



# Payments potentially 'far greater' than from Countryside Stewardship Scheme

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**B**NG represents a huge opportunity for farmers and landowners, particularly in regions where development for housing and infrastructure projects is happening.

Already enshrined in law – and due to be implemented from November 2023 – this planning concept aims to “leave the natural environment in a measurably better

state than beforehand”, according to Defra. It requires developers to provide a minimum of 10% more biodiversity than that lost at a project site. The opportunity for farmers and landowners arises because the net gain needn’t necessarily be generated at the project location, so developers are looking to enter into agreements with them to provide it ‘offsite’, ie on land even some distance from it.

Farmers understandably might not want to take their most productive ground out of agricultural use, but on less productive areas – whether that’s field corners, edges, strips or indeed

bigger parcels – there is scope to generate big revenues.

The amount of biodiversity lost and the required additional provision is calculated through a system of ‘units’ using a recognised metric. Some farmers might look to provide, say, a handful of units, while others could devise schemes that deliver, say, 40 units. Large farms and estates that pursue it as a central plank of their strategy could provide hundreds or even thousands of units.

Our experience is that the payments for BNG are potentially far greater than what’s available under the Countryside



Stewardship scheme. This is an evolving market but early indications suggest prices from £25,000 to £35,000 per unit. Such revenues will be much-needed on many farms and estates, with BPS payments falling and incomes under severe pressure. Meanwhile, estimates of the total national, annual BNG requirement vary greatly – commentators have quoted figures ranging from 7,000 to 40,000-plus units.

Delivering BNG could also offer synergies with existing enterprises – better habitats may complement a diversification such as a farmshop, wedding venue or tearoom, plus the work could ultimately increase the capital value of land.

It's worth viewing BNG as a commodity. Don't just think about it in terms of area – think about 'yield'. If someone asked you to grow an alternative crop for them, the deal probably wouldn't be based simply on an acreage. You'd ask how many tonnes they are needing / expecting. You'd negotiate a price based, not on the area grown, but partly on what margin you sought, partly on the market price and partly on the t/ha yield. You'd do all this in a way, of course, that fits with the rest of the business including tax and inheritance planning.

With the BNG market starting to come alive, it's important to be proactive if you want to drive the price, rather than ending up as a price-taker. If you know what is deliverable, you'll stand a better chance of securing a better deal and are less likely to undervalue the opportunity.

BNG won't be for everyone – not least because it's committing land to a 30-year agreement – but for farmers and estate owners which already have a strong pedigree in terms of delivering for the environment it represents an exciting opportunity.

## How to get started

A good starting point is 'baselining'. This involves establishing what biodiversity you currently have and modelling what you could enhance or create. Wrapping your head around this is also useful if you're thinking of submitting any planning applications of your own, because you will probably also have to meet the BNG requirement.

Having credible, authoritative data will help you win the confidence of developers looking to do BNG deals and it also means you won't be reactive if an opportunity presents itself. Instead, you will have a proper thought-through plan for how you can deliver BNG and how that fits with the rest of the business.

Your baseline is effectively

the value of your natural capital asset, but you can put this asset to various uses so consider BNG alongside other revenue-generating opportunities with the public and private sectors.

It's also worth looking at local planning policies, as some local authorities are already earmarking potential areas for offsetting. Similarly, look at the local Nature Recovery Strategy which informs this and will highlight priority habitats and species.

Meanwhile, talk to would-be stakeholders when your idea is still at the formative stage. Whether it's local wildlife trusts and archaeology groups or parish councils and water authorities, understanding their position will help you shape your plans and could help avoid potential objections.

## Keep in mind...

### 1. Think long-term

BNG is a long-term proposition (30 years or longer) so discuss plans with your likely successor(s). It could provide a guaranteed revenue for decades, but you need to be comfortable tying up ground long term, possibly in perpetuity. There also could be inheritance (and indeed other tax) implications.

### 2. The fit with farming

It's important a project dovetails well with your current and future farming enterprises. There are great synergies to be had – a biodiverse-rich environment could turn the key, for example, on recreation and tourism opportunities. But consider all the knock-on implications – what might farming fewer acres mean

for your fixed costs, for instance, or might you need to introduce a livestock enterprise to graze a new meadow?

### 3. Opportunity cost

Don't just consider the returns BNG will bring – also cost out the income that alternatives could yield. The potential for other enterprises may be limited on some parcels of land, but elsewhere you may have multiple options.

