

Options assessment

Title: Marine Recovery Fund

Type of measure: Secondary Legislation

Department or agency: Department for Food, Environment and Rural Affairs

IA number: ...

RPC reference number: ...

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Date: 27/01/2025

If your measure is to be submitted for RPC scrutiny you should complete the whole form as much as you are able, given the state of policy development and available evidence. This should include the regulatory scorecard with quantified business impacts, even if this is just the best estimate at this stage. Other impacts may be left unquantified at this stage, including household impacts where quantification may not always be proportionate at this stage. When complete, the whole form should be submitted to the RPC secretariat. **Please include annexes for supporting material where relevant. This form is not expected to be published.**

1. Summary of proposal

This Options Assessment (OA) considers secondary legislation options for one or more Marine Recovery Funds (MRFs) to deliver strategic compensatory measures (SCMs) on behalf of Offshore Wind (OFW) developers to compensate for unavoidable damage to protected habitats and species from OFW activity. This is necessary to take action to meet the Government's Clean Power by 2030 Mission and deliver part of the Offshore Wind Environmental Improvement Package (OWEIP) which aims to speed up planning and consenting times for OFW developments whilst protecting the marine environment.¹ The MRF will deliver SCMs listed in the Library of Strategic Compensatory Measures (LoSCM), that have been approved by the Department for Environment, Food and Rural Affairs (Defra) Secretary of State (SoS) on the advice of the Collaboration on Offshore Wind Strategic

¹ [Clean Power 2030 Action Plan - GOV.UK](#).

Compensation (COWSC) programme.² This will help to speed up the planning and consenting process as OFW developers, Statutory Nature Conservation Bodies (SNCBs), Department for Energy Security and Net Zero (DESNZ), and relevant Devolved Ministers will be able to consider how individual projects could be compensated for using pre-approved compensation measures.

Please see the Glossary at the end of the document if needed for the list of acronyms used.

2. Strategic case for proposed regulation

Policy Background

Current Policies

The Government has a mission to make Britain a clean energy superpower³ with aims to cut bills, create jobs and deliver energy security with cheaper, zero-carbon electricity by 2030, accelerating to net zero 2050 targets. Decarbonising the energy grid is vital to deliver on the net-zero objective, with electricity supply responsible for 11% of UK greenhouse gas emissions in 2023.⁴ This will be delivered, in part, by radically increasing the UK's OFW capacity to meet our Clean Power by 2030 Mission.

The Government has domestic and international commitments to protect and recover the marine environment. These include the UK Marine Strategy (UKMS)⁵ and the Marine Protected Areas (MPA) target.⁶ The MPA target, set by the Environmental Targets (MPAs) Regulations 2023, requires that at least 70% of protected features in relevant MPAs in England are in a favourable condition by 31 December 2042, with the remaining features in a recovering condition.⁷ Internationally, the UK is also a signatory to the Convention on Biological Diversity (CBD)⁸ – an international treaty to ensure the conservation and sustainable use of biodiversity. The Global Biodiversity Framework of the CBD sets the 30x30 targets, including 30% of land and sea to be effectively conserved and managed by 2030, also known as the '30 by 30' commitment.⁹ The UK also has other relevant commitments, including under the OSPAR and Bern Conventions.

External economic and political context

The need to deliver OFW faster, to ensure long-term domestic energy security, has been shown through recent external factors. The invasion of Ukraine and subsequent sanctions on Russia led to a rapid restriction in the availability of oil and gas and resulted in the increase in energy prices in the UK. The impact of these restrictions was exacerbated by the scaling back of production during the Covid-19 pandemic and the lag in scaling up once demand returned to pre-pandemic levels. This has had a significant impact on the UK economy, contributing towards rising inflation¹⁰, which alongside falling real wages¹¹, has placed substantial pressures on household budgets. Conflict in the Middle East has also had an impact on energy prices, a potential escalation of the conflict could exacerbate

² COWSC is a collection of stakeholders, experts, and implementation groups that research and develop strategic compensation measures for use by the MRF. The group comprises industry, environmental stakeholders, Statutory nature conservation bodies (SNCBs), regulators, Devolved Governments, The Crown Estate (TCE), and the Department for Energy Security and Net Zero (DESNZ).

³ [Make Britain a clean energy superpower – The Labour Party.](#)

⁴ [2023 UK greenhouse gas emissions, provisional figures \(publishing.service.gov.uk\).](#)

⁵ [The Marine Strategy Regulations 2010 require production of the UKMS - Marine Strategy Part One: UK updated assessment and Good Environmental Status \(publishing.service.gov.uk\)](#) and the MPA target created under The Environment Act 2021.

⁶ [The MPA target was created under The Environment Act 2021 Environment Act 2021 \(legislation.gov.uk\).](#)

⁷ [The Environmental Targets \(Marine Protected Areas\) Regulations 2023.](#)

⁸ [Home | Convention on Biological Diversity.](#)

⁹ [Global Ocean Alliance – 30by30 Ocean Target \(2019\).](#)

¹⁰ [Cost of living and inflation - House of Commons Library \(parliament.uk\).](#)

¹¹ [Falling Real Wages – LSE, Spring 2014.](#)

the situation, increase uncertainty, and harm GDP.¹² These external shocks have illustrated a need for greater energy security within the UK and the expansion of domestic OFW capacity, to mitigate the impact of any future external shocks to the global energy supply.

