Natural Capital Investment Plan for Surrey
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Foreword

This Plan is a follow on companion to the previously published naturally richer: A Natural Capital Investment Strategy for Surrey.

This Natural Capital Investment Plan is a practical, yet visionary, document. The Plan was heralded two years ago by the publication of naturally richer: A Natural Capital Investment Strategy for Surrey. Since then much has happened to support Surrey’s astute recognition that new investment flows into natural capital must be mobilised. The Government re-appointed the Natural Capital Committee (NCC) (until at least 2020), and then asked them to advise on the now published 25 Year Environment Plan (25YEP). Alongside this the concept of public money for public goods has been espoused by ministers, not least in underpinning a new Agriculture Act, required to restructure farm payments to replace the EU Common Agricultural Policy. This concept is equally applicable across all natural capital assets to deliver enhanced value.

With similar prescience to the Investment Strategy, this Plan sets out tangible routes to create and maintain healthy natural assets in Surrey over the next 25 years. It should promote informed dialogue, as well as lead to a clear initial 5 year implementation programme to 2023. The Plan reflects the NCC’s recommended approach, tailored to reflect the specific needs, opportunities and priorities in Surrey. The evidence amassed through reports produced by Surrey Nature Partnership as this Plan took shape, continues to emphasise the deep connection between economic prosperity, a healthy and thriving society, and a high quality natural environment. The natural capital approach developed in Surrey is a beacon of clarity which many outside the County would do well to replicate. This plan shows complexity is not an excuse for inaction.

To put the development and maintenance of Surrey’s natural assets at the true heart of economic and social planning is a big step. It depends on redressing the balance between public and private investment in accordance with the daily benefits (‘ecosystem services’) and the long-term asset value (‘natural capital’) that both public and private interests enjoy. Public investment can be better directed to secure public benefit (not least in farming) but finding mechanisms for private investment to take the lead is the biggest challenge. Many receive benefits from natural assets without paying anything, and as a result these assets are grossly underfunded. Yet there is increasing capital available and a willingness to invest in natural capital markets, as soon as the risks and returns can be crystallised. Early pioneers, as signposted by this Plan, will be at the forefront of these new natural capital-based investment vehicles.

A rapid transition from one-off examples to a systemic approach is vital to confidently secure benefits in the long term. Hopefully Government will act decisively to accelerate this process. The only unfulfilled recommendation of the NCC was for legislation to underpin the 25YEP. This would provide credibility and investment grade projects at scale, accelerating delivery of this Plan, as well as international commitments on climate change and the UN’s Sustainable Development Goals, which are all dependent on local action. It would also recognise the natural capital interdependence of local and national productivity and prosperity ambitions, as set out in the Government’s Industrial and Clean Growth Strategies.

Surrey’s natural capital approach set out in this Plan shows that an integrated and inclusive approach to sustainable economic prosperity, including investment in natural capital, can start now. The Plan lists imaginative ways to invest in natural capital, ranging from community-led funds, through local funds, to fully commercial investment products, depending on the maturity of the market. Combined with inspirational examples like the ‘Real’ Hedge Fund this Plan is an effective call to action which all stakeholders must heed. It provides the framework within which innovative and bespoke solutions can be designed – local context and local community engagement being critical. It does so in a way that can be replicated and scaled up.

The Plan depends on more proactive dialogue with Surrey’s two Local Enterprise Partnerships, its Local Authorities, businesses and communities. It does not shy away from the considerable challenge ahead, not least in developing an investible project pipeline. The experience shared by Surrey publishing this plan, and future examples of its implementation, will help inform national policy makers. Further policy and regulatory action to enable and expand natural capital investment will be inevitable to deliver the 25YEP. But the ambition and initiative shown by Surrey in this Plan will be a lasting legacy for prompting how this transition can begin.

Peter Young

Peter is a Trustee of the Green Purposes Company which holds a special share in the Green Investment Bank. He is a Trustee and Council member of The Wildlife Trusts. He is an individual member of Aldersgate Group, having been a Founding Director and Chair from 2007 to 2015. He is chair of the Business Interest Group for the Valuing Nature Programme, and a member of the Programme Advisory Board. He is also on advisory boards at the School of Business and Management at Queen Mary, University of London, and the British Standards Institute.
Executive Summary

- In November 2015 Surrey Nature Partnership published naturally richer; this document recognised the importance of Surrey’s natural capital assets to its economic and social success in the past and the reliance that continued and future success has on these natural assets.

- The Natural Capital Investment Plan (NCIP) for Surrey sets out the broad actions required to achieve and maintain healthy natural assets in Surrey over the next 25 years. It is designed to promote discussion and comment. It also highlights the activity which has been undertaken over the last two years as part of the thought process of developing the natural capital approach in Surrey.

- The Plan is aimed at a wide range of partners, all of whom need to be engaged in creating the change required to sustain our natural assets, and the benefits they provide, in the long term. This includes Local Enterprise Partnerships, Local Authorities, corporate and business partners, community, youth and NGO representatives.

- Surrey has a very successful economy which needs to adapt and innovate in order to remain successful, a growing population and workforce which needs to be housed as well as an ageing population. The challenges of balancing these needs and recognising the opportunities also presented are driving the thinking behind the NCIP.

- The Natural Capital Approach is intended to drive a new way of achieving systemic investment in Surrey’s natural assets and aims to mobilise local delivery within a strategic framework. This allows for the complexity of investments in natural assets (in terms of scale, type) to be accommodated and managed in a practical way.

- Our approach in Surrey has evolved through recognising a close linkage between sustainable economic prosperity and a healthy natural environment, resonating with the ambitions of the 25YEP.

- A transformative approach is required and SyNP will deliver the change required, by setting up a company which through its activities will create investment opportunities and match those opportunities with investors.

- The SyNP company will develop a pipeline of investible projects, articulated in a way which resonates with the investment community. It will promote these investment opportunities and support the delivery of the required change on the ground. This will provide investment opportunities over the next 5 years.

- Investments need to be mobilized at a range of scales; community, business and large scale investments will all be developed.

- The most significant investment opportunity at this stage is for a visionary investor, or group of investors, to provide the seed investment needed to create the transformation described in this Plan. The investment of £500,000 per year for 3 years will be essential to leverage new funds to create Surrey’s Natural Capital Investment Fund of at least £20M by 2023.

- SyNP will be focusing on developing hybrid commercial and natural capital investments which provide some financial return as well as non-financial returns. This will develop the credibility needed to mobilise natural capital investments.

- The multi-capital approach embedded within the NCIP will deliver multiple benefits. Healthy natural capital fundamentally underpins our response and resilience to climate change; in order to achieve a transition to a low carbon economy, investment in our natural assets is therefore essential. Well managed natural capital assets will require people with the right skills, will create jobs and will support Surrey’s economic prosperity.
This Plan is a follow on companion to the previously published *naturally richer: A Natural Capital Investment Strategy for Surrey*. It sets out the broad actions required to achieve and maintain healthy natural assets in Surrey over the next 25 years and is designed to promote discussion and comment.

It is aimed at an audience with a reasonably informed level of understanding of, and interest in, this relatively new but fast developing area of interest. We hope this Plan will be read by, and engage, those from Local Enterprise Partnerships (LEPs); Local Authorities (LAs) and Central Government; industry and business; NGO and community representatives and particularly those from the private and corporate investment community.

The Plan also highlights the activity which has been undertaken (appendix 1) since publishing *naturally richer* as part of the thought process of developing the Natural Capital Approach in Surrey.

**Introduction**

“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.”  
— WORLD FORUM ON NATURAL CAPITAL 2013

Surrey Nature Partnership (SyNP) was officially recognized in 2012 by DEFRA as one of England’s 48 Local Nature Partnerships (LNP).

