

## The role of natural capital in developing the regional economy of South of Scotland

### 1. Purpose

This paper:

- provides a review of the significant role that natural capital plays in the regional economy; and
- highlights the opportunities to develop these strengths further.

### 2. Background

We want to see the South of Scotland thrive economically, socially and environmentally. To achieve a well-being economy, for current and future generations, we need to build upon four capitals: economic, human, natural and social. By growing the assets of each capital we help support inclusive economic growth of the region.

At its meeting in September, the Convention considered the regional impacts of COVID-19 and what could be done to support recovery. The discussion highlighted the potential to lever the natural capital of the region to position it as a leader in renewable energy and a centre for green jobs and skills development. This paper explores the natural capital offer of the South of Scotland, its potential to deliver economic opportunities, and the key role partners can play through their policy and investment decisions.

### 3. What is Natural Capital?

Scotland's natural capital is our stock of natural assets – our geology, our soils, our seas and freshwater, our air, our habitats and greenspaces and all the living things that these support. These natural assets underpin many of the services that our economy relies on – soils for food production, water supply and quality for industry, wind and tides for energy, forestry and peatlands for carbon storage, wildlife and landscapes for tourism, greenspaces for community health and wellbeing.

However, there is increasing evidence that Scotland's natural capital is being damaged and diminished by existing approaches to socioeconomic development. The 2015 SG Economic Strategy stated that "*protecting and enhancing our stock of natural capital... is fundamental to a healthy and resilient economy*". This commitment is now seen to be even more important in light of the linked crises of climate change emergency and biodiversity loss, and in terms of delivering the SG commitment to a just transition to net zero emissions, a sustainable environment and a wellbeing economy.

### 4. Why is it important to the Scottish economy?

The economic value of Scotland's natural capital is very significant. It has been estimated that overall the benefits from nature which can be valued are currently worth around £22 billion per year to Scotland's economy (equivalent to c.12% of our national GDP). In evidence to a recent Parliamentary Committee Prof Dieter Helm said "*I struggle to think of anywhere in the world where natural capital is more important to the economy than it is in Scotland*".

A 2020 report for NatureScot estimated that there are 195,000 nature-based jobs in Scotland (excluding the energy sector), representing around 7.5% of employment nationally. It also found that this nature-based sector will be of greater importance to future jobs (it has accounted for a third of jobs growth in Scotland since 2015) and is particularly important to rural economies.

In this rural context, it is estimated that nature-based jobs (including the energy sector) currently represent around 20% of employment in the South of Scotland including 24,000 jobs in agriculture and food, and around 2,000 jobs in forestry (Borderlands Inclusive Growth Deal analysis).

In recognition of this importance, recent SG economic policy has strengthened commitments to economic growth through the protection and enhancement of our natural capital:

a) Economic Recovery - The adoption of a “four pillars” approach

The **SG response** to the 2020 Advisory Group on Economic Recovery adopted the recommendation of a *“four pillars”* approach to future economic development in Scotland with equal consideration given to four economic pillars - natural capital, human capital, social capital and financial/physical capital as the core contributors to economic growth.

This interconnection is shown in the remit of our economic development agency, South of Scotland Enterprise, which draws together economic, community and environmental development and improvement. Early investments by South of Scotland Enterprise have recognised the potential to develop natural capital assets as part of growing the economy:

- Langholm Initiative - £1m to help them purchase a part of Langholm Moor to develop its natural capital, bringing revenue from the asset and unlocking future community led enterprise and job creation;
- Galloway and South Ayrshire Biosphere - £1.9m over 5 years to grow and deliver sustainability ambitions, directly creating up to 12 jobs and bring a range of economic, community and environmental benefits.
- South of Scotland Destination Alliance - £2.7m to develop the tourism offering of the region, of which our natural capital offering is key.

b) National Infrastructure Plan - proposed inclusion of natural infrastructure

The **SG draft Infrastructure Investment Plan** consulted on the inclusion of natural infrastructure within our definition of infrastructure, as recommended by the Infrastructure Commission for Scotland. The changes proposed will help ensure that investment in natural infrastructure is considered equally alongside other infrastructure investments as a means of delivering policy priorities;

c) National Planning Framework 4 (NPF4) – proposed focus on our natural assets

The **NPF4 Position Statement** has four key aims: Net Zero, a Wellbeing Economy, Better Greener Places and Resilient Places. There are policy commitments to our natural assets under all four of these ambitions. For example, under the ambition for a Wellbeing Economy there is a proposal that “..*Our policies on planning for business development will*

*recognise the fundamental role Scotland's natural capital plays in supporting our economy and will aim to achieve sustainable, inclusive growth by protecting and investing in our natural assets and supporting the health and wellbeing of our communities. This will support Scotland's ambitions to build a wellbeing economy."*

d) 2020 Programme for Government (PfG) – green recovery, green jobs and a blue economy