Equally, the importance of the environment and biodiversity agenda continues to grow. The Environment Act 2021 places a legal duty on Ministers of the Crown to have due regard to the Environmental Principles Policy Statement when making policy.¹³ Additionally, the UK's Trade and Cooperation Agreement with the EU requires that the UK's environmental levels of protection are not weakened or reduced below the levels in place at the end of the transition period in a manner that would affect trade or investment between the UK and the EU.¹⁴ Moreover, having hosted the UN Climate Change Conference (COP26) in 2021, there is a strong ambition from Government to demonstrate and implement solutions to the environmental and climate crisis. This has been reinforced in subsequent conferences, including in COP29 in 2024, where an agreement was reached on carbon markets, which will help countries deliver their climate plans more quickly and cheaply, and make faster progress in halving global emissions this decade. The Government used the conference to announce its new commitments to transition the UK to a net zero economy by reducing emissions by 81% by 2035.¹⁵ Further, the Government published the Clean Power Action Plan in December 2024 to outline and fortify its position.¹⁶ OFW developments will be an instrumental subset to these commitments. However, they can also remove and/or disturb habitats, disrupt food webs, and harm protected species such as seabirds and marine mammals, making it essential to consider the marine environment when expanding deployment capacity.^{17,18}

The UK OFW market has grown exponentially in the last twenty years and now hosts 43% of all European OFW capacity, of which its operational capacity is generated by 45 operating farms comprising 2766 turbines.¹⁹ The UK OFW pipeline remains healthy and continues to grow. However, it has been noted there is still the need for accelerated deployment to meet ambitious 2030 clean energy and 2050 net zero targets.

The Offshore Wind Environmental Improvement Package (OWEIP) was introduced to help deliver a significant expansion in capacity, whilst continuing to protect the marine environment. OWEIP intends to:

- Reform MPA assessments for OFW developments to create more opportunities for compensation.
- Enable measures to compensate for the adverse environmental effects of OFW to be taken at a strategic level across multiple projects (rather than individual project by individual project).
- Set up one or more Marine Recovery Funds (MRFs) to deliver these strategic measures on behalf of developers.
- Develop Offshore Wind Environmental Standards (OWES) to set a minimum common requirement for designing OFW projects to reduce discussion time between applicants and Statutory Nature Conservation Bodies in agreeing suitable mitigation
- Take steps to better manage marine noise from offshore wind developments.

¹² [How Might a Wider Middle East Conflict Affect the Global Economy? - NIESR.](#)

¹³ [Environmental principles policy statement - GOV.UK.](#)

¹⁴ The Trade and Cooperation Agreement between the UK and EU entered into force on 1 May 2021 and “sets out preferential arrangements in areas such as trade in goods and in services, digital trade, intellectual property, public procurement, aviation and road transport, fisheries, energy, social security coordination, law enforcement and judicial cooperation in criminal matters, thematic cooperation, and participation in Union agreements. It is underpinned by provisions ensuring a level playing field and respect for fundamental rights”: [The EU-UK Trade and Cooperation Agreement - European Commission](#), [Trade and Cooperation Agreement between UK and EU – CP 426 \(publishing.service.gov.uk\)](#), and [The UK-EU Trade and Cooperation Agreement: Level playing field - House of Commons Library \(parliament.uk\)](#).

¹⁵ [Prime Minister's National Statement at COP29: 12 November 2024 - GOV.UK.](#)

¹⁶ [Clean Power 2030 Action Plan: A new era of clean electricity – main report - GOV.UK.](#)

¹⁷ [Assessing environmental impacts of OSW farms: lessons learned and recommendations for the future .](#)

¹⁸ [Environmental Impacts and Siting of Wind Projects .](#)

¹⁹ [UK Offshore Wind Report 2023 \(ctfassets.net\).](#)

- Develop a strategic approach to environmental monitoring.

Through the delivery of these measures, Defra will support OFW project developers or plan promoters to avoid, reduce, mitigate, and where necessary compensate for the environmental impacts of OFW, balancing accelerated deployment with environmental objectives.

This Options Assessment considers secondary legislation to set up one or more MRFs to support the achievement of the overarching OWEIP objectives by:

1. Enabling the delivery of wider-scale compensatory measures which are more likely to have a greater environmental benefit, therefore reducing risks to our MPA Network.
2. Providing greater certainty for OFW developers that the measures selected will be suitable for their project's impacts.
3. Accelerating the planning and consenting process by removing the risk and uncertainty associated with agreeing measures.

The proposed operation and delivery model of the MRF will be tested in a consultation in Spring 2025. It will be an opportunity for developers and environmental Non-Governmental Organisations (eNGOs) to view and respond to our proposals for: the MRF application process, the MRF costing models, the discharging of developer's liability for compensation, and the intention for a MRF Operator (MRFO) to provide monitoring, adaptive management, and decommissioning of compensatory measures. Some of the consultation questions seek the perspective of those who will use the MRF, to understand if our proposals are compatible with the planning and consenting system. Other questions will be targeted towards eNGOs and SNCBs to understand if our proposals will reduce planning and consenting timelines without compromising on the government mission to protect the marine environment. The consultation will be essential in gaining the stakeholder perspective and ensuring we are establishing a tool that will benefit the industry, as well as the environment.