- **Our Vision** is to see a healthy natural environment throughout Surrey supporting economic and social benefits.
- **Our Mission** is to hard wire recognition of the value of the natural environment into all decision making resulting in more informed decisions for Surrey. It will increase recognition of the value of our natural capital and ecosystems as critical assets for Surrey, as important as its financial, social and other capitals, and promote the need for thoughtful, sustainable management of these assets.
As a Local Nature Partnership we have 3 strategic priorities (shown in appendix 2) in order to achieve the Vision above; sustainable land management; sustainable economic prosperity; and health, wellbeing and quality of life for all our communities (residents, visitors, businesses). These priorities, as previously stated in naturally richer reflect and build upon the national priorities recommended by the Natural Capital Committee in their recent Advice to Government on the 25 Year Environment Plan (2SYEP), but importantly do so within the context for Surrey.

The Natural Capital Committee had previously advised Government that some of our natural assets are not being used sustainably, that the benefits we derive from them are at risk and that this has serious economic implications.

In November 2015 Surrey Nature Partnership published naturally richer; this document recognised the importance of Surrey’s natural capital assets to its economic and social success in the past and the reliance that continued and future success has on these natural assets.

**The Vision for naturally richer is to achieve a thriving, resilient and attractive county providing natural benefits to all who live and work in Surrey.** Naturally richer set the direction for managing our natural assets, and the Natural Capital Investment Plan (NCIP) now describes how we will achieve healthy natural capital and optimise its value to Surrey over the next 25 years. It does this by setting a clear implementation programme for the first phase of activity towards this objective covering the period 2018 – 2023. This measured progression has clearly been articulated in the Natural Capital Committee’s ‘How to Do It Guide’ published in 2017.

**Drivers for action in Surrey**

The drivers in Surrey include; a critically successful economy which needs to adapt and innovate in order to remain successful; a growing population and workforce which needs to be housed; an ageing population which will increasingly place a potentially untenable burden on the healthcare system. All of these factors in turn put pressure on our natural environment which rightly has a high level of protection and which is an important but currently grossly undervalued asset. The challenges of balancing these needs and recognising the opportunities also presented are driving the thinking behind the NCIP. Vitaly the importance of Surrey’s natural assets (such as water and wetlands, soil, woodlands and minerals) needs to be recognised in the strategic thinking and planning of Surrey’s two LEPs, its LAs, the business community and similar recognition from community organisations and the people of Surrey.

There is growing awareness, particularly by some businesses, of their full impact and the true scale of their dependencies on natural resources (natural capital) and the associated financial and social impacts which result. The World Economic Forum has highlighted the serious consequences of failing to take action to safeguard our natural assets; identifying biodiversity loss and ecosystem collapse as one of the most significant risks in the 2015 Global Risks report.

Recently the Office of National Statistics has released Ecosystem Service Accounts for UK natural capital covering the period 1997 to 2015. These accounts (which are being prepared as part of the work to include natural capital in the UK Environmental Accounts by 2020) identified the partial asset value of UK natural capital as £761 billion in 2015. This has led to business to seek ways to mitigate its associated exposure to risk as well as to optimise benefits.

In Surrey there are 250 global companies; 64,000 SMEs; a GVA in 2015/16 of just over £40 billion (the largest in the South East and growing in that period by 2.3%); and 1.2 million people supported by a huge natural capital resource. As an example the socio-economic value of woodlands in Surrey is estimated at £90 million annually. Interestingly 58% of the national value identified by ONS was categorised as cultural and regulating services (recreation, pollution control and carbon sequestration). This finding was mirrored by the Valuing Surrey report in which the overwhelming contribution to the £90 million value was recreational (£63 million annually) with pollution control and carbon sequestration also significant.

It is important to recognise that these values provide a mechanism by which a more meaningful dialogue can be created with business and financial stakeholders. They do not represent the full, intrinsic value of many of our natural assets nor are they intended to do so. The valuation process does, however, allow these assets to become more visible in decision making.

**Recognising this and developing a strategic, cohesive approach to investing in Surrey’s natural capital assets will benefit business, people and wildlife.**

Such investment will require funding and the opportunity presented by newly emerging markets in the financial sector is also an important driver. The size of the conservation impact investment market within which Surrey’s NCIP will operate has been growing exponentially for a number of years, particularly in the USA where the Nature Conservancy has developed a NatureVest programme with products such as its Conservation Note. Most recently a report on the scale of private investment into conservation showed that the total size of private capital now committed is $8.2 billion and this has increased by 62% in the two years 2014 and 2015. This indicates the scale of the investment opportunity which could develop here, and when coupled with the social and environmental benefits outlined above, will be fundamental to achieving the objectives of the NCIP.

**SyNP will work to understand the size and potential of these emerging markets in Surrey and SE England as a key part of the Implementation Plan in appendix 3.**

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2. gov.uk/government/groups/natural-capital-committee
5. reports.weforum.org/global-risks-2015/?doid=wp_cron-1518621
7. nomisweb.co.uk/reports/lmp/la/1941962887/report.aspx
9. naturevesttnc.org/
11. naturevesttnc.org/pdf/investing-in-conservation-2016-full.pdf
Surrey’s Natural Capital Approach
The Natural Capital Approach is intended to drive a new way of achieving systemic investment in Surrey’s natural assets and aims to mobilise local delivery within a strategic framework.

As work on preparing the NCIP has progressed a clear framework has emerged which allows for the complexity of investments in natural assets (in terms of scale, type and service provision) to be accommodated and managed in a practical way. This is the Natural Capital Approach which has been developed in Surrey. It includes the use of evidence and robust data for improved decision making; governance and accountability; as well as a framework for delivery.

This echoes the Natural Capital Approach identified within A Green Future: Our 25 Year Plan to Improve the Environment recently published by Government. A summary of the approach in Surrey is presented in diagram 1 below. This shows the underlying strategic approach of first producing a NC Investment Strategy followed by the NC Investment Plan. The Investment Plan then leads to a clear implementation period and opportunities for investors. The plan is designed to halt and reverse the current situation of year on year decline of natural assets (dark green arrow) as well as lead to increases (green arrow). This will create a situation where an increasing proportion of recent declines are reversed, as well creating more increases in our natural assets. This net increase provides the opportunity for a return on investment as well as enhanced service provision.

These objectives are consistent with the Governments’ objectives as outlined in the 25 YEP, Industrial Strategy and Clean Growth Strategy, and provide a local delivery mechanism. In order to achieve enlightened decision making all these aspects must be considered together. The 25YEP is promoting a national natural capital approach and sets out how Government will achieve its ambition to leave the natural environment in a better condition for future generations. The 25 YEP is a complementary document to the Industrial Strategy: Building a Britain Fit for the Future which places an emphasis on productivity with a particular link to innovation, people, infrastructure and places. The Industrial Strategy recognises the importance of natural capital to achieving productivity objectives as shown in the quote below

“We will work not just to preserve but to enhance our natural capital - the air, water, soil and ecosystems that support all forms of life since this is an essential basis for economic growth and productivity over the long term”

Between these two Strategies Government aims to safeguard our environment and future proof the economy. Our approach in Surrey has similarly evolved through recognising a close linkage between sustainable economic prosperity and a healthy natural environment. The Clean Growth Strategy: Leading the way to a low carbon future reinforces the objectives outlined in the Industrial Strategy. Green Finance is a key requirement in the transition to a low carbon economy and the delivery of clean, green growth with ambitious economic and environmental policies.

More recently Government has embarked on the development of an Agriculture Bill to set out how public funding will be used in support of farmers following Brexit. Clearly the outcome of these discussions will also be critical for the delivery of the NCIP.

Developing evidence and monitoring as part of the Natural Capital Approach

A wealth of evidence exists at international and national level to support the need for a new approach in generating investment in our natural assets. This need for a more integrated approach is echoed in the recent report from the European Higher Level Finance Group. This Group reinforces the risks associated with failing to address the current degradation in natural capital; recommending that we should “treat natural capital as an integrated whole, not as a series of standalone issues. For example, climate change, water, biodiversity and public health are interrelated and these links should be analysed to ensure no risks are missed”.

As part of the work of SyNP there has been a clear focus on the need for data to understand underlying risks and opportunities within this approach. Developing local evidence to support our natural capital approach has been a key and this evidence is summarised in appendix 4.

