

Natural Capital Financing in Scotland
Net Zero, Energy and Transport Committee Briefing
21 March 2024



About Scottish Land & Estates

At Scottish Land & Estates (SLE) our work helps to ensure that rural Scotland thrives. We are a membership organisation for landowners, rural businesses, and rural professionals. We promote the wide range of benefits land-based businesses provide: tourist attractions, leisure facilities and landscapes enjoyed by the public, as well as housing, employment, tourism & enterprise and farming opportunities. We represent the interests of our members and wider rural Scotland to the UK and Scottish Governments to help ensure that policy and legislation reflects the unique requirements of rural Scotland and its communities.

Introduction

Mid-March saw the introduction of the Land Reform (Scotland) Bill, which was preceded by the “Land Reform in a Net Zero Nation” consultation.

Scottish Government’s policy rationale for the Bill is broadly summed up by the quote below:

*“A Scotland with a strong and dynamic relationship between its land and people, where all land contributes to a modern, sustainable and successful country, supports a just transition to net zero, and where rights and responsibilities in relation to land and its natural capital are fully recognised and fulfilled”.*¹

However, in reality the Bill as introduced has little content which will have a direct impact on Scotland’s ability to reach Net Zero. Similarly, it will have little impact on our desire to simultaneously enhance biodiversity across Scotland. The main reason for this is simply that the bill focusses almost entirely on who owns land, rather than how they manage it, or their ability to implement changes to meet these requirements.

In terms of meeting the challenge of net zero, it is not important who owns the land as it is possible for private, public, community and corporate landowners to contribute towards this. It is however important that the level of investment is made, and that land is managed in the correct way to achieve this. Currently there seems to be confusion around what is actually happening and what is being asked of land managers.

With several bills currently under consideration of parliament, it is clear there is a need for clarity of thought and legislation to enable land managers to play their role in meeting the many challenges facing Scotland currently.

The scale of the issues we face

“The finance gap for nature in Scotland for the next decade has been estimated to be £20billion. Leveraging responsible private investment... will be vital to meeting our climate targets and restoring our natural environment.” Lorna Slater Minister for Green Skills, Circular Economy & Biodiversity²

The Scottish Fiscal Commission’s recent also measured the cost to the public purse in meeting the Scottish Government’s net zero targets. The report found that the Scottish Government would need to spend an average of £1.1bn per year to meet its net zero target – around 18% of its capital budget.³ The Commission also notes that while the responsibility of achieving net zero is shared by the Scottish and UK Governments, “a

¹ [Policy Memorandum \(parliament.scot\)](#)

² [£2 billion private finance pilot potential ‘vital step in restoring Scotland’s woodlands’ | NatureScot](#)

³ [Scottish Fiscal Commission, Fiscal Sustainability Perspectives: Climate Change](#)

greater share of the UK reduction in emissions relating to forestry and land use needs to take place in Scotland.”⁴

This demonstrates not only the enormity of the challenge faced in financial terms, but also the requirement for private finance to meet this challenge. It is unfair and unrealistic for the public purse to carry this cost.

Care needs to be taken around these figures however. Often this is described as being potential income for landowners, however this is merely the cost of restoration, (including planting and habitat establishment) and not income or a profit margin. There can often be an assumption that landowners are making huge amounts of money from this, but SLE believes this is not the case and while there is potential for some profit to be derived from future sales of carbon and other credits, in the current situation very few land managers have seen any real income from this.

The £20 billion figure, estimated by the Green Finance Institute, does include the cost of land acquisition to undertake nature restoration projects at the required scale. If private finance is not involved then a degree of land acquisition would still need to take place at public expense (and this does happen i.e. Scottish Government acquisition of Glenprosen Estate for tree planting). However if land is already owned, there is an opportunity cost of changing its use on a permanent basis. In short there can be no other land use from that point onwards, which severely limits the economic capacity of the land.

Similarly, the true costs are actually unknown. While the £20bn figure relates to the next decade, nature restoration work often carries a contingent liability for many decades or in some cases in perpetuity. The risks and costs of this are not yet fully known, therefore it is extremely difficult to ascertain whether any money will be made directly from this.