Problem Under Consideration

The challenges associated with delivering the Government's ambitions for OFW and the need to appropriately compensate for impacts associated with it has created a barrier to the planning and consenting of OFW projects. According to analysis by Defra's Delivery Unit, 73.2% of the area in English waters leased (or with an option/agreement to lease) for OFW energy development is inside a MPA.

A Habitats Regulations Assessment (HRA) must be carried out to test if an OFW plan or project could significantly harm the designated features of a Special Area of Conservation (SAC) or a Special Protection Area (SPA) (two types of protected marine sites). Where an OFW plan or project is likely to have a significant effect on a SAC or a SPA (either alone or in combination with other plans or projects), and where it is not directly connected with or necessary to the management of the site, an appropriate assessment (which is part of a HRA) is required under the Habitats Regulations.²⁰ Where an OFW activity is capable of affecting (other than insignificantly) the protected features of a Marine Conservation Zone (MCZ) (a third type of protected marine site), or any ecological or geomorphological process on which the conservation of any protected feature of a MCZ is dependent, and the application for the authorisation of which is to be determined by a public authority, a MCZ assessment is required under the Marine and Coastal Access Act 2009.²¹ These assessments consider whether a development could harm protected habitats and species and, if so, how adverse effects can be avoided, reduced, or mitigated.

Under the Habitats Regulations, where a plan or project may have an adverse effect on the integrity of a SAC or SPA, and this cannot be avoided, reduced, or mitigated, the plan or project may still be consented if there are no alternative solutions and it must be carried out for imperative reasons of overriding public interest. Where this happens, the appropriate authority (the SoS or relevant

²⁰ As per regulation 63 of the Conservation of Habitats and Species Regulations 2017 ([The Conservation of Habitats and Species Regulations 2017](#)) and regulation 28 of the Conservation of Offshore Marine Habitats and Species Regulations 2017 ([The Conservation of Offshore Marine Habitats and Species Regulations 2017](#)).

²¹ As per section 126 of the Marine and Coastal Access Act 2009 ([Marine and Coastal Access Act 2009](#)).

Devolved Minister) has a duty under the Habitats Regulations to secure that any necessary compensatory measures are taken to ensure that the overall coherence of the National Site Network is protected. A similar process, which requires the applicant to undertake, or make arrangements for the undertaking of, Measures of Equivalent Environmental Benefit (MEEB), applies where there may be adverse effects on a MCZ. Throughout this options assessment “compensatory measures”, except where the context otherwise indicates, is used to refer to both compensatory measures under the Habitats Regulations, and MEEB under Marine and Coastal Access Act 2009.²²

Currently, compensatory measures are considered on a project-by-project basis. Compensatory measures are relatively untested in the marine environment due to the difficulty in identifying viable measures because of a lack of robust evidence and the dynamic nature of marine ecosystems. This has frequently led to delays to the planning and consenting process whilst packages of compensatory measures are developed and agreed, and this has been identified as a potential source for future delays. Identifying and securing appropriate compensation in the marine environment is challenging; and OFW projects have stalled due to disagreements between developers and SNCBs over evidence of impacts and appropriate environmental compensation. As noted by OFW Champion Tim Pick in his March 2023 report, no OFW farm development application has been approved within the statutory timetable since January 2019.²³

As the ambition for the speed and scale of OFW deployment accelerates, the cumulative adverse environmental impacts of OFW developments on the network of MPAs are becoming increasingly difficult to avoid and mitigate, and so we are likely to see increasing demand for environmental compensation.

Section 291 of the Energy Act 2023 supports the delivery of *strategic* compensatory measures.²⁴ This means developers will be encouraged to deliver broader scale compensatory measures through a collaborative approach across relevant OFW activities. Subsection (5) confirms that compensatory measures may be delivered at the site of the activity to which the measures relate or in a different location. To note, measures that can only be delivered by Government (for example, extending MPAs) may also be used as compensatory measures. Strategic compensation is difficult to implement if compensation remains considered on a project by project basis, since it does not encourage collaborative work between developers and government on OFW. For strategic compensation to work, it would have to expand beyond a project by project consideration.

Evidence to Support the Problem Statement

The DESNZ planning and environment team have identified the following:

- Six projects (10.7 GW) in the planning and consenting system are having difficulties gaining consent due to their impact on seabird species and will need to rely on alternative compensation measures.
- Six consented projects (11 GW) in England that cannot progress to construction as they are unable to discharge their consent conditions around compensation and will therefore be reliant on alternative compensation.
- Another project was paused during pre-examination by the Examining Authority due to poor quality application but also lack of secured compensation (3 GW).

Independent report of the Offshore Wind Champion²⁵

²² Marine and Coastal Access Act 2009.

²³ Independent Report of the Offshore Wind Champion, March 2023.

²⁴ Energy Act 2023.

²⁵ Independent Report of the Offshore Wind Champion, March 2023.