A number of these reports will benefit from being updated and there will be further work done to ensure other natural assets receive similar analysis. This is an essential requirement in order to credibly develop investible assets. In addition there are some recognised gaps in evidence which will need to be addressed as part of the implementation of the NCIP including:

- Existing investment landscape – where does money come from now and how will this change?
- Critical functional thresholds for each of the assets – understanding what these thresholds are and how to reach them.
Net positive impact:
- Climate change resilience
- Social cohesion and attractiveness
- Intrinsic land value assured

Sustainable management of natural capital assets; value, amount, use and return on investment

Evidence based approach

Payments for ecosystem Services: NaturEtrade (revenue flow for maintenance)

Natural Capital Assets of Surrey Supporting Services

naturally richer

Diagram 1: Natural Capital Approach in Surrey

Evidence based approach
Objectives of the Natural Capital Investment Plan

- Identify the spatial framework for prioritising work on developing investment in our natural assets.
- Outline the mechanisms to achieve capital investment for uplift of the assets to a viable, functioning threshold (assuming most assets are currently in decline; this assumption is in line with the information included within the NCC First Report).
- Proactively link the demand side (need for funding of natural capital assets through conservation projects) with the supply side (investors seeking investments with conservation impact).
- Develop the potential mechanisms to provide a revenue flow to maintain the assets in the long term (through payments for ecosystem services and mechanisms to facilitate this).
- Develop and test local natural capital markets that can be scaled and replicated; understand the associated supply chain and identify where and what type of investment is required to support these.
- Inform national policy makers of policy and regulatory barriers and opportunities to accelerate, replicate and expand the attractiveness of natural capital investments in Surrey and more widely.
- Provide a clear set of actions to start delivering the required investment for the period 2018 to 2023. These are listed in appendix 3.

Taking Action: a transformative model

Role of SyNP

During the last two years it has become clear that in order to transform investment in natural assets to more innovative and diverse mechanisms a catalyst for that transformation is required.

We believe that the role of SyNP (and potentially the network of LNPs nationally) is to stimulate and catalyse a multi-capital approach, with natural capital at its core.

We have been developing this idea, informed through conversations with Surrey’s two LEPs, businesses, LAs and DEFRA. SyNP will implement the NCIP, and will deliver the change required, by setting up a company. Through its activities as an incubator and stimulator of new approaches in natural capital investment it will achieve the required new forms of investment. It will also provide a forum where new and innovative partnerships and solutions can be created.

This will also provide a strong governance framework within which decisions on how to deploy investments, and the effectiveness of those investments, can be monitored and reported. This is essential to create certainty and confidence for the investor community.

The role of the SyNP company is essential to the success of this approach; it was a key element identified in the Credit Suisse et al Conservation Finance report. A transformative, incubator company is essential to stimulate and grow the conservation impact investment market.

SyNP will fulfil this role by bringing together technical expertise from various disciplines; conservation, business and community partners; the necessary infrastructure and engagement to rapidly identify, develop and test prototype ideas with scale up potential.

Securing funding for this company is a key component in the ability to deliver the Plan.
Diagram 2: naturally richer (Delivering Surrey's NCIP)

Delivery of 25 year plan
- Partnership
- Advocacy
- Statutory planning
- Working groups (health, local wildlife sites, biodiversity)

Delivery of Sustainable Development Goals

Local Delivery
- Local conservation organisations
- Community organisations and groups
- Local landowners

Transformative model
- naturally richer (Surrey)
- Local natural capital markets
- Certification transparency
- Convening
- Project pipeline
- Innovation
- Technical specialist
- Fund deployment
Over the last two years it has become increasingly clear that we are in a transition phase between natural assets being inadequately recognised in decision making (and therefore chronically under-invested in) to the required future where our reliance on natural assets is properly valued in decision making. Long term investment and benefits will thereby be secured. This transition requires not only improved communication between key players but also increased skills capacity to develop new and innovative financial products and investment mechanisms. However, in order to stimulate these investments there is a need to demonstrate credibility in building these new markets and critically the ability to demonstrate a financial return; recognising that even below market returns over a longer time period can be helpful in constructing new products as can be seen in diagram 3 below.

Therefore the implementation phase will focus on the creation of a viable market for these products by developing hybrid commercial/natural capital investments. These hybrid investments will stimulate and grow the provenance of the approach. Examples will include composting to improve soil health; environmental net gain; natural flood management solutions; carbon storage.

Diagram 3: Transition to local capital markets

**Commercial investment**
(current business as usual, primarily financial returns)
Natural capital benefit may be added but usual it as a minimal level or activity is detrimental to natural capital

**HYBRID natural capital/commercial investment**
(Transition stage, blended finance approach with both financial and non-financial returns)
- Circular local natural capital markets developed to improve soil health and reduce carbon through collection, processing and distribution of green waste (composting)
- Production of digestate from food waste
- Infrastructure development – environmental gain

**Pure natural capital investment**
(primarily non-financial returns, those that are not currently routinely monetised)
- Chalk grassland creation/restoration
- Meadow restoration
- Single species reintroductions/management
- Biodiversity enhancement
- Sense of place – desirable business location

**Where are we now**
**SyNP Implementation Phase 2018-2023**
**Where we need to be 2050**
How investments will be made.

Opportunities for investors.

How investments will be made.

Our investment approach and principles, as defined in naturally richer, are set out in appendix 5.

This chapter addresses the key activities we will undertake to stimulate investment and provides some examples of how this will happen.

It describes the process we intend to follow in order to develop investment products for a number of natural capital assets to ensure there is a pipeline of projects and sufficient opportunities for investors at different scales.

Developing the project pipeline will encompass the following stages:

- Initial collation of natural capital/green infrastructure projects across the county.
- Assessment of links between these projects and other infrastructure projects as articulated in LEP Strategic Economic Strategies (Coast to Capital18 and Enterprise M319); informing the development of the LEP Local Industrial Strategies. In addition informing Local Plans across Surrey and the implementation of infrastructure projects as identified within the Surrey Infrastructure Study20.
- Applying the Project Framework Assessment (model based on Credit Suisse et al) shown in appendix 6 to develop the projects in financial terms. A worked example for woodlands is included in appendix 7. This was developed at a joint event with The Aldersgate Group21 in April 2017 as part of the work to progress developing natural capital investments.

The NCIP will develop two key aspects – capital investment and the creation of revenue flow for maintenance; there is potential for these to be delivered at different scales as shown in the examples below.

18 coast2capital.org.uk/our-current-sep
19 enterprism3.org.uk/strategic-economic-plan/
21 aldersgategroup.org.uk/
Diagram 4 below illustrates the different scales at which we intend to develop both capital and revenue investment. The first two levels (community and business led) are models with which we are already familiar. Although investment at these scales can be improved, increased and implemented more systemically they are more familiar scenarios. The funds from these activities can be fragmented and unpredictable; by creating a more strategic fund for the county funds can be deployed in a more co-ordinated and consistent fashion.

The transformational change required is at the highest level – natural capital investment products where funds come from a potentially wide range of sources, particularly private sector sources, and flow into an overarching Natural Capital Investment Fund for Surrey. This allows not only increased investments but also allows greater consolidation of these funds for strategic deployment across the county. This is articulated in Example 3 below.

**Diagram 4: Capital Investment**

Revenue investment

Capital investment

Natural capital investment products/mechanisms
- Natural capital investment fund (equality)
- Natural capital bond (debt)

Local natural capital investment funds (business led)

Community natural capital investment funds

Revenue payments e.g. Payments for e.g. NaturEtrade

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1. Capital investment

The aim is to secure capital investments in order to achieve, and subsequently to maintain, natural capital assets at an optimally functional threshold by 2050.

It was identified in the first report of the Natural Capital Committee in 2013 that our natural capital assets are in decline and being managed unsustainably. Capital investment is required to first reverse this trend, and secondly ensure the resources are in place to maintain natural assets in the longer term. It is likely that a range of investment mechanisms/products will need to be developed for different assets and at different scales.

Over the last two years work has started to develop investment mechanisms at each of the scales shown; community, business and equity/debt at a county, regional or national scale and examples are shown below.