The Scottish Government has ambitious targets for both tree planting and peatland restoration, which are key planks in climate change plans, with a target of 18,000ha of woodland created each year by 2024/25 and to restore 250,000ha of degraded peatland by 2030. While both of these targets are laudable, it looks increasingly likely they will not be achieved for a number of reasons. Looking at peatland restoration for example, restoration needs to increase by 300% if we are to meet that target. Therefore, it is crucial that they are not jeopardised further by excessive regulation and undue complication within markets which will be required to deliver for the benefits desired for the whole of Scotland. Figure 1 demonstrates how far behind target peatland restoration currently is and we expand on this and other land use types further below.

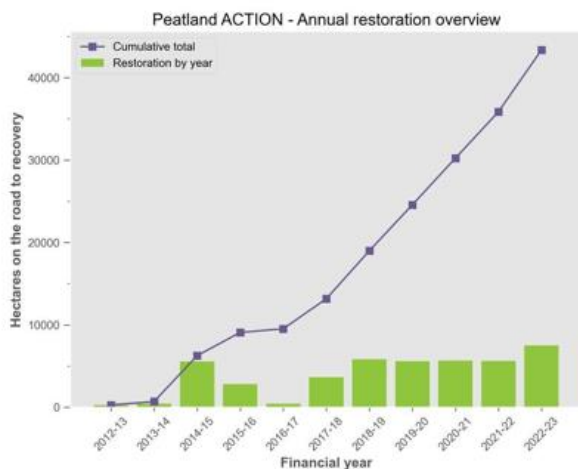


Fig. 1.

⁴ [The Scottish Fiscal Commission, Fiscal Sustainability Perspectives: Climate Change \(2024\)](#)

The Benefits of Scale

One specific area which the proposals do not address is the clear need for scale when seeking to use land management as a tool for enhancing biodiversity and sequestering carbon. It is widely accepted that scale of land management is the simplest and most effective way to achieve outcomes at pace and cost effectively.

In 2023 Scottish Land & Estates commissioned BIGGAR Economics to investigate the [role of land management at scale in delivering a just transition](#). The key findings of the research are itemised below:

- Large projects have made a major contribution to moving Scotland toward a just transition and will become increasingly important in the future.
- At the current pace of delivery Scotland will not meet important targets for woodland creation, the rollout of renewables, peatland restoration or housing delivery. Increasing large-scale delivery offers the most realistic prospect for changing this.
- Delivering large-scale projects can enable multiple benefits that may be difficult or impossible to realise at a smaller scale, such as community benefits.
- The number of landowners involved in a project can be more important than the scale of the landholding on which it is delivered for some projects. That is to say, projects with fewer stakeholders involved in the project are often quicker to deliver and the results are truer to the original aims of the project. Working across highly fragmented holdings with several stakeholders can dilute the outcomes of projects and cause delays due to competing interests. There are many great examples of multi-stakeholder projects but given how behind we are in meeting various public policy targets relating to climate and nature, we must speed up the rate of delivery.

This also has benefits for biodiversity and wildlife, as landscape-scale conservation is the scale at which natural systems tend to work best and where there is often most opportunity to deliver real and lasting benefits. This gives the best chance to work with natural processes so we can sequester carbon.⁵ Land management at scale also enhances economies of scale which is beneficial for food production and economic activity in general.

The ability to bring forward projects of this scale is far more likely when landholdings are of a large scale too. Simply, given land management is often about a balance of enterprises and land uses, having a single large landholding makes it easier to bring forward large-scale projects.

There are several steps that could be taken to enable the benefits of delivering large-scale projects to be realised, including:

- minimising bureaucratic complexity
- improving administrative efficiency
- integrating support for complementary land uses
- promoting the benefits of delivery – increasing availability of upfront funding⁶

Unfortunately, the measures published in the Land Reform (Scotland) Bill will only increase bureaucratic complexity, reduce administrative efficiency and set in motion the fragmentation of Scotland's land which is counter intuitive to meeting the challenges outlined above. It will also reduce certainty for investors which is counterintuitive given the scale of investment needed and the inability of the Scottish Government to meet the costs itself. This will result in private investment seeking projects elsewhere with fewer legislative hurdles.

⁵ [NatureScot](#), Nature Restoration at the Landscape Scale

⁶ [Land - the Role of Scale in Delivering a Just Transition.pdf \(scottishlandandestates.co.uk\)](#)

The Bill seems to be a push for the diversification of ownership for diversification’s sake, without a clear rationale as to how this will help tackle the climate and nature crises.