- The independent report of the OFW champion Tim Pick (March 2023) outlines the increasingly frequent occasions where the Planning Inspectorate (PINS) and SNCBs have not been able to agree appropriate compensatory measures. The report describes how, in these cases, additional evidence gathering and scrutiny has been needed by His Majesty's Government (HMG), extending the determination phase of the consenting process. These issues have often been compounded by the parties debating adverse effect throughout the examination process and therefore only aligning on compensation measures late in the Development Consent Order (DCO) process. No OFW DCO application has been approved within the statutory timetable since January 2019.
- The report also found that typical timeframes from the grant of an agreement or award of a seabed lease to the Final Investment Decision (which comes after all required consents are in place and the developer is ready to start construction) has increased from approximately 5 years in the early 2000s, to over 10 years today. Whilst much of this increase can be attributed to private sector impacts, several of the OWEIP measures are targeted towards the pre-application phase of development, with the aim of enhancing the quality of consent applications, providing, for example, more certainty over the adequacy and deliverability of any required compensation measures.
- The report adds that, as the number and complexity of OFW farm applications has increased, resourcing, skills (and funding) of PINS and SNCBs has not kept pace, and digitalisation of the process has been slow, further inhibiting processing speeds. The net result is that timelines from submission of a DCO application to a DCO being granted have ballooned, going significantly beyond the statutory timeframe of 18 months.

Rationale for Intervention

Government intervention is required to address the following market failures:

Information failure

It is particularly challenging to develop effective compensatory measures in the marine environment. Current compensation strategies are largely untested since they include novel approaches and have proven difficult to execute by industry. Private sector developers can be reluctant to share information between each other due to legalities and commercial confidentiality. This means developers may be unsure of what measures are likely to be considered acceptable or lack information or scientific expertise on suitable environmental measures and trustworthy suppliers. Accessing this information can be costly and time consuming. These factors prevent optimal decision making for market participants and lead to an inefficient market for OFW environmental compensation. Government intervention is justified to help correct information barriers and enable OFW to scale sustainably.

Negative externality of production

OFW farms have the potential to damage marine environments and ecosystems, creating negative externalities. When considering impacts at a project-by-project level, developers focus on impacts they have on protected features within the MPA they are in, these are both for their project and 'in combination' with other projects that fall within the MPA. It can be difficult for developers to ensure they are fully compensating for their impacts on the marine environment as compensation strategies in the marine environment are largely untested and include novel approaches. By not considering cumulative impacts on the overall marine ecosystem, there is a risk that developers may underestimate the compensation required. As a result, the appropriate amount of compensation may not be delivered. These impacts could impose costs on society not paid for by developers and may

require the use of more public money by UK Government (UKG) and Devolved Governments to meet duties in relation to MPAs, including maintaining and protecting the damaged sites and/or features. Insufficient compensation can also lead to further delays in the planning and consenting process whilst additional compensation is being secured. Government intervention is needed to internalise this externality. Intervention should ensure OFW developers adequately compensate for environmental damage through the MRF, with adaptive management in place to provide certainty that environmental impacts are fully compensated for. This is increasingly important as it is not possible to just use non-protected marine areas for OFW due to spatial constraints.

Coordination failure

It is difficult for OFW developers to provide the necessary level of environmental compensation due to market fragmentation. The industry must cooperate between themselves and with multiple actors, including SNCBs on appropriate measures, the seabed owners (The Crown Estate [TCE]), and in some cases suppliers needed for the delivery of compensatory measures. This decentralised and fragmented process can result in developers underestimating the required compensation or implementing measures inefficiently. For this reason, government intervention is justified to coordinate and simplify the process of delivering compensatory measures. Streamlining responsibilities of actors through the MRF will enable OFW to deliver environmental compensation in a more efficient way, this could include delivering compensation at a strategic level across multiple projects or developers, which would enable the delivery of measures that would have previously been too large or out-of-scope for an individual developer to implement.

In addition to addressing the above market failures, there is a strong rationale for intervention in order to meet strategic government objectives:

- A timely planning and consenting process is necessary to accelerate OFW projects to achieve the government's Clean Power by 2030 Mission and to meet the UKG's commitments to meet net zero targets and to boost energy security and domestic supply in response to global instability and rising prices.
- The government has committed to balancing energy security needs with sustainable development that protects biodiversity, meaning the marine environment must be protected in the accelerated deployment of OFW.

In addition, strategic compensation can include measures that can only be delivered by Government (e.g. new MPA designations) or which require some Government action (e.g. repurposing redundant infrastructure).

3. SMART objectives for intervention

SMART Policy Objectives

1. Accelerate the deployment of OFW to meet government targets

Provide a centralised mechanism which simplifies the planning and consenting process for government and developers alike, helping to accelerate the planning and consenting of OFW farms to allow them to contribute to the delivery of the Government's Clean Power by 2030 mission. This will be measured with stakeholder feedback and the average planning and consenting time for projects that use the MRF compared to those that deliver project-level measures.

2. Improve Environmental outcomes

Set up a mechanism which ensures that the environmental impacts caused by OFW developments are compensated for effectively, by providing access to the most ecologically beneficial and strategic solutions and contributing to the Government aim of 70% of MPA designated features in England being in 'favourable' condition by 2042, amongst other commitments to protect and recover the marine environment. Environmental outcomes will be measured as part of the implementation and monitoring plans for SCMs.

3. Improve market conditions for OFW developers in terms of consenting options

Create a mechanism that will increase certainty around the securing of compensatory measures and reduce the logistical and administrative burden on OFW developers, saving them time and resource by discharging their liability for environmental compensation. This will simultaneously contribute to the economic growth of the energy sector by helping to accelerate the planning and consenting of OFW farms in UK waters and deliver the Government's Clean Power by 2030 mission.