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Example 1 – The ‘Real’ Hedge Fund

Local communities, engaged to develop their understanding of the biodiversity and ecosystem benefits of hedgerows will be encouraged to invest in their local hedge networks through a Natural Capital Investment Fund (NCIF) called The ‘Real’ Hedge Fund. Businesses will also be encouraged to recognise the benefits of maintaining good hedgerow stock (farming, smallholder, equestrian, permaculture, small community sustainable fuel projects etc.). Funds invested will be used to pay both for local improvements or for county-wide distribution. Funds will pay for a range of activities, all of which provide opportunities for people to take action; providing social and health benefits as well as skills development and provision of greater levels of data than would otherwise be possible. Activities include:

- Survey & monitoring of hedge condition and extent by Surrey Wildlife Trust’s Hedgerow Heroes (people taking action as citizen scientists).
- Hedgerow Management Plans creating Hedgerow Recovery Networks (an example of the Nature Recovery Networks predicat within the 25YEP), including landscape-level resource planning such as that developed as part of SWT’s strategic approach.
- Hedge rejuvenation and planting

This model is an excellent example of how people, businesses and communities can take ownership of caring for their local natural assets with support and expertise provided by local conservation organisations such as Surrey Wildlife Trust. The ‘Real’ Hedge Fund to date has raised almost £50,000 through corporate and individual donations.

A similar approach is now being developed through the two main Catchment Partnerships in Surrey (Wey Landscape Partnership and River Mole Catchment Partnership23), encouraging people to take care of their local water bodies.

This type and scale of investment may bring in a relatively small financial return but will generate significant non-financial returns as indicated by the Hedgerow Ecosystem Services shown in the model above.

This model will potentially be of interest to ethical investment organisations due to the concentration of ethically motivated local communities clustered around these projects. This then provides a focus for potential customers who may be more receptive to other ethical investment products or financial services.
Example 2 – Business led investment funds.

There are 3 diverse examples below of how we believe this approach will work.

The overall model for engaging businesses, no matter what activities they undertake is shown in the diagram below.

**Natural Capital Business Engagement Model**

Imperatives include:

- for business, investment is likely to be related to **paying for an ecosystem service (PES)** which exists today or one which is to be jointly developed by local environmental experts and the business itself.
- There must be a visible profit impact from the industry perspective as well as being long term and sustainable ecologically.

- **Capital investment**
  - Natural capital investment products/mechanisms
    - Natural capital investment fund (equality)
    - Natural capital bond (debt)
  - Revenue payments
    - e.g. Payments for e.g., NaturEtrade

- **Revenue investment**
  - Local natural capital investment funds (business led)
  - Community natural capital investment funds

**Dependence (Real need)**

- Critical stage to achieve business engagement
- e.g. Need to relocate business premises balanced with the desire to create a wetland area to attract wildfowl

**Realisation**

- Drive and resources required to make it happen
- e.g. Build in sufficient joint resources to lead and project manage the creation of the new project. Also important to think about resources required to sustain the ongoing project once “built”

**Aspiration**

- Form a joint vision of what might be accomplished together
- e.g. The opportunity to attract and retain top staff as a result of moving to an inspiring place to work together with the chance to create a new wetland ecosystem

**Refinement**

- Identify best practice aspects by studying key findings with a view to replicating
In order to target effort in engaging with business SyNP has carried out a detailed analysis of businesses in Surrey and their reliance on natural assets and the ecosystem services they provide. This, combined with the business focussed approach provided by Propeller Associates, has enabled a more thoughtful approach to be developed for business engagement. It allows for continued philanthropic investment but also encourages greater recognition of businesses reliance and impacts on natural assets. This encourages the consideration of natural capital to be included as part of operational business and not just within the Corporate Social Responsibility (CSR) remit. In order to further this approach SyNP will proactively encourage the use of the Natural Capital Protocol\textsuperscript{25} for businesses within Surrey.

Example 2a – A Local Authority economic development led approach for engaging business

SyNP has been working with Guildford Borough Council (GBC) and Propeller Associates to stimulate business engagement to develop business led investment funds in local natural capital. This work aims to assist business in recognising and mitigating risks associated with degraded natural capital e.g. flood risk leading to loss of income. (The Valuing Surrey report highlighted an estimated loss of £435,000 to Guildford alone due to the flooding event in December 2013).However, it also aims to assist business in identifying opportunities to increase income e.g. the annual value of visitors to Surrey is significant and the attractiveness of the Surrey landscapes are a key factor in drawing these visitors in to local businesses and supporting the local economy. The GBC Rural Economic Strategy\textsuperscript{24} identified natural capital as one of the key assets to manage in order to deliver sustainable economic development. One of the Strategy’s deliverables (Action 7) is to “develop a dialogue with local business and community leaders about the Borough’s Natural Capital assets and how to realise their value for the benefit of communities, companies, conservationists, country landowners and developers.”

In July 2017 the first Leaders’ Workshop opened up this process with work to encourage a business-led approach to stimulate investment in a local wetland. This work is currently progressing.

The diagram below shows how natural capital is a key facet of GBC’s economic development approach.

This work includes supporting businesses in recognising both their impacts, and reliance, on local natural capital.

Diagram 7: Guildford Borough Rural Economic Framework

In order to target effort in engaging with business SyNP has carried out a detailed analysis of businesses in Surrey and their reliance on natural assets and the ecosystem services they provide. This, combined with the business focussed approach provided by Propeller Associates, has enabled a more thoughtful approach to be developed for business engagement. It allows for continued philanthropic investment but also encourages greater recognition of businesses reliance and impacts on natural assets. This encourages the consideration of natural capital to be included as part of operational business and not just within the Corporate Social Responsibility (CSR) remit. In order to further this approach SyNP will proactively encourage the use of the Natural Capital Protocol\textsuperscript{25} for businesses within Surrey.

![Diagram 7: Guildford Borough Rural Economic Framework](naturalcapitalcoalition.org/protocol/)

\textsuperscript{25} naturalcapitalcoalition.org/protocol/
Example 2b – Optimising Surrey’s Biomass Resources

Surrey has around 40,000 ha of woodland growing at more than 200,000m³ per year. If two thirds of this woodland were actively managed it would provide around 20,000m³ of conifer sawlogs; 10,000m³ of broadleaved sawlogs and 100,000m³ of low quality wood suitable for woodfuel (which has an energy value of approximately 200,000MWh, equivalent to 20M litres of heating oil per year). The wider ‘tree scape’ (additional biomass from tree management in hedges, streets and gardens) is estimated to add another third to this resource.

The proportion which is currently harvested is increasing but needs to be far greater to support greater resilience in our woods to storms, pests and disease.

Open habitats are also a key part of Surrey’s landscape and natural capital; previously estimated the biomass ‘yield’ from heathland would be equivalent to 1 m³ of wood per ha per year.

Markets for woodfuel have progressed phenomenally over the last 15 years with key business success stories in Surrey including LC Energy – who amongst other customers supply Heathrow’s woodfuelled CHP power plant. Highfield School provides a superb example of a business utilising its’ own wood to provide its’ own heat needs.

Examples of the types of local business that can stimulate and sustain local natural capital markets include collation and processing hubs such as GK Benford & Co, Down Farm near Odiham. This business takes arbicultural and garden maintenance ‘arisings’ for a gate fee and processes this material into firewood, high quality woodchips and mulched compost. This material is then applied to the farmland benefiting the natural soil asset; the much adds organic matter to the soils improving rain penetration and water retention; thereby improving crop yield and reducing the risk and impact of flooding. This type of operation could utilise the arisings from a much wider range of land management activities such as heathland management, arboriculture and the lower quality biomass from woodlands.

SyNP company will develop the investment opportunity here to provide the infrastructure required to increase the number of these type of hubs across Surrey. Strategically located across the county this would allow a network of locations to be developed which are able to collect, process and distribute green waste to be redeployed either as forms of energy or to increase soil health.

Creating these local natural capital markets will not only benefit the natural asset but will also support the local economy, not least through creating jobs.