### 4. Is it really me?

Be honest with yourself about your track record creating and maintaining habitats and biodiversity. Those with a proven pedigree and who are genuinely enthusiastic about BNG are more likely to be able to hit the ground running and make it work.



# 4 examples of how CLM is helping clients pursue opportunities

## 1 Land 'promotion'

A 'call for sites' by a Local Planning Authority is a well-established process when it comes to residential development, allowing landowners to 'promote' their land as a possible location.

Some Local Planning Authorities are now mirroring that process for strategic offset sites.

We have put forward a site on behalf of a farmer – effectively, lobbying to have his land allocated as a strategic offset.

We put a proposal together for the future of the farm – including this offset site delivering about 130 units, as well as a vision for a tourism venture with a range of accommodation.

Using 'UKHab' (a respected habitat classification system) and Defra's 4.0 metric, we devised a set of habitat creation proposals and calculated the number of 'units' it would create.

Local Planning Authorities are frequently asked by developers where they should provide BNG, so getting land 'zoned' as such means it should be more likely

to come to the attention of the market.

## 2 Possible sale to a habitat banker

A habitat banker was looking for 10ha of offset land for an unnamed development in the locality.

Their suggestion was they'd lease the land for 31 years, paying an annual rent, with the farmer managing it in a way prescribed by the developer. The habitat banker would then be able to sell the units generated.

Our role wasn't to do the baseline survey and propose a habitat creation and management plan, such as we've done elsewhere, it was more akin to the farm business consultancy we do – basically a financial analysis of the proposal, viewed in the light of other potential uses of that land.

Effectively, the farmer would be paid a management fee for delivering the work, rather than actually selling the units. That would take some of the risk out of it for them, but also meant there

would be less potential 'upside' as the habitat banker would take this margin.

It represented a relatively straightforward proposition for the farmer as they wouldn't need to invest time and effort calculating a baseline or devising a proposal.

However, we advised our client against accepting a suggested figure of £1,000/ha/pa for 30 years (albeit index-linked) and are lobbying for an up-front lump-sum. Negotiations are currently ongoing.

## 3 South coast baselining

A south coast farmer asked us to do a habitat baseline survey. He was keen to explore natural capital opportunities – and wanted to get 'market-ready' so he would be in a position to have conversations with developers or 'green funds' who wished to fund habitat creation or improve their Environmental, Social and Governance (ESG) standards.

We are calculating a baseline, modelling what could potentially be done in terms of habitat creation and what that will mean in terms →



of units generated and their value, then we will begin a dialogue with the Local Planning Authority.

It's a mainly arable holding, but on a stretch of coastline so it's potentially an exciting area for salt marsh or floodplain grazing marsh creation. This means it's desirable from a BNG perspective as, if there's a development on a coastline elsewhere, this farm could represent an ideal opportunity to recreate a habitat like the one that's lost.

In tandem with selling units in this way, the proposal also means the landowner has an opportunity to offset any development that might take place on their own land.

**4 1ha offset**  
We have been involved in an agreement between a landowner and a Local Authority seeking to offset the loss of SSSI land. It will involve turning existing grassland into SSSI-quality grazing marsh habitat. Following hydrology studies, a key element of the work will be ground re-profiling, lowering levels in places, so enabling the grazing marsh to be established. With inundations more likely, plants such as marsh marigold and crested dog's-tail will thrive in the wetter conditions, leading to a sward composition equivalent to nearby SSSI land. It will become a great habitat for invertebrates and encourage wading birds such as lapwing (a 'red' species on the Birds of Conservation Concern list meaning it's in 'most urgent need of help') and the redshank and wigeon (both classed as 'amber'). The negotiated payment will be significant, with the local authority carrying out the infrastructure and habitat-creation work, as well as the monitoring of the site, and the landowner undertaking the long-term management of the site to achieve the intended results.



#### CASE STUDY IFORD, EAST SUSSEX

## Sussex estate has 'pioneering' vision

Iford is a beautiful estate near Lewes covering 1,200ha of mainly grade 3 and 4 land in the South Downs National Park.

CLM has been working with the estate team to devise a 30-year landscape-scale vision with nature recovery at its heart, as this dovetails with the ethos of the next generation of owners.

Iford is a pioneer in the ecosystem services market, having been selected in 2020 by Defra to become one of its pilot projects, helping to define the framework

for BNG, which it sees as a key mechanism for delivering its nature-recovery objectives.