Indicators of success

If the policy intervention is successful it will lead to:

- An improved experience for developers by simplifying the planning and consenting process (measured by stakeholder feedback);
- Streamlined and reduced timeframes for planning and consenting (proven by data on timelines);
- Positive environmental outcomes by delivering compensation strategically (demonstrated by environmental monitoring);
- Improved energy security, contributing to government commitments on Offshore Wind, 2030 Clean Power Mission, Net Zero, and the environment;
- Support from key stakeholders including Devolved Governments.

4. Description of proposed intervention options and explanation of the logical change process whereby this achieves SMART objectives

Option (Preferred) – Two MRFs: one for England, Wales and Northern Ireland (NI) and one for Scotland

Using the powers granted in the Energy Act, two MRFs would be created: one for England, Wales and NI and one for Scotland. The MRFs would allow developers to discharge their compensation obligation by paying into an MRF, which will deliver compensation using SCMs in the LoSCM. This should save developers time and resource used to secure compensation and simplify the process.

The MRF would be, subject to formal agreement, available for use by Welsh and Northern Irish projects, while the relevant Ministers will contribute to the approval of which measures can be applied in their waters. This option proposes that the UKG will delegate all necessary functions to Scottish Government (SG) to enable them to manage and operate a Scottish MRF (sMRF).²⁶ This is the preference of the SG. Full powers and functions relating to the MRF will be outlined in the SI, with supplementary detail on how to apply to the MRF outlined in guidance. The MRFs will act as an **optional** mechanism that OFW developers can pay into, to discharge a compensation condition imposed on them in connection with granting consent for the development. Both funds will only be

²⁶ For clarity, we have agreed for consultation that we will use 'MRF' for the England, Wales and NI fund and sMRF for the Scottish one.

able to deliver measures that have been pre-approved by the relevant Ministers as suitable and effective compensation.

The two MRFs will be linked to separate approved lists of strategic compensatory measures – a UKG library and a Scottish equivalent. The latter will be established by SG, separate from the UKG's LoSCM. Measures available in the libraries (or equivalent) will be strategic rather than project-specific. They will be measures that can be delivered at scale and/or over extended timeframes, which, without central coordination and/or Government involvement, might not be accessible to individual offshore wind developers. More coordinated and well managed projects will provide compensation that is more ecologically meaningful, this approach is more efficient than considering compensation on a project-by-project basis. Further, this will accelerate the planning and consenting process, as SNCBs, developers, and the consenting authority will not have to undertake detailed consideration of the adequacy of compensation for each individual project (although, as noted below, there will still be consideration of how to provide environmental compensation for individual projects).

The MRFs will be established with the view to being long-term fixtures in the OFW industry. With this, the market will be provided with the following:

- A. An alternative option for delivering compensation for OFW projects, covering a wider scale across UK waters.
- B. Two Funds, to equip respective governments with greater capacity to support industry applicants and, alongside OWEIP, tackle key obstacles to speeding up the planning and consenting process and reducing uncertainty with agreeing measures. This represents the preferred option as it ensures all environmental and shorter planning and consenting time benefits are realised.

In this option, the MRFO of the MRF would also hold responsibility for the compensatory measure (and therefore legal and financial liability) including delivery, maintenance, monitoring, adaption, and decommissioning via the MRF at the point of a developer's complete payment into the MRF, and subject to any further conditions in the consent agreement. SG will hold the same responsibilities when payments are made into the sMRF. This option would allow each MRF to be tailored to the consenting system, environmental landscape, and wider policy of each jurisdiction, which could result in more effective MRFs. It could also strengthen the relationship between UKG and SG, as SG will have autonomy over the sMRF, showing UKG have taken their views and preference into consideration.

Each MRF will deliver a set of pre-approved SCMs from their respective LoSCM, although scope will remain for coordinated delivery of measures across jurisdictions. The MRF will take payment from developers to provide for environmental compensation, allowing relevant environmental obligations on a development project to be discharged once payment to the Fund is made. Developers, SNCBs, and relevant Devolved Ministers will be able to consider how individual projects could be compensated for using these pre-approved compensation measures.

A payment into the MRF will need to be linked to 1) a specific plan-level or project impact and 2) a specific MRF compensatory measure. For example, if a project has an adverse effect on kittiwake, the developer will need to specify which MRF measure their payment is for, and that it is intended to compensate for their project's impact on kittiwake. This means that, for the purposes of the MRF SI, there will be a link between a payment and an impact, and a payment and a measure. This will support the consenting process and allow consent conditions related to compensatory measures to be

discharged. Liability will effectively be transferred from the payor once full payment has been made into the MRF.

After payment, the MRFO will monitor, review, and (where necessary) undertake adaptive management of these measures to ensure the delivery of environmental outcomes. This aligns with the intention of the MRF to provide a mechanism for the 'polluter pays principle' for unavoidable environmental impacts when developing OFW farms. The SI will enable the SoS (or party to whom functions have been delegated) to receive funds from project developers as payment(s) for compensatory measures linked to their activities' specific impact. The developer's likely financial contribution to the MRF should be determined at the pre-application stage. However, the exact charge may need to be amended during the examination process once a final level of impact is determined and agreed.