In order to promote and support the development of these businesses work needs to be done to understand the supply chain from land management activities creating the biomass; through to the end user. The next step is to identify gaps in the supply chain and make appropriate investments to address these gaps. These investments will be in infrastructure to facilitate improved natural capital, rather than directly in natural capital itself, but provides a good example of the type of hybrid investment required at this stage with, critically, financial as well as non-financial returns being generated.

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26 Pers.comm Matthew Woodcock, Forestry Commission
27 lcenergy.co.uk/
28 highfieldschool.org.uk/Renewable-Energy
29 downfarmodiham.co.uk/
There are a few real life examples. This area is currently the most challenging to develop.

One clear ambition is to pilot a natural capital bond for Surrey e.g. an investment associated with development leading to environmental net gain; an approach clearly set out as an objective in the 25YEP. In order to achieve many of the infrastructure projects required over the next 20 years, debt finance will need to be raised. There will be an opportunity to structure these bonds with an ‘aligned use of proceeds’ allowing investment into natural assets. One European city that has recently adopted this approach is Malmö in Sweden who launched a Green Bond Framework for future development within the city in November 2017.

In addition we will investigate the options of developing an equity based product for Surrey similar to the conservation note issued annually through NatureVest.

It is clear that bundling of assets and development of a blended finance approach in this transition phase of the next 5 years will be important. This will make the investments more attractive to investors by reducing risk and increasing consistency and certainty.

The overall approach being developed is shown in the diagram below based on the model in the Credit Suisse report Conservation Finance: From Niche to mainstream (the building of an asset class). This would lead to the creation of a Natural Capital Investment Fund for Surrey which would be created from a range of products and which could be deployed strategically across the county to deliver investment in natural assets.

The initial target for this Fund is £20M.
2. Revenue flow

The other essential aim of this financial strategy is to maintain the restored/enhanced natural capital assets at an optimally functional threshold. This will ensure the long term provision of required ecosystem services.

There is a clear link between revenue investment and the services being provided. Businesses, landowners, individuals, corporates are more likely to pay for a clearly defined service in the long term.

There are a number of mechanisms which will potentially deliver this revenue flow including bespoke Payments for Ecosystem Services schemes (recommendations from the PES Report by BioRegional are an example). However, it is important from a scale perspective to develop a mechanism which allows the market in ecosystem services to mature as well as self-regulate. In order to achieve a transformation in which PES is systemic rather than being dependent on the right set of circumstances at the right time (as is currently the case) there needs to be a standalone mechanism available.

One example of a tool which could facilitate this market development is NaturEtrade\textsuperscript{32}. This allows landowners and managers to contract directly with purchasers of services, e.g. water companies, in a simple and straightforward manner. It is also important to ensure that the approach taken ensures the benefits flow to those who participate in the scheme rather than being received irrespective of participation.

\textit{SyNP will facilitate the further development of tools such as NaturEtrade and other mechanisms to systematise PES.}

Diagram 8: Developing Investment Products Model

Opportunities for Investors

\textit{SyNP, through the activities of the company, will create and market opportunities for investors at different scales. Investors will range from private individuals to communities; corporates to institutional investors; central and local government.}

\textit{The most significant investment opportunity at this stage for a visionary investor, or group of investors, is to provide the seed investment needed to create the transformation described in this Plan. The investment of £500,000 per year for 3 years will be essential to leverage new funds to create Surrey’s Natural Capital Investment Fund of at least £20M by 2023.}

Some ideas for potential investments are included below but much of this work will be developed during the period 2018 – 2023.

32 NaturEtrade.ox.ac.uk/about
Investments up to £25,000
Investments at this scale could be made at any of the investment levels identified. Communities and local businesses investing at this scale would primarily receive non-financial benefits e.g. a community investing £10,000 to plant a community hedge would receive social and health benefits, improvements to their local place but any financial returns would be minimal.

The creation of a conservation note for Surrey would allow investments of up to £25,000 for a financial return as well as the benefits to conservation. The current model for this is the Conservation Note offered by NatureVest in the US which offers returns up to 2.25% for an investment of £25,000 over 1, 3 or 5 years. This fund has benefited over 200 conservation projects since it began in 2012, as well as offering investors a financial return.

One important consideration for investment projects is that they will require criteria to be identified which ensures benefit to the associated natural capital asset as well as, in the transition stage, financial returns. We will develop a set of criteria during 2018 taking a lead from those set by The Nature Conservancy in “What Makes a NatureVest Deal”.

Investments from £100,000 to more than £1M
Investments at this scale would allow a focus on a landscape scale approach, supporting Nature Recovery Networks as indicated in the 25YEP and the associated benefits this brings.

Examples of these larger scale investments may well emerge initially within the water environment. Significant work has already been undertaken, in particular by the Environment Agency, to understand the costs and benefits of certain interventions and outcomes.

1. River Wey Catchment Management Plan
“Our Vision is for a healthy and diverse catchment where all interested sectors, groups or individuals may contribute effectively towards restoring the natural environment for the sustainable use of its essential resources, whilst preserving other valued heritage assets, to benefit both people and wildlife today and in the future”.

The Wey Landscape Partnership; made up of the Environment Agency, Natural England, relevant local authorities and utilities, the Wey Valley Fisheries Consultative Association, Surrey and Hampshire Wildlife Trusts, the National Trust, River Wey Trust and Northern Wey Trust. The top three issues in the catchment are diffuse pollution from rural areas; barriers to natural fish movements & migration; and invasive non-native species.

The mix of projects to achieve the stated vision provide an opportunity, and catalyst, to attract match funding to deliver a multiple benefit programme of work that will also address Water Framework Directive (WFD) issues and move water-bodies towards ‘good’ status. The returns generated from this investment will be a mix of financial (from improved angling/recreation opportunities) and non-financial returns (water quality, wetland habitat improvements etc.). Work is on-going to further quantify these returns.

Investment of £100,000 per year.
- Implement Lower Wey Oxbow Restoration Project to re-connect former meanders to the main Wey river channel. This would enhance riparian habitats & restore river function on several heavily modified water-bodies in lower catchment
- Wey Diffuse Advice Project operational throughout catchment. This would greatly extend a proven mechanism of reducing the impacts of rural and urban diffuse pollution, thus partially resolving catchment-wide phosphate failures

Investment of £1m (additional measures)
- Major river floodplain restoration projects at Bishops Meadow & Snails Lynch on the North Wey in Farnham, and at Woking Palace on the Lower Wey. These would partially resolve current failures in fish, invertebrates and macrophytes; offer increased local flood alleviation capacity; partly address local phosphate failures; increase recreational opportunities; and contribute to local delivery of Biodiversity 2020 Priority habitat restoration/creation targets.
- Fish passage mitigation projects on all key identified migratory barriers throughout the catchment, contributing directly to the local recovery of populations of threatened Priority fish species, such as Brown trout, Atlantic salmon & European eel; with associated recreational & fisheries provisioning benefits.

The returns from these investments will again be a mix of financial and non-financial returns. Benefits to costs ratios for wetland creation projects range between 3:1 to 9:1 in some circumstances.

2. North Downs Biodiversity Opportunity Area
An investment of £100,000 in a focussed landscape scale area such as the Biodiversity Opportunity Areas in the North Downs would allow a range of interventions to be made and the effectiveness of these interventions assessed. Examples include working with clusters of farmers and other landowners to support their management of land which provides the greatest environmental benefit whilst remaining viable and vibrant businesses. It will also generate additional jobs and more sustainable management in the future. These areas provide the ideal scale at which to develop local, low carbon, natural capital markets through activities such as green waste recycling, biomass processing.

Further work needs to be done to quantify the detailed benefits derived from the investment and this will be pursued in collaboration with the North Downs Facilitation Group.
Where, and which, assets will be invested in?
This chapter will focus on the priority location and types of natural capital assets for investment as part of the project pipeline and the process which will be followed. These assets are water and wetlands, woodlands, soil and minerals.