“There is no doubt that land-based businesses can make significant contributions to achieving Scotland's public policy objectives, including woodland creation, peatland restoration and renewable energy. The delivery of these projects at scale is going to be absolutely critical if we are to achieve these targets at the required pace and quality of delivery.” Kate Forbes MSP.

The need for scale: illustrative examples

As outlined above, the enormity of the challenge we face in tackling climate change cannot be underestimated. Below are some examples of where the shortfalls in meeting our own public policy targets with relation to net zero lie. However, there are numerous examples where much of the progress currently being made towards climate change targets is being achieved by the management of land at scale. A larger scale landholding makes it possible to plant and restore larger areas of woodlands and peatlands, as well as larger scale projects for the delivery of renewable energy projects. Below are examples of the current role of large-scale projects in these areas.

Peatland Restoration

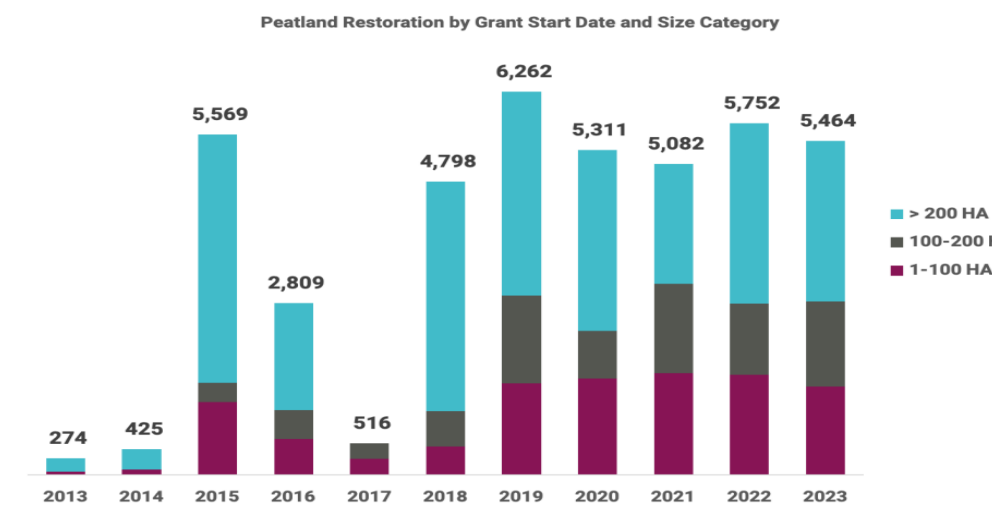


Fig. 2.

We need to restore 20,833ha of peatland per year to meet the Scottish Government’s target of 250,000ha restored by 2030. Figure 2 clearly shows that the average hectareage of peatland restored over the last decade is only around a quarter of what is required. Each year this continues, the shortfall increases. At current rates, targets will not be met.

Of the peatland restored since 2013, 57% was restored through large projects of over 200ha. At current rates of delivery it would take more than 7 years to reach the target through only small-scale projects. Scale is therefore imperative to meeting our peatland restoration goals.

Woodland Creation

Share of Woodland Creation by Project Size
Forestry Grants Scheme

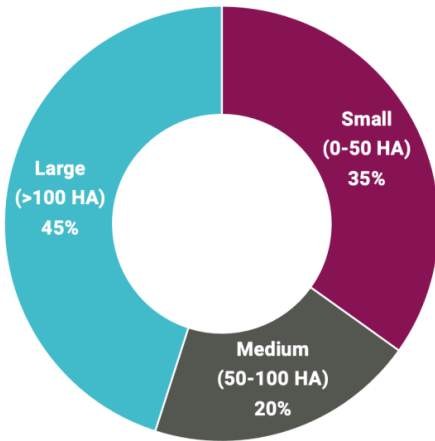


Fig. 3.

Total New Woodland Planting

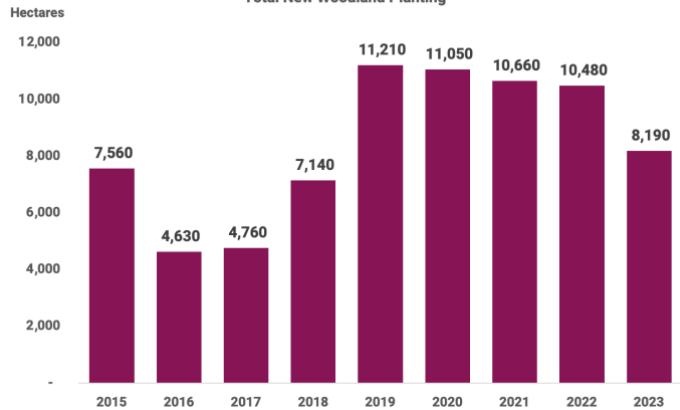


Fig. 4.