The **2020/21 PfG** includes a headline commitment to a national mission to create new, good, green jobs. The PfG also states that our economic recovery must be a green recovery so that we improve the state of our natural capital and become a net zero society by 2045. As part of this policy direction, the PFG also includes commitments to public funding across a range of areas aimed at improving our natural capital, a just transition to net zero and a wellbeing economy which includes the additional £150m investment in woodland creation, and a commitment to develop a Blue Economy Action Plan that recognises "...*the vital importance to our marine economy of the abundant natural capital in Scotland's seas and rivers.*"

## **5. What are the natural capital opportunities for the South of Scotland regional economy?**

At its first meeting in February 2020, the CoSS identified the top 10 opportunities for the regional economy. Four of these are directly related to the economic value of the Region's natural capital –

- Quality of Place,
- Primary Industries (food, farming, forestry),
- Renewables, and
- Outdoor Tourism

The Region is well placed to capitalise on these opportunities through the knowledge and skills of local businesses, through the considerable natural capital experience and expertise that is contained within the Dumfries & Galloway and Scottish Borders local authorities and their public sector partners (Scottish Forestry, Forestry & Land Scotland, NatureScot, SEPA), through the long-established cross-sector partnership approaches to rural economic development and land management across the Region, and through the commitment of local further education to support the employment opportunities that the Region's natural capital offers.

These regional strengths are set out in more detail below against the main natural capital opportunities:

- Renewables

As set out in the **Climate Change Plan update**, the transition to net zero will require significantly greater levels of renewable energy deployed across Scotland (an estimated four-fold increase).

### *Onshore Wind*

Onshore wind is the lowest cost electricity generation at scale and remains vitally important to Scotland's decarbonisation ambitions. The Scottish Government are committed to, and continue to work towards, ensuring these developments are deployed in the most suitable locations. Nationally, onshore wind generated £2 billion in turnover in 2018 and directly supported approximately 2,900 full-time equivalent jobs across the country. It is therefore welcome that the UKG has announced that established technologies will once again be introduced to the Contracts for Difference (CfD) auctions, offering developments a more viable route to market in future rounds.

Larger scale onshore windfarms (>50 MW) are consented by SG's Energy Consents Unit and for these projects in the South of Scotland:

- there are 42 consented projects totalling more than 4 gigawatts of capacity,
- there are 20 live applications,
- there are 34 projects at pre-application stage,
- two battery storage schemes have been consented.

### *Hydro*

Scotland has almost 80% (314MW) of small scale hydro projects in operation across the UK, and these projects play a key role in bringing jobs to remote rural areas in Scotland, and supporting local supply chains. The Scottish Government is committed to encouraging and promoting hydro and will continue to help create a supportive environment for hydro in Scotland. The 400MW Glenmuckloch pumped storage hydro scheme was consented in 2016.

### *Community Energy*

The Scottish Government's Community and Renewable Energy Scheme (CARES) has found that communities projects supported in South of Scotland often have a focus on buildings and are looking at photovoltaic energy, heat and storage. We expect these technologies to continue to be the main areas of interest in future. Smaller projects generally use more local firms and almost always Scottish companies for installation and maintenance, so there are local economic benefits. There is little income from PV and renewable heat, but the savings made from offsetting more costly energy from suppliers will benefit the local organisation.

As part of their role delivering CARES, Local Energy Scotland administer and maintain a **community benefits register** summarising community projects supported by funds from renewables projects (c. £4.8 million in South of Scotland in 2020). According to this register, there are 39 such projects across the Region and 14 of these include investment in the communities' natural capital.

- Public and private investment in nature-based solutions for climate change

The 2020 Climate Change Plan update for Scotland includes ambitious commitments to reduce emissions from land use and agriculture. These include the very rapid escalation of the scale of afforestation (near doubling) and peatland restoration (five times) supported

by the significant investment of public funds (additional £150m over 5 years in forestry, £250m over 10 years in peatland restoration) and an anticipated increasing contribution by private funds. There will also need to be increased investment in nature-based solutions for river and coastal flood prevention and community wellbeing impacts (air pollution, extreme heat).

Private sector interest in nature-based solutions is already increasing, for example through business commitments to net zero and to ending negative impacts on nature and biodiversity. This interest is reflected in the growing voluntary carbon offset market, supported by the UK Land Carbon Registry (joint packaging of the woodland code and peatland code), and in increasing commitments to regenerative agriculture by major food industry businesses. There is ongoing work by SG and others to map Scotland's investor landscape for natural assets and to mobilise this private investment interest.

The Supply Chains Development Programme (SCDP) was announced in the 2020 Programme for Government. It will work across key sectors of the economy where we see genuine sustainable economic potential or resilience for future pandemic waves. The SCDP is currently working with the construction and forestry sectors on how we can make better use of Scottish grown timber.