**Location**

One of the key factors identified as a challenge for implementing large scale investments in natural capital is ensuring the knowledge of where these investments should be deployed is available. Surrey, as in most of the South East of England, has a well-developed spatial framework which indicates where investments should most effectively be made to create maximum returns; economically, socially and ecologically. These areas in Surrey are called Biodiversity Opportunity Areas (BOAs) and are recognised by Local Planning Authorities in Surrey. The map below shows the BOAs and their relationship with the urban fabric of the County. BOAs represent the starting point for a Nature Recovery Network within Surrey as identified in the 25YEP.

**Map: Biodiversity Opportunity Area in Surrey**

![Biodiversity Opportunity Area Map](image-url)
There is a detailed statement associated with each of the BOAs which provides information on the natural character of the areas as well as an overview of the socio-economic aspects. These statements also provide clear biodiversity targets aimed at achieving the outcomes stated in the Government’s Biodiversity 2020 Strategy.

Diagram 9: Types of assets to be initially addressed
Implementation
2018 – 2023
In order to deliver the Natural Capital Investment Plan there are a number of key outcomes required within the next 12 months:

The first and most important priority is to set up and fund the SyNP company to implement the NCIP and drive the change required.

The immediate focus for effort over the next few months will be as follows.

• Prepare a funding proposal (and associated business plan) for the company and use this to secure appropriate seed funding to operate for a minimum of 3 years.

• Implement key activities including:
  – identification and collation of a suite of projects to create a pipeline of investible products
  – fully worked up models to develop the investment products for a number of natural capital assets
  – raising awareness with investors regarding the investment opportunity.

The funding level to achieve this is estimated as £500,000 per year for a minimum of 3 years.

It is anticipated that the company will be able to develop other sources of funding to support its work (and the SyNP) after this period. This funding will cover the employment of key staff and, critically, access to key technical expertise such as investment management, development of investment products, economic development expertise. It will also provide an operating budget to deliver key projects as listed in appendix 3 as well as continue the important convening role with partner organisations such as The Aldersgate Group. In addition it will support appropriate research and development of tools to facilitate the use of data and evidence in growing these investments.
Key objectives will be to:

- Gain wide acceptance of the Natural Capital Approach within Surrey. Engage and influence key decision makers including both LEPs, local authorities, business leaders, NGOs and communities.
- Create a significant Natural Capital Investment Fund (as shown in Example 3 diagram above) of at least £20M to strategically deliver investments.

Key projects are detailed in appendix 3 and a summary of the required outcomes is included below:

- Natural Capital Investment Funds – designed to stimulate investments at different scales and from different types of investors
- Project Pipeline development – This is one of the key activities; the development of a pipeline of investible products is essential to the success of the NCIP and scaling up beyond Surrey. This requires existing conservation projects to be expressed as investment opportunities within a robust financial framework as set out in the NCIP.
- Environmental Net Gain – implement a net gain approach in Surrey – this is likely to be one of the key mechanisms for improving the ability to make natural capital investments associated with infrastructure development.
- Evidence development natural assets and finance – further develop Natural Capital Asset Register and Natural Capital Accounts including Corporate NCA for a variety of landowners and at a range of scales. In order to target effort with regard to the right type of investment for the right investor it will be essential to have a detailed understanding of the existing investment landscape, the business community and analysis of local markets. Preparing robust projects which can be presented as investment opportunities means greater clarity is required with regard to the stocks and flows of natural assets at different scales and within different types of management.
- Monitoring and transparency – it is essential that we are able to demonstrate the effectiveness of this approach in delivering greater investment in, and therefore improved condition of our natural assets; ensuring provision of services in the future. Transparency and accountability are an essential ingredient in creating successful investment products for our natural assets. SyNP is ideally placed to be the accountable body for these investments.
- Natural Capital Market development – in order to create market economies that will be sustainable over 25 years and beyond it is essential to understand how these markets will work to support jobs, skills and also deliver healthy natural capital.

<table>
<thead>
<tr>
<th>Making It Happen</th>
<th>Progress</th>
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<tbody>
<tr>
<td>Surrey Nature Partnership will drive the development of a natural capital approach to decision making and investment within Surrey through delivery of a 25 year plan. We will develop a detailed Action Plan for the period 2016 – 2021.</td>
<td>The Natural Capital Approach in Surrey is now clearly articulated within this Plan which also contains an implementation programme for the period 2018-2023.</td>
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<tr>
<td>We will undertake continued dialogue with stakeholders across the county to engage them in the need to invest in our natural capital and to understand the benefits of so doing, as well as the impacts and risks of not making such investments.</td>
<td>Since publication of naturally richer we have continued to develop a community of stakeholders who will deliver the natural capital approach in Surrey. There will be workshops held in 2018 to continue this work. Investor workshops were held in April and November 2017 in partnership with the Aldersgate Group to solve some of the challenges around investing in natural capital.</td>
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<tr>
<td>We will continue to make best use of existing mechanisms including the Catchment Based Approach through the Wey Landscape Partnership and River Mole Catchment Partnerships initially, through environmental land management payments and through policy interventions such as Biodiversity Opportunity areas.</td>
<td>This work is ongoing with both Catchment Partnerships implementing project delivery.</td>
</tr>
<tr>
<td>As part of this process we will develop and increase key policy links with Local Plans across the county as well as within the Surrey Infrastructure Plan.</td>
<td>Ongoing – responses to Local Plans include appropriate reference to natural capital.</td>
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<tr>
<td>We will help individuals and organisations locally to understand economic, social and cultural value of nature, their impact on it and interaction with it and use this to make better decisions for both local and national benefit.</td>
<td>Achieved through meetings, speaking opportunities etc.</td>
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<tr>
<td>We will continue to develop the key projects that have been the foundation of this Strategy:</td>
<td>Included within appendix 4.</td>
</tr>
<tr>
<td>Valuing Surrey – we will further develop our understanding of the value of our natural capital assets and how best to invest in them</td>
<td>Natural Capital Asset Check on further habitats to be completed.</td>
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<tr>
<td>Biodiversity Offsetting – we will continue to explore the use of offsetting as a tool with which to achieve the no net loss, and ideally net gain ambition stated as a priority</td>
<td>Habitat banking to be piloted in two authorities.</td>
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<tr>
<td>Business – we will continue to work with businesses to develop new and innovative ways of managing our natural capital assets</td>
<td>Business engagement developed with Propeller Associates</td>
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<tr>
<td>Making It Happen</td>
<td>Progress</td>
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<tr>
<td>Health – we will continue to develop the accessibility of existing greenspaces for recreational, leisure and cultural purposes to support the health and well-being of our communities as well as creating new greenspaces in the most needed areas.</td>
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<tr>
<td>Research – we will continue to work closely with academic partners on promoting research into the most effective ways of embedding and implementing a natural capital approach.</td>
<td>A close relationship has been forged with University of Surrey.</td>
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<tr>
<td>We will identify strengths and weaknesses of different funding approaches and therefore direct the best investment mechanisms into the best schemes. We will continue to develop our understanding of the most successful business models and the elements of those that are successful.</td>
<td>This is being delivered through the Investor workshops.</td>
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<tr>
<td>We will develop a pipeline of investible products by bringing together traditional conservation and land management expertise with financial investment expertise. We will create an investment fund to support delivery of strategically identified natural capital investments.</td>
<td>Included within this Investment Plan.</td>
</tr>
<tr>
<td>We will deliver a series of case studies which will provide guidance and best practice for replicating different approaches across Surrey.</td>
<td>Under development.</td>
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<tr>
<td>We will identify strategically significant investments across Surrey.</td>
<td>Included within this Investment Plan.</td>
</tr>
<tr>
<td>We will advocate a Corporate Natural Capital Accounting Approach to the business community across Surrey which includes 250 global companies and 63,000 SMEs.</td>
<td>In addition we will support the Natural Capital Protocol as a key tool for understanding the importance of natural capital to their business.</td>
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**Appendix 2 – Strategic Priorities**

**Sustainable land management**
- Halt losses of natural capital – we will strive to halt net loss and degradation across the county.
- Enhance and expand – we will seek net gains in the quality and quantity of natural capital through positive management, habitat restoration and re-creation.

