major contributor to greenhouse gas emissions and programmes of support for agriculture need to progressively incentivise the reduction of these emissions and the application of new technologies and approaches to land management.

3. **The taxation and regulation of greenhouse gas emitting land.**

Taxation of land which emits greenhouse gasses is a current proposal from the John Muir Trust with the Scottish government agreeing to examine the principle of this.

In addition, however, examining the role regulation could play in reducing emissions, just as would be the case in other forms of environmental pollution, should be examined too.

4. **An enhanced role for local authorities in the identification and zoning of land for nature restoration.**

Local authorities have a role to play in helping deliver climate action and bring democratic legitimacy to the process.

[17] PQ answer: S6W - 25649

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The key role of a local authority in land use planning should be examined to ensure land for priority climate and biodiversity use is recognised within the planning system.

5. **Examination of the benefits of phasing out intensive grouse shooting as a significant land use.**

It appears increasingly incongruous that so much of Scotland's land that could be utilised for climate management purposes is devoted instead to the intensive management of land for the rearing and shooting of grouse.

There is a need to explore the use of such land for these purposes into the future with the potential phasing out of grouse shooting giving way to better land uses for nature and the climate.

Fiscal measures

6. **Reduce or end subsidy to commercial coniferous forestry in favour of supporting native woodland development for carbon sequestration, biodiversity purposes and recreation.**

The Royal Society of Edinburgh has recently reported on public spending support for forestry and concluded there is a case for ending subsidy to commercial coniferous forestry.[18]

Redirecting such support to grant aid for direct peatland and native tree planting, or to support the reduction of deer numbers should be considered.

7. **A refocussing of Scottish National Investment Bank activity**

The SNIB can be a significant funder of investment in Scotland designed to benefit the Scottish economy and people. Such investment needs to ensure the benefits stay local if it is to bring meaningful benefits to local economies and the nation.

The SNIB could be redirected by Ministers to specifically target achieving more locally owned investment in assets which support addressing the climate emergency, in conjunction with the UK Infrastructure Bank, as appropriate.

8. **The encouragement of increased government (UK and Scottish) led direct green investment.**

Government at the Scottish and UK level has a legitimate and potentially strong role to play in direct green investment.

[18] https://rse.org.uk/expert-advice/inquiries/tree-planting-inquiry/

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As the scope for such investment expands over time it would be legitimate for governments to take a leading role in ensuring the stewardship of the nation's land in the interests of climate management and biodiversity. That may mean further direct investment in the national forest estate and/or in wider ownership of land and through direct investment in forestry and peatlands to achieve climate actions and secure the national interest through publicly owned carbon credits to meet national needs.

9. **The scope for a Biodiversity Bond Issue to raise peoples' investment in nature.**

It is known there is a public appetite to invest in nature and climate related causes.

Developing policy toward seeking to realise that potential through a biodiversity bond or some such financial instrument should be explored. Linking this to involvement of the SNIB and to the potential role of public pension funds in investment should be examined.

10. **Land valuation principles reformed**

To bring land into more affordable reach of public agencies, communities and local residents, land valuation principles should be revisited to act against rapidly rising land values and using Scottish land for speculative gain.

11. **Support for the targeting of philanthropic giving into Scotland for nature.**

There is potential in securing as large a share as possible in the potential of philanthropic giving for climate, biodiversity and community benefit.

This should be given specific attention by the Scottish government and its agencies in actively seeking and facilitating such philanthropic giving within Scotland.

<u>Ownership and joint ventures</u>

12. **An encouragement of new forms of joint venture between communities, public agencies, and the private sector for investment purposes.**

Positive innovation and partnership arrangements need to be facilitated to ensure local communities can have a stake in their own futures and can play an active part in managing land for climate and biodiversity purposes.

Too often there are constraints on creating innovative partnership models and this needs to be addressed to make arrangements easier and have dynamic potential.

13. **Communities holding and managing land on behalf of the national interest.**

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Communities have shown they have the capacity to own and manage land and contribute to climate and biodiversity goals.

Multiple public policy goals are delivered when communities manage land and with support, they can contribute more to the nation's need for land to be managed for the climate and biodiversity. Such investment has been shown to be transformational to economic, social, cultural, and environmental goals, bringing substantial long-term benefits.

A programme enabling more communities to own and deliver national policy goals would be good value for public expenditure.

Utilising 2020 changes to Treasury guidance on cost-benefit analysis when considering investment proposals to better capture transformational changes to economic, social, cultural, and environmental benefits over time could be beneficial.[19]

Local authorities and other public agencies could also be expected over time to use some of their resources to hold land for the national interest and for use in their own future offsetting needs.

14. Design GB Energy to help lead and facilitate greater community owned action on net zero.

If a change of UK government resulted in the creation of GB Energy, there would be merit in seeking to ensure in Scotland that its design built on the experience of Scottish communities in owning energy generation to ensure it could help facilitate many more communities to take a leading role in owning such assets.

The evidence is that where communities can own such assets the delivery of wider economic, social, cultural, and environmental goals is significantly enhanced.

It can be seen from the foregoing that there are many areas of policy that could be developed to lessen any dependence on external private capital and deliver greater long-term benefits and value for public spending.

[19] The Green Book (publishing.service.gov.uk), see p.122 setting out how 'transformational policies' should be appraised.