Energy Act²⁷

The above option would be delivered through secondary legislation, using powers provided by section 292 of the Energy Act. Section 292 gives the Secretary of State the power, by regulations, to make provision for the establishment, operation and management of one or more MRFs. Currently, compensatory measures are usually deployed on a project-by-project basis. Further, Section 291 supports the delivery of SCMs, and these will be delivered via the MRF (see 'Problem under consideration' section for further detail on s.291).

The MRFs will contribute to the Defra Group Mission: to restore and enhance the environment for the next generation, leaving it in a better state than we found it. By design, the MRFs will also contribute to one of the SoS' five priorities to ensure nature's recovery. The MRFs are being implemented to accelerate and de-risk the consenting of OFW, while ensuring that we continue to protect and enhance the marine environment. They will do this by providing a voluntary mechanism for developers to discharge requirements to provide environmental compensation for their projects. Identifying and delivering appropriate compensation in the marine environment is challenging and can cause delays to the planning and consenting process.

The MRFs are aligned to three priority outcomes (POs) across Defra and DESNZ:

- **Improving and protecting the Environment** - Improve the environment through cleaner air and water, minimised waste, and thriving plants and terrestrial and marine wildlife. (Defra PO1)
The MRFs will contribute to ensuring that the marine environment is protected and potentially enhanced through providing the facility to deliver compensation strategically to meet the needs of the OFW sector. The MRFs also support the vision for cleaner air by accelerating the deployment of green energy.
- **Net Zero** - Ensure the UK is on track to meet its Net Zero commitments and support economic growth by significantly speeding up delivery of network infrastructure and domestic energy production. (Defra PO2, DESNZ PO2)
The MRFs will assist the Government in achieving the ambition for OFW by accelerating the deployment of OFW developments through reducing the planning and consenting time for OFW developments.
- **Energy security** - Ensure security of energy supply across the winter seasons to 2030 and beyond – bringing down energy bills and reducing inflation. (DESNZ PO1)

²⁷ Energy Act 2023.

As the MRFs intend to enable the delivery of OFW developments at an accelerated pace this will increase the UK's domestic energy supply of clean energy and reduce the dependency on non-renewable domestic energy as well as energy imports.

Other Fund Interventions

The MRF reflects the UK's role as an industry leader in OFW, particularly in Europe. As such, the Fund represents a groundbreaking intervention that remains largely unmatched globally. However, the MRF can build on the precedent of other funds or similar schemes, and their successes. This applies across different sectors and jurisdictions. For example, Biodiversity Net Gain (BNG) is a UK initiative which requires developers of major developments, nationally significant infrastructure projects (from late November 2025), small sites, and others to deliver a BNG of 10%.²⁸ This means a development will result in more or better quality natural habitat compared to before development began. It differs to the MRF's voluntary approach but strikes similarities in its attempt to use developer money to maintain a certain environmental standard.

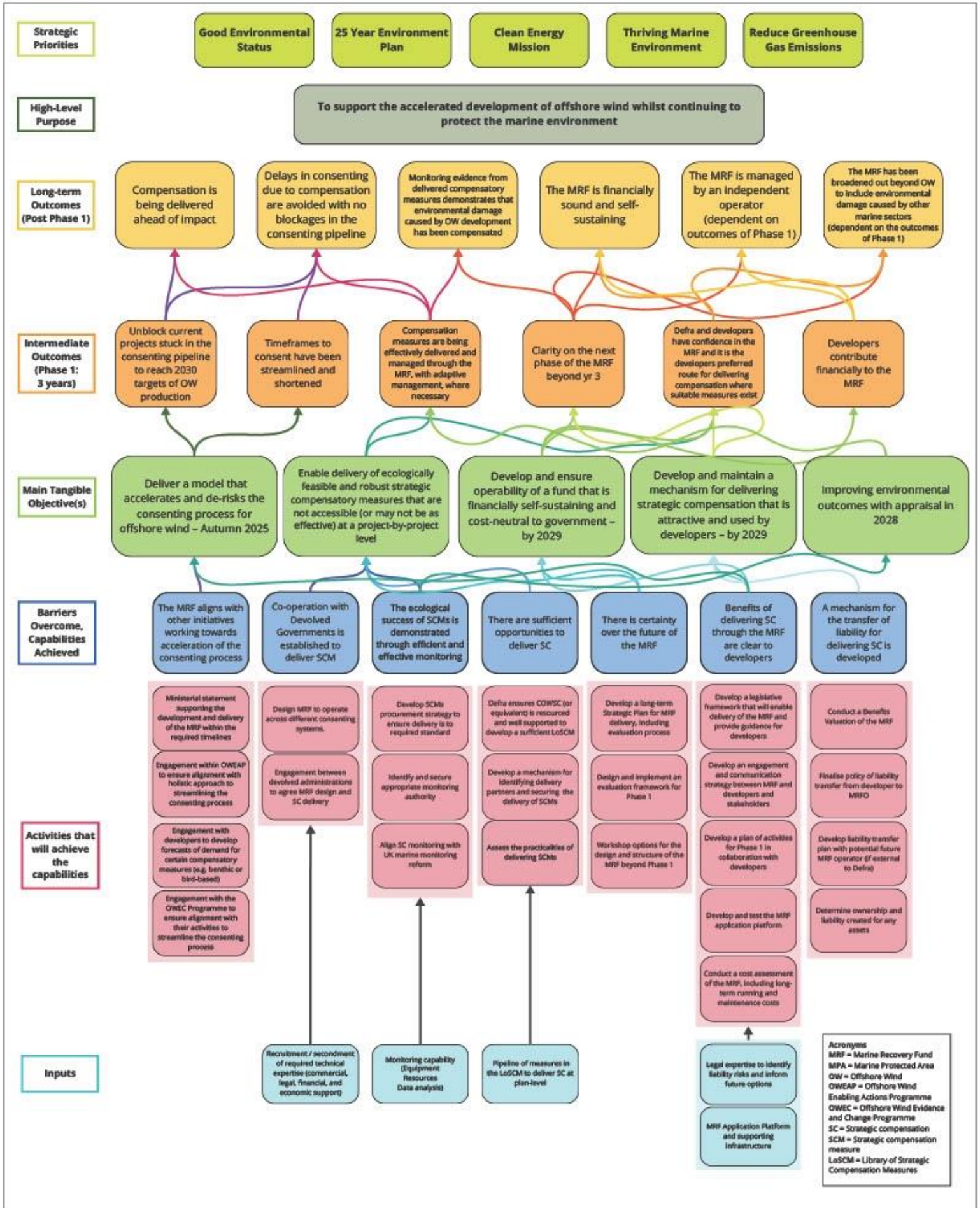
In comparison, Natural England's (NE) Nutrient Mitigation Scheme helps wildlife and boosts access to nature by investing in projects like new and expanded wetlands and woodlands.²⁹ Specifically, NE can accredit mitigation delivered through the Scheme, enabling Local Planning Authorities to grant planning permission for developments with nutrient pollution issues but which have secured the necessary nutrient credits. This ensures developers have a streamlined way to mitigate nutrient pollution, allowing planned building to continue and creating new habitats across the country, and providing for the development of sustainable new homes. This, again, sets a similar sentiment to the MRF by incentivising the use of positive environmental measures in return for an eased planning and consenting, and construction process for potential developments.