**Sustainable economic prosperity**
- Supporting the creation of jobs – through the development and testing of new local natural capital markets
- Business location – we will promote a healthy attractive environment which enhances the desirability of Surrey for business.
- Developing skills – we will support the development of skills to enhance natural capital investment and management as part of a wider approach to sustainable growth.
- New space for business and local government – we will support the development of new business models and opportunities to provide multiple partnership benefits.

**Health, well-being and quality of life**
- We aim to bring more benefits – to more people, where they live and work. We will target the reduction of risks (pollution, flooding) and the enhancement of benefits, improving opportunities for exercise, recreation and mitigating the impacts of climate change.
- We recognise the need for additional housing in the county and will support appropriate housing development.
## Appendix 3 – Activity required to implement the NCIP 2018 – 2023

<table>
<thead>
<tr>
<th>Type of activity</th>
<th>Purpose of activity</th>
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<tbody>
<tr>
<td><strong>Projects</strong></td>
<td></td>
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<tr>
<td>Natural Capital Investment Funds</td>
<td>To stimulate investments at different scales and from different types of investors.</td>
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<tr>
<td></td>
<td>■ Community led e.g. hedgerows, local water bodies.</td>
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<td></td>
<td>■ Business led e.g. Guildford BC, biomass, farmer clusters.</td>
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<td></td>
<td>■ Large scale investment e.g. bond, conservation note – transformation from current business as usual model to future natural capital investment model.</td>
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<td></td>
<td>Promote a deeper mutual understanding between investors and providers of conservation projects to deliver scalability and replicability.</td>
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<td></td>
<td>Develop mechanisms for capital investment as outlined in the report Credit Suisse et al Conservation Finance: From Niche to Mainstream.</td>
</tr>
<tr>
<td>Project Pipeline (initial focus on woodlands, wetlands, hedgerows, soil and minerals)</td>
<td>This is one of the key activities; the development of a pipeline of investible products is essential to the success of the NCIP and scaling up beyond Surrey. This requires existing conservation projects to be expressed as investment opportunities within a robust financial framework as set out in the NCIP.</td>
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<tr>
<td></td>
<td>■ Collate existing conservation projects across Surrey including those identified through the CaBA.</td>
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<td>■ Cross reference these projects with other infrastructure development in Surrey, including net gain opportunities associated with the road and rail network.</td>
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<td>■ Assess the projects against the Project Assessment Framework to articulate the investment opportunity.</td>
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<td>■ Once initial pipeline is in place, begin to identify future opportunities over the next 25 years.</td>
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<tr>
<td>Environmental net gain</td>
<td>Implement a net gain approach in Surrey – this is likely to be one of the key mechanisms for improving the ability to make natural capital investments associated with infrastructure development.</td>
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<td></td>
<td>■ Update the previously prepared report from The Environment Bank showing the scope for a net gain approach in Surrey plus associated Habitat Creation Register.</td>
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<td></td>
<td>■ Identify opportunities to create woodlands and plant hedgerows to provide multiple functions such as improvement in air quality and flood alleviation. As part of this work with partners to research impact of these interventions on health, well being and biodiversity.</td>
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<tr>
<td></td>
<td>■ Develop and secure funding for a habitat bank in Surrey.</td>
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<td></td>
<td>■ Prepare a ‘How to’ guide on net gain for developers and local authorities, launch and embed through running a series of events.</td>
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<tr>
<td>Evidence – natural assets</td>
<td></td>
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<tr>
<td>Natural Capital Asset Register for Surrey</td>
<td>It is essential to have a baseline of our existing natural assets and their condition in order to properly assess the investment required over the next 25 years and beyond.</td>
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<tr>
<td></td>
<td>■ Prepare a complete natural capital asset register for Surrey (woodlands done in Valuing Surrey) extending the work to other habitats with water and soil as priorities.</td>
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<td>■ Prepare a condition assessment of our natural assets.</td>
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<td>■ Carry out an assessment of functionality of these assets and how far below critical functioning threshold they are plus an analysis of the investment required to address this.</td>
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<td>■ Carry out a Soil Health Audit for key selected areas</td>
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<tr>
<td>Type of activity</td>
<td>Purpose of activity</td>
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</table>
| **Evidence – financial**                                            | In order to target effort with regard to the right type of investment for the right investor it will be essential to have a detailed understanding of the existing investment landscape, the business community and analysis of local markets  
  ■ Extend and complete a targeted analysis of businesses in Surrey regarding their impact on and risk associated with under-investment in natural capital, both now and in the future.  
  ■ Identify existing natural capital investments (both public and private) and develop a strategy to transition to increased private investment (recognising private benefits currently received for free) supported by ongoing public investment to secure public and private benefits in the long term.  
  ■ Carry out market analysis to understand the size and potential for growth within the natural capital investment market in Surrey (and ideally SE England and nationally).  
  ■ Work with University of Surrey to understand Product Life Cycle Assessment if applied to natural capital investments.  
  ■ Work with NaturEtrade and others to further develop tools which will facilitate trading in ecosystem services. Consider learning that may be gained from carbon offsetting models. |
| **Natural Capital Accounts (including an assessment of Ecosystem Services provided). Accounts will be prepared for:** | In order to prepare robust projects which can be presented as investment opportunities greater clarity is required with regard to the stocks and flows of natural assets at different scales and within different types of management. Therefore the projects suggested will develop our understanding of this.  
  ■ Hedgerows  
  ■ Bonhurst Farm (SWT)  
  ■ Surrey County Council Estate  
  ■ Surrey Hills Area of Outstanding Natural Beauty  
  ■ North Downs Biodiversity Opportunity Areas ND02 & ND03  
  ■ Selected corporates or major landowners within Surrey |
| **Monitoring & accountability**                                      | It is essential that we are able to demonstrate the effectiveness of this approach in delivering greater investment in, and therefore improved condition of our natural assets; ensuring provision of services in the future.  
  ■ Develop, or use existing, metrics to assess effectiveness of this approach. |
| **SyNP certification/standards**                                    | Transparency and accountability are an essential ingredient in creating successful investment products for our natural assets. SyNP is ideally placed to be the accountable body for these investments.  
  ■ In partnership with others, such as BSI, support the development of standards and deliver through SyNP.  
  ■ Promote the use of the Natural Capital Protocol to businesses in Surrey |
| **Natural Capital Market Development**                               | In order to create market economies that will be sustainable over 25 years and beyond it is essential to understand how these markets will work to support jobs, skills and also deliver healthy natural capital.  
  ■ Identify key supply chain gaps in delivering well managed natural capital and supporting the transition to a low carbon economy. Identify the investment required to address these gaps. |
Appendix 4 – Evidence developed for the NCIP

- A Natural Resource Balance Sheet for Surrey (December 2014, prepared for Surrey Connects by BioRegional) This report was commissioned to provide a baseline regarding natural resource consumption within Surrey.


In cases where impact from development is unavoidable, implementing a net gain approach for biodiversity provides a tool that may be used by Local Authorities to compensate biodiversity loss. This is where conservation activities – which will deliver a clear and measurable benefit to biodiversity – take place in compensation for damage caused by developments. This project explored the scope of adopting a net gain approach in Surrey.

In addition the SyNP Biodiversity Working Group have prepared a Habitat Creation Register to identify areas where net gain projects should be prioritised. These will be considered as part of developing the project pipeline (appendix 3).

- Valuing Surrey (May 2015, eftec) This project focussed on developing an understanding of the value of the county’s natural assets which underpin the provision of ecosystem services from which we benefit. A Natural Capital Asset Check (NCAC) for the woodlands in Surrey found that there was a socio-economic annual value that woodlands provided of £90 million. It is essential to understand what the baseline of our natural assets is in order to assess progress in reversing decline and ensuring assets are correctly invested in over the long term to secure benefits. Therefore further work will be done to complete NCAC on other assets within Surrey (see appendix 3).