*Regional Strengths* - There is an established forestry sector which is well placed to respond to this increase in public and private investment. There is established expertise in peatland restoration that could form the basis for escalation of activity and jobs in response to investment (e.g. Crichton Carbon Centre provides the national training scheme for peatland contractors).

The Tweed Forum (funded by SG and others) is part of a NatureScot-led pilot project (funded by SG and others) on Facilitating Local Natural Capital Investment. This aims to develop and test an approach that could be used by regional partnerships across Scotland to facilitate investment in natural capital at the local level, especially from the private sector.

Furthermore, under the Landscape Enterprise Networks initiative (LENS) there is work underway to connect business needs with natural capital investment opportunities across south west Scotland (Clyde to Solway), starting with work by SEPA and Nestle around a new Sustainable Growth Agreement.

It is recognised that delivering these changes in land use will require new jobs and skills training. The Further Education and Higher Education providers in South Scotland are active in developing the learning required to provide these skills.

- Post-Brexit land management support

From 2024, Scotland will have a different land management support system in place to replace the Common Agricultural Policy which currently invests £600m-700m annually in land management and rural development across Scotland. Land managers and land-based businesses in South of Scotland receive a significant proportion of these funds under the current system and there is an opportunity to support them – and the jobs dependent on their activity - by supporting them in their adaptation to future land management policy priorities such as the Climate Change Plan targets.

*Regional Strengths* – There is high awareness of the importance of land management schemes to the South of Scotland Economy with expertise and resources available through the established presence of land management organisations (e.g. SG RPID, NatureScot, SEPA, Scottish Forestry, FLS, eNGOs), advisers (e.g. SRUC, Crichton Carbon Centre) and land use partnerships (Tweed Forum, Southern Uplands Partnership, Galloway Glens Landscape Partnership, Galloway & Southern Ayrshire Biosphere Reserve, Borders Forest Trust).

The South of Scotland have expressed an interest to SG for being a pilot area for Regional Land Use Partnerships (RLUPs). Establishing Regional Land Use Partnerships was a Programme for Government commitment in 2019/20. RLUPs' initial focus will be on bringing a collaborative and regional scale approach to land use decision making. The SG intends to announce the pilot regions in the first week of February.

- Borderlands Growth Deal

The Borderlands Growth Deal has a strong commitment to investment in natural capital as part of the Borderlands future economic growth. This is reflected in South of Scotland through project proposals for innovation hubs for forestry and dairy, through nature-based tourism proposals in Destination Borderlands and through a dedicated Natural Capital Innovation proposal that seeks investment of up to £5 million in South of Scotland pilot projects on farming, forestry, marine management, data management and private finance.

*Regional Strengths* - These projects provide an opportunity for South of Scotland to be at the forefront of natural capital and regional economic policy and practice in Scotland.

- Nature-based branding

Food and drink is critically important to the SoS economy, contributing 25% of the D&G economy. There is an opportunity to improve the marketing of products based on the high quality of the local environment. This opportunity from nature-based branding also applies to the arts and crafts sectors and to the attraction of tourism and inward investment into the region.

*Regional Strengths* - Projects to develop nature-based branding have been taken forward by the Galloway and Southern Ayrshire Biosphere and the Galloway Glens Landscape Partnership. The high quality of the region's environment is already a strong feature in its tourism marketing.

- Biodiversity Net Gain (BNG)

BNG is defined as development that leaves biodiversity measurably better than it was before, often through private investment into land management. It is not formally part of SG policy for development but falls within a broad policy commitment to maximise the biodiversity benefits from development.

*Regional Strengths* - Scottish Borders has experience and expertise in this source of investment from implementation of its Local Development Plan policy on BNG which has secured investment of around £1.8m from 13 developments.

- Blue Economy

SG is committed to developing a Blue Economy Action Plan to develop the marine economy based on renewables, fishing and aquaculture and leisure & tourism.

*Regional Strengths* - There are proposals in the Borderlands Growth deal for marine development (e.g. Stranraer marina, energy masterplan) which could form the basis for wider development of the region's blue economy.

## 5. Call to Action

COSS members are invited to:

- **Recognise** the high importance of the region's natural capital to the economy and the existing regional strengths in natural capital expertise, partnerships and projects.
- **Support** the further natural capital opportunities for the regional economy and **commit** to support the realisation of these opportunities
- **Acknowledge** the Scottish Government policy commitment to the protection and enhancement of natural capital in order to support the Scottish economy;

Key Discussion questions

- How do we ensure that the South of Scotland is best positioned to capitalise on its significant natural capital for the benefit of the regional economy and local communities?
- How do we provide advice and support for businesses, local communities and investors so that they can respond to these opportunities?
- How do we connect land and marine managers with investors and businesses?
- How do we enable people to develop the skills required for new green jobs?