The Scottish Government established a target of 18,000ha of woodland per year by 2032, meaning a total increase of 162,000ha between now and then. Again, the average hectareage planted per year is less than half of the annual target required. The BiGGAR Economics report found that new woodland creation needs to at least double to meet targets and at the current rate of delivery, it would take almost 48 years to reach the Government’s target through only small-scale projects. Again, scale is essential for the delivery of new woodland creation and this is best delivered through large-scale projects which are best supported through large-scale land ownership.

Renewable Energy Development

Share of Installed Capacity Generated by Projects at Scale

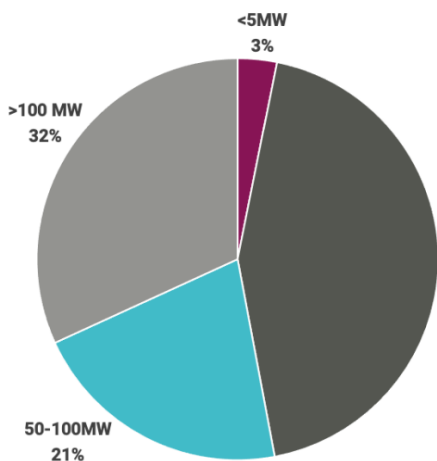


Fig. 5.

New Onshore Wind Installed Capacity by Year

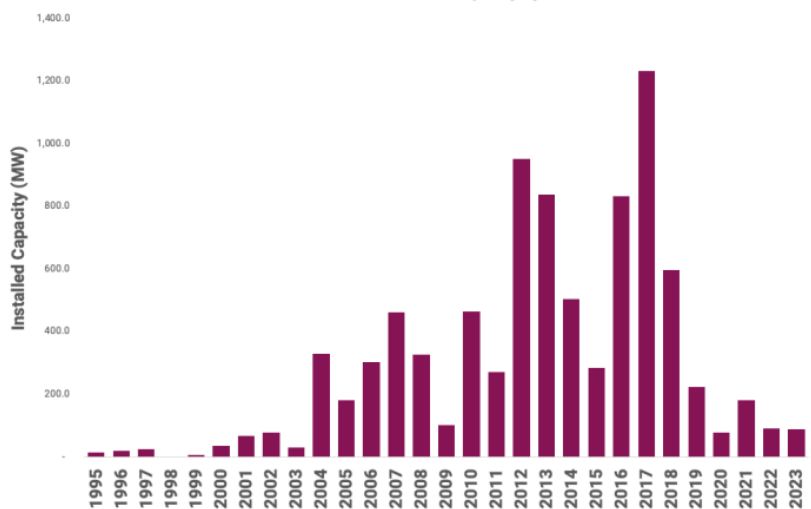
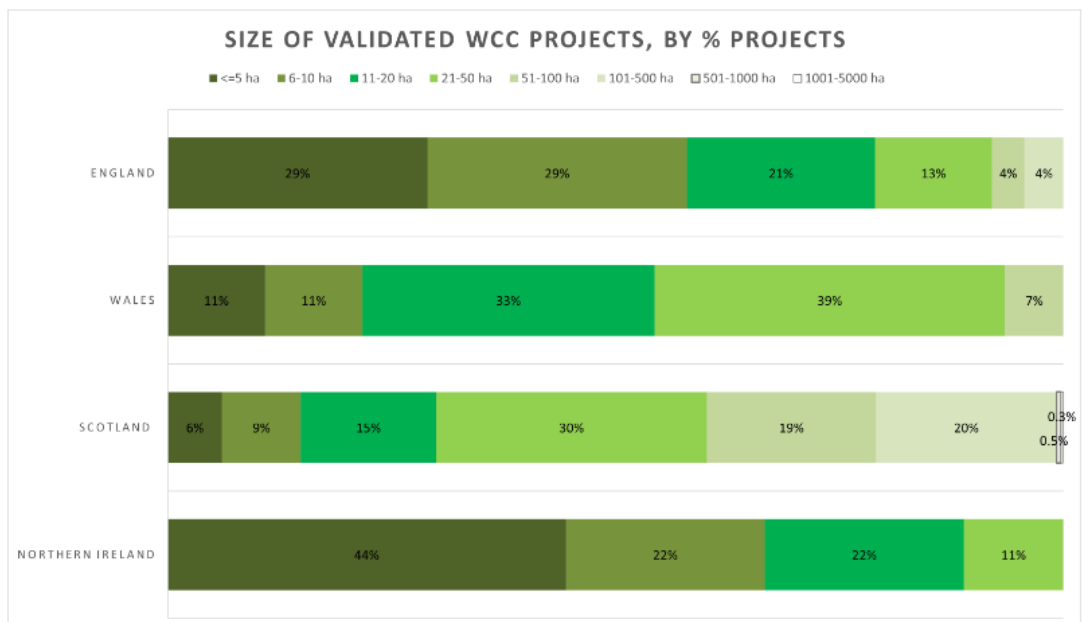