*MRF Theory of Change*³⁰

²⁸ [Biodiversity net gain - GOV.UK](#).

²⁹ [Natural England's nutrient mitigation scheme for developers - GOV.UK](#).

³⁰ Please see Annex 1 for an attached PDF version of the Theory of Change.



5. Summary of long-list and alternatives

Long list

- **Option 1: Do nothing**
OFW Developers would need to secure compensation as they do now, usually on an individual plan/project level, conducting their own research into what is most appropriate whilst consulting with SNCBs. The current practice of securing the proposed measure(s) before the DCO was granted by the consenting authority would continue.
- **Option 2: Guidance to developers only (Do minimum)**
The government will provide guidance to developers on the process of securing compensation and approvals. Developers will still need to secure compensation on an individual basis in order for a DCO to be granted. By providing instructions on when and how to determine compensation for their projects, including appropriate examples, government will be providing assistance and clarity to developers that may allow them to expedite the development of their compensation packages.
- **Option 3: Library of Strategic Compensatory Measures (LoSCM) and guidance but no formal MRF**
The government would create a library of approved SCMs that developers can use as compensation supported by guidance on how developers can use the measures. This guidance would comprise instructions akin to option 2 (non-LoSCM measures) and also cover SCMs from the Library. The LoSCM will contain a suite of strategic measures that have been pre-agreed by the technical experts in COWSC and can be used to compensate for developers' OFW projects. This would save time and resource needed to find appropriate SCMs. The risk of a compensatory measure being considered unsuitable during the Examination process would be smaller, as the SCMs in the LoSCM will have been tested with stakeholders and cleared by ministers.
- **Option 4: Voluntary Industry led MRF**
Industry can voluntarily create their own MRF (or similar) to allow them to deliver SCMs. This could save time and resource through economies of scale and sharing of knowledge, without government involvement.
- **Option 5: UK-Wide Marine Recovery Fund (MRF)**
Using the powers granted in the Energy Act, a MRF would be created which would allow developers to discharge their compensation obligations by paying into the MRF, which will deliver compensation using SCMs in the LoSCM. This should save developers time and resource used to secure compensation and simplify the process. In this option, there would be one MRF for all of the UK (England, Scotland, Wales, and NI).
- **Option 6: Two MRFs: one for England, Wales, and Northern Ireland (NI) and one for Scotland**
Using the powers granted in the Energy Act, two MRFs would be created which would allow developers to discharge their compensation obligations by paying into a MRF, which will deliver compensation using SCMs in the LoSCM (or similar). This should save developers the time and resource used to secure compensation and simplify the process. In this option, there would be two MRFs, the MRF would cover projects in England, Wales, and NI, whilst delegating functions to the SG to operate and manage their own sMRF. The MRF and sMRF will use separate non-statutory approved lists of measures.

Critical Success Factors

Critical Success Factors (CSFs) are the attributes that a proposal must have to achieve the successful delivery of its objectives. This OA applies the five standard CSFs in line with Greenbook guidance to assess the options presented. The CSFs are given equal importance. The CSFs are used as part of the long list appraisal to help determine which options should be carried through to the short list.