- Market Based Mechanisms for Payments for Ecosystem Services PES (May 2015, BioRegional) This report was commissioned to assess the key PES mechanisms for water catchments in the UK, with an assessment of strengths and weaknesses of each and recommendations for a market based PES model for UK catchments.

- State of Surrey’s Nature (SyNP Biodiversity Working Group, May 2017) This document provides a current stock-take of the county’s biodiversity. The report aims to quantify our most threatened wildlife but also celebrates why Surrey’s biodiversity is so special. This will help clarify our responsibilities to both national and international conservation, and serve to further inform our priorities at the county level. It will also be a base-line from which to measure future biodiversity trends and changes.

- Biodiversity2020 (unpublished, eftec) This report assessed the value to Surrey in socio-economic terms of achieving the Biodiversity 2020 targets for two of our key assets, woodlands and water.

Appendix 5 – Investment Approach & Principles

Value

- In the past economic decisions have been made without calculating anywhere near the true value of the natural environment. Now we must ensure natural capital is reflected more fully in important plans.

Valuation

- We believe that economic valuations can contribute to powerful arguments for the conservation and enhancement of natural capital and the wider understanding of the real value they provide us.

Risk

- We recognise there are potential risks and opportunity costs for intervening and not intervening, and to consider and balance these while pursuing our vision.

Investment

- To prioritise ‘investments’ where lasting and multiple benefits are most likely to be achieved and represent the best possible value.

40 Aldersgate Report, unpublished
41 surreynaturepartnership.files.wordpress.com/2014/11/state-of-surreys-nature_web.pdf
Appendix 6 – Project Assessment Framework (financial)
(outlined in the Credit Suisse et al Conservation Finance report)

1. Market

- Regulatory Framework – is a certain legal framework required and does it exist elsewhere?
- Growth – is the market growing and can it absorb rapid growth of 1 project type?
- Maturity – how big, transparent and volatile is the market? Is there public trading? Do forward markets exist?

2. Project

- Risk mitigation strategies – what risk mitigation strategies are available and can they be bundled across projects?
- Scaleability – does the same set of environmental conditions exist elsewhere?
- Maturity of business case – does the project build on a proven concept?
- Type of generated cash flow – is the cash flow generated from sustainable commodities, credit markets, tourism fees or other sources?
- Certificates/labels/endorsements – does the projects implement a recognised label or standard?
- Geography – is it based in stable, developed countries? Or emerging economies?
- Measurable conservation impact – are conservation results quantifiable? How?
- Visibility/innovation premium – is the approach novel enough to attract attention?
3. Financials

- Average annualised return on investment – how profitable is the project?
- Anticipated duration of financing – how long does it take?
- Total financing volume – how big is it?
- Guarantee structure – does any entity guarantee invested principal or return?
- Collateral structure – does collateral exist to lend against?
- Trusted lead investor – did another trusted investor commit to the project?
- Fee structure – are any applicable fees commensurate with the effort and complexity of the project?
- Volatility – is there historic data on the volatility of valuation or a targeted volatility of the product?
- What other returns are resultant from the project and can they be monetised?
- How will the long term revenue costs of the project be met?

4. Management

- Distinctive capabilities – does the management team have the right capabilities for the project?
- Track record – has the management team implemented such a project before?
- Which external advisors will be engaged and how will they be identified?
- What risk management strategy is in place?
Appendix 7

Worked example of the initial scoping document prepared for woodlands in Surrey, next step is applying the modified Project Assessment Framework in appendix 7.

Description

Surrey is the most wooded county in England with approximately 24% woodland cover and was the subject of the Natural Capital Asset Check carried out by eftec and summarised here.

Key findings from the natural capital account analysis for Surrey’s woodland.

- The extent of woodland within Surrey is 41,225 ha;
- 87% of Surrey’s woodland is broadleaved (36,071 ha) and 98% is over 2 hectares in size (40,400 ha);
- Approximately 17% of Surrey’s woodland (7,000 ha) is under nature conservation management but only 3% (1,237 ha) is coppiced (an important management technique for wildlife);
- Around 68% of Surrey’s woodland is privately owned (28,012 ha) with the remaining 32% (13,213 ha) being under ownership of public bodies and environmental trusts.

Surrey’s 41,225 ha of woodland produces an estimated £90 million of value every year for the subset of environmental goods and benefits assessed which include:

- Approximately 800 tonnes of air pollutants are removed from the county’s air by Surrey’s woodland worth £13 million through the avoided healthcare cost;
- Carbon removed from the atmosphere by woodland within Surrey is estimated to be over 350,000 tonnes a year valued at £12 million;
- Each year around 18 million visits are made to Surrey’s woodland valued at £63 million;
- The main market benefit of woodland is timber production in Surrey which is estimated to be in excess of 150,000 m$^3$ of timber worth £2.5 million a year, the fourth largest monetary value provided by the county’s woodland;
- The three largest sources of value from Surrey’s woodland are not reflected in market prices. Non-market benefits of carbon and air quality regulation (£24m) are both estimated to be worth several times the market benefits of timber (£2.5m), and in turn are much smaller than recreational values (£63m) of the county’s woodland;
- The existence (non-use) value of wildlife in Surrey’s woodland to the local population is estimated to around £2 million a year.

Other environmental goods and services that are of value have not been quantified or monetised in this work, including woodfuel and water regulating services (quantity of water/flooding and quality of water) of woodland.

These multiple benefits from woodlands can be secured in the future through effective and efficient management of this natural capital asset.

The project on the right considers one important aspect which is the 800 tonnes of air pollutant removed annually with an associated health care cost saving of £13 million and suggests that proactively, strategically providing urban trees and woodlands would provide significant financial, social and health benefits. There is an opportunity to provide additional woodlands in areas where air pollution and associated health care issues are highest, using iTrees (itreetools.org/) as a citizen science engagement opportunity to inform the requirement for street trees and woodlands in more urban locations. The London iTree project published a report in December 2015 which highlights the potential benefits of forestry.gov.uk/london-itree. There is scope to extend the project to consider flood alleviation benefits as well.
### Natural Capital Investment Plan for Surrey

#### Description of work

<table>
<thead>
<tr>
<th>Work</th>
<th>Benefits</th>
<th>Risk Mitigation</th>
<th>Scalability</th>
<th>Replicability</th>
<th>Potential Investors</th>
<th>Potential Mechanism</th>
</tr>
</thead>
</table>
| 1. Carry out iTrees survey to identify existing resource in locations (join up urban & rural) with high and low air pollution. | - Evidence to inform planning decisions  
- Decrease costs in local care – air pollution, flood alleviation  
- Access to data  
- Support future decisions e.g. local authorities  
- People can speak a common language  
- Help prioritise  
- Create a common currency  
- Optimal space to use  
- Optimal distance from trees to get benefits from decreased air pollution and flood alleviation  
- Decreased cardio-vascular disease  
- Give as a range of the risks – to sell to investors  
- Create a risk register  
- Future urban design guidance is essential to influence future urban planning  
- Robust evidence to develop a systematic approach | - Asthma sufferers  
- Economic – NHS and employers increasing productivity in the workplace  
- People suffering with mental health issues  
- Species  
- Investors  
- Government  
- Increased house prices  
- Reduced house insurance premiums  
- Property developers  
- Residents  
- Insurance companies  
- Local authorities | - 6 landowners own 60% of woodland in Surrey  
- Increase measurement of existing woodland  
- How big does it need to be before we launch the project  
- Strategic tree planting – increases scalability  
- Competition with other home counties – vying for new business  
- Map out landowners in Surrey – future contributors  
- Resource efficiency | - Need a pilot first  
- Which elements can be replicated taking into account level of complexity  
- Standards are important to give the market confidence e.g. certification  
- Do we need more standards or work with ones already in place  
- Make this common practice | - Property developers/house builders  
- Government  
- NHS  
- Landowners  
- LEPs  
- Private investors  
- A suite of investors/beneficiaries together e.g. forest bond  
- Needs a strong local authority | - How to bundle the ecosystem services  
- How to bundle the benefits and beneficiaries |
40

Natural Capital Investment Plan for Surrey

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Tweet us: @SurreyNP