Fig. 6.

⁷ [Land - the Role of Scale in Delivering a Just Transition.pdf \(scottishlandandestates.co.uk\)](https://www.scottishlandandestates.co.uk/land-the-role-of-scale-in-delivering-a-just-transition.pdf)

The Scottish Government has set a target to increased installed capacity of onshore wind to over 20GW by 2030 – a 12GW increase from 2022 levels. Figure 6 shows that new installed capacity peaked in 2017 at 1.2GW, and progress has slowed since then. An average of 1.6GW of additional onshore wind capacity is required each year between now and 2030 to meet the target.

At current delivery rates, it would take 54 years to reach the target through only smaller scale projects of less than 50MW. The argument applies here too that large-scale projects are going to be essential for the delivery of onshore wind. Particularly with onshore wind due to the physical area required for turbine operation, large-scale land ownership is necessary to deliver these larger projects. This also makes it easier to accommodate considerations such as ecology, visual impact and greater flexibility in where to locate turbines.



The research by BiGGAR Economics clearly outlines the state of progress in meeting vital land use targets that contribute to net zero. At current rates, targets will not be met and we need to scale up the size of projects and the pace at which they are delivered. This will be more difficult with a more fragmented pattern of ownership and increased bureaucracy and lack of certainty for investors, created through the Land Reform (Scotland) Bill.

Land Market Changes

Over time land markets have ebbed and flowed both in terms of area of land brought to market, but also in terms of land value. However the trend has been generally upwards, which is often the case with tangible assets, and particularly in times of financial uncertainty where tangible assets (e.g. Gold) tend to perform well.

The Scottish Land Commission recently commissioned two annual summaries of changes in land markets, in 2022 and 2023. Some of the key findings are below.⁹

⁸ [Woodland Carbon Code statistics - UK Woodland Carbon Code](#)

⁹ [SLC Rural Land Market Insights 2023 \(landcommission.gov.scot\)](#)

Key Findings in 2023:

- Farmers remained the most active group of actors in the rural land market.
- Land agents reported that the land market had slowed in 2022 and a degree of “caution” had entered the market.
- The changing macroeconomic climate caused uncertainty and re-evaluation among potential purchasers.
- There was an increased emphasis on due diligence within transactions, causing the market to slow.
- Institutional buyers with significant capital backing seeking land for investment were active, but their appetite had slowed.
- Commercial forestry buyers remained active in the market and demand for plantable land had extended to better quality farmland during 2022.
- Interest among lifestyle buyers was reduced.

When the land agent interviews were conducted (Dec 2022-Jan 2023), land agents suggested that institutional and corporate buyers had either exhausted their current annual land acquisition budgets or were taking a more considered (i.e. less hasty) approach to their land investments.

While there has been much rhetoric around changes in market dynamics and new buyers entering the market, it seems clear that while some new buyers have entered the market this is not on a wholesale level and does not appear to be a long-term trend.

However, those who have bought land are required to meet the same responsibilities as any other landowner and will be subject to the same legislation. It must also be recognised however that they also often bring with them the private finance which is clearly required to meet our twin climate and nature crises, outlined above. Work is ongoing to understand how community benefits can be delivered from large-scale private investment projects and how communities can be involved while retaining the optimal viability of projects.

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