The 'Iford Biodiversity Project' will ultimately see about 800ha of land permanently dedicated to nature recovery, involving the generation of more than 3,000 BNG units.

The business model is based on selling BNG units to developers to fulfil their requirements under the Environment Act, plus helping corporates meet their Environmental, Social and Governance (ESG) ambitions. →



Following extensive mapping and modelling by CLM, the estate has split the project into three parts: phase one representing 160ha of habitat creation and phases two and three covering a further 640ha. A range of deals are already at an advanced stage, covering 15ha or 120 BNG units, with a pipeline of others following.

Having done all the investment-readiness work, Iford has now moved into the spades-in-the-ground delivery work. Following a long, cold and wet spring, the initial area of former arable land has been sown with a flower-rich grass mixture with many native species including Black Knapweed, Selfheal, Birdsfoot Trefoil, Black Meddick, Yellow Rattle, Red and White Campion, Lady's Bedstraw and Sorrel. In the autumn, selected areas of this will be planted with scrub and trees.

“THE SORT OF LARGE-SCALE, LONG-TERM CHANGE WE ENVISAGE CAN ONLY COME WITH THE FUNDING THAT IS REQUIRED TO DELIVER IT.”

**BEN TAYLOR**  
Estate Manager



Meanwhile, the estate has also entered into a 'Section 106' agreement with the South Downs National Park Authority following its issue of a 'Call for Nature Sites' last year. This resulted in 31ha of land (and 210 biodiversity units) effectively receiving the SDNPA's seal of approval for offsetting which will provide potential partners with even more reassurance and means it will be on the statutory offsite register which will be run by Natural England. Work has already

started on identifying the next area of the estate to be bound by a further Section 106 agreement to secure biodiversity.

“The increasing focus from government, NGOs and the public on the environment has led to new opportunities to create something bigger and better here at Iford,” says Estate Manager Ben Taylor. “The sort of large-scale, long-term change we envisage can only come with the funding that is required to deliver it, and we believe that biodiversity net gain and other environmental funding streams can help us deliver our vision.

“It's important to note though that we will still be producing food. We will still be farmers. We have deliberately allocated the best quality land to remain as arable land.

“We have always farmed with the environment at the heart of everything we do, and our careful stewardship of the environment has given us the biodiversity we find today, but an almost inevitable consequence of large-scale arable and livestock farming is that wildlife becomes confined to relatively small pockets of land,” adds Ben.

“For the 125 years that the Robinson family has owned this estate, they have done the best they can, given the constraints of the regulatory system and the political drivers that have shaped UK agriculture. Now, though, the place is set to become a haven for biodiversity and a reservoir from which it can spread out across the South Downs.

“Our scheme is based on the Lawton Principles of 'bigger, better, more joined-up', and draws on the extensive habitat and species surveys conducted over the last few years, as well as historical mapping to determine land use patterns, soil sampling and hydrological assessments.

“This is already a diverse and inspirational landscape, with recent surveys showing over 1,300 species present on the Estate, many with conservation status, including 155 species of birds of which 87 are of conservation concern. Now we are creating and restoring habitats to make more space for nature, allowing our diversity of species to expand over the whole estate, while still retaining food production over the most fertile land.”

“PART OF THE ATTRACTIVENESS OF IFORD AS A VENUE FOR PROVIDING BNG IS HOW IT FITS WITHIN THE WIDER LANDSCAPE.”

**HARRISON ANTON**  
CLM Farm and  
Environment Consultant



Harrison Anton, a CLM Farm and Environment Consultant who is working with Iford, says: “This is a pioneering project which will see the creation of floodplain grazing marsh providing habitat for breeding and wintering waders, species-rich grassland for rare plants, insects and mammals and tree planting on parts of the farm to link up with existing woodland in this more sparsely wooded section of the South Downs National Park.

“Part of the attractiveness of Iford as a venue for providing BNG is how it fits within the wider landscape. It's in the Ouse Valley, within a National Park and adjacent to SSSI and National Nature Reserve land, as well as containing large areas of 'priority' habitats. It's well placed to link those, allowing 'aggregated' gain. It's part of a patchwork of natural and semi-natural habitats, rather than an island.”



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# Government should incentivise environmental projects through tax changes

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**D**on't let uncertainty about the tax treatment of BNG revenues discourage you from exploring opportunities.

Ask yourself: Do I want to do this from a commercial point of view? Will it make money? Will it fit with the rest of my business? If the answer to all these questions is 'Yes', it probably makes sense to go ahead – and you can then structure your tax arrangements to mitigate the bill.

There are a lot of unknowns, but people sometimes become overly focused on the tax aspects

and miss valuable opportunities as a consequence. Ending up with a bigger tax bill shouldn't dissuade you if, ultimately, you still have a higher net profit after tax and the project fits with your strategic objectives.

More clarity about how money from BNG will be viewed by HMRC will hopefully result from the government's recent consultation on the tax treatment of environmental land management and ecosystem service markets.

One aspect of the consultation was a call for views on the scope of agricultural property relief (APR) from inheritance tax, given concerns that the current scope of this relief could discourage some from switching from agricultural to environmental land uses.

One of the key unknowns at present, which could have big

implications for inheritance tax planning, is whether BNG payments will be seen as an 'agricultural' revenue, as APR from inheritance tax is only available on transfers of land and property used for agricultural purposes.

For tax purposes, another important distinction – and this will largely depend on the terms of the individual BNG agreement – is likely to be whether someone is deemed to still be in occupation of the land or if, in practice, they have effectively become a landlord.

Depending on how much involvement they have in the day-to-day management, there comes a point where they morph from being a farmer into more of a landlord or land manager. This could have implications because another relief from Inheritance Tax, Business Property Relief (BPR), is often relied upon by farmers and it's only available if the business is predominantly a 'trading' one.

If you have investment properties such as cottages or office lets, these could be covered by BPR, but if farmers reduce their operational side – for example, by dramatically scaling back their combinable crops acreage and instead taking an →

environmental payment – there's a risk they'll fall the wrong side of the line.

Whether you take a lump sum payment up-front for a BNG project or are paid annually is not likely to affect the distinction as to whether you are a farmer or a 'landlord' (although it could, of course, have other big financial planning and tax consequences).

As farm subsidies have disappeared and environmental grants and payments have come onto the horizon, it was inevitable that the tax regime would evolve, so how BNG is treated is just part of a wider evolution of the tax system.

There was no talk of biodiversity, carbon, water quality or rewilding 20 years ago. The evolution we will see in the tax system over the next 10 years will be more marked than ever.

The government is also keen to simplify and standardise tax rules – and the reliefs that farmers have traditionally relied upon are complicated and obviously apply only to a small portion of the economy. The risk is that the government reduces the reliefs available to agricultural businesses, so bringing them into line with other sectors. In other words, the loss of reliefs could be an unfortunate by-product of wider simplification.

The government needs to recognise, however, that if they want to see farmers and landowners pursue environmental land management practices and provide ecosystem services, there needs to be a tax system which incentivises it. So right now there's an opportunity for us as an industry to be saying: We are the ones in the driving seat and you should make sure environmental work is as tax beneficial as it can be. Why should other industries get tax incentives

and our industry does not, when we are so critical to environmental policy and the drive to net-zero?

There will be wholesale change in the coming years, however, with tax policies driven by the bigger natural capital agenda, with research showing more than half the world's GDP is dependent on natural capital.

The current generation at the helm of farm and estates have relied to a degree on the fact they will always get some sort of inheritance tax relief. The tax system has changed little for decades, certainly in regard to inheritance tax, so new approaches will be required.

One sensible step is to make sure BNG agreements are assignable. So it might be one person who enters into the agreement, but it allows for assignability so they have the option to restructure the financial ownership (without changing the terms of the agreement) to move ownership to, say, one of their children or a trust or another company.

Even in a climate of uncertainty, there is always a lot of tax planning you can do. The reality is that through the term of a 30-year agreement, there will be periods when the tax regime is relatively more favourable and periods when it's less so.

There will always be an element of risk, but you should budget for the worst-case scenario so at least you'll know if you could ride out such a scenario. In tandem with this, ensure you have as much flexibility as possible in your arrangements so you can restructure your business financially if you need to.

If you take such steps, sensible BNG-related decisions can still be taken from a tax perspective, even in this world of incomplete knowledge and a likely changing fiscal and commercial landscape.



**CLM is a land, business and property management consultancy.**

It helps clients protect and grow their income and assets, improve their quality of life and create sustainable legacies.

The 20-strong team includes land agents, business consultants, planners, valuers, environmental experts, agriculturalists, ecologists and property experts.

From its headquarters in East Sussex, it support clients nationwide as varied as family farms, landed estates, property developers, international investors and viticulturists. It offers a range of services relating to BNG and natural capital.

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