Critical Success Factor	Description	Measurement Criteria
CSF1 - Strategic Fit and Meets Business Needs	<p>The delivery option should:</p> <p>Essential</p> <ul style="list-style-type: none"> ○ Contribute to the acceleration of planning and consenting times for offshore windfarms. ○ Be deliverable using the regulation making powers provided for in the Energy Act. ○ Be able to suit the consenting requirements of each jurisdiction. ○ Address the targets of the Clean Power by 2030 Mission and support the Government’s mission to radically increase the OFW capacity in UK waters. ○ Support progress towards environmental targets and objectives <p>Favourable:</p> <ul style="list-style-type: none"> ○ Be supported by Devolved Governments 	<p>Red: The option doesn’t meet one or more of the essential criteria.</p> <p>Amber: The option meets all essential criteria, but does not meet favourable criteria.</p> <p>Green: Meets all the criteria in the description.</p>
CSF2 - Potential Value for Money	<p>To provide value for money, the option should be an improvement on the current consenting process (including the process of securing and delivering of compensation) for:</p> <ul style="list-style-type: none"> ○ OFW developers. ○ Government. ○ The environment (by facilitating access to most effective strategic compensation measures). ○ Other key stakeholders (i.e. SNCBs, public, other businesses, Devolved Governments) 	<p>Red: This option is not an improvement on the current state for any of the identified stakeholders.</p> <p>Amber: This option is an improvement on the current state for one or more of the identified stakeholders.</p> <p>Green: This option is an improvement on the current state for all identified stakeholders.</p>
CSF3 - Supplier Capacity and Capability	<p>The delivery option should:</p> <ul style="list-style-type: none"> ○ Be an efficient use of current industry and government resource and expertise. ○ Have flexibility to adapt to changing industry and environmental requirements. 	<p>Red: The option does not meet one or more of the criteria</p> <p>Amber: The option is likely to meet all criteria, but there is some uncertainty around one or more.</p>

	<ul style="list-style-type: none"> ○ Provide sufficient supply of compensation to match the volume and impact of OFW projects. ○ Facilitate the delivery of strategic compensation. 	Green: The option meets all criteria outlined in the description.
CSF4 - Potential Affordability	<p>The delivery option should:</p> <ul style="list-style-type: none"> ○ Be a cost-effective approach (for government). ○ Utilise developers' contributions to fund compensation and is not reliant on government spending (in the short-term government spending on compensation may be required, however in these cases, government is expected to recover costs from developers over the long term, making the delivery of compensation cost-neutral to government). 	<p>Red: Is not a cost-effective approach for government, with the option relying on government funding (beyond the short-term).</p> <p>Amber: Is a cost-effective approach for government, and primarily reliant on developer contributions but may need small amount of government contribution (beyond the short-term).</p> <p>Green: The option is a cost-effective approach for government and relies on developer contributions to cover the full cost of their compensation (in the long-term).</p>
CSF5 - Potential Achievability	<p>The delivery option should:</p> <ul style="list-style-type: none"> ○ Function effectively across the UK to support OFW ambition. ○ Utilise the necessary skills and resources to ensure establishment and functioning in time to contribute to 2030 and 2050 targets. 	<p>Red: This option will not be functional in time to meet government targets and ambitions.</p> <p>Amber: There is uncertainty around whether this would be functional in time to contribute to government targets and ambitions.</p> <p>Green: This option will be functional in time to contribute to government targets and ambitions.</p>

Long list option ratings against CSFs

	Option 1 – Do nothing	Option 2 – Guidance to developers only	Option 3 – LoSCMs and Guidance but no formal MRF	Option 4 – Voluntary Industry led MRF	Option 5 – UK-Wide MRF	Option 6 – Two MRFs: One for England, Wales, and NI, and one for Scotland
CSF01 – Strategic fit and meets business needs						
CSF02 – Potential						

Value for Money						
CSF03 – Supplier capacity and capability						
CSF04 – Potential Affordability						
CSF05 – Potential achievability						
Carried through to short list – Yes/No	Yes (baseline)	No	No	No	Yes	Yes

CSF rating reasoning

Option 1: Do nothing

Red rated CSFs

CSF 01: This option does nothing to accelerate the planning and consenting of offshore windfarms or address the targets of the Clean Energy Mission which are two of the essential criteria for CSF 01 and, to be met, would require practical interventions. It also represents a failure to facilitate environmental progress and match objectives.

CSF 02: The inaction of this option means it would not be an improvement on current process for current industry participants (developers, government, environmental bodies, etc), since there would be no change to the current consenting process.

CSF 03: This option would not facilitate strategic compensation or provide intervention to allow for sufficient supply of compensation.

Amber Rated CSFs

CSF 05: Although this option could be implemented immediately because it would require no changes to the current process, it would not contribute towards the targets and mission outlined in the policy objectives.

Green Rated CSFs

CSF 04: This was green rated for CSF 04 due to it being of no extra cost to government and because it will continue to rely on developer’s contributions to fund compensation.

Option 2: Guidance to developers only (Do Minimum)

Red Rated CSFs

CSF 01: This option would alleviate resource burden on developers seeking to understand the consenting process and could expedite OFW project development. However, guidance alone is unlikely to be sufficient in supporting the government’s mission to radically increase OFW capacity.

CSF 03: This was red rated for CSF 03, because it would not enable strategic compensation, which is essential to achieving our policy objectives.

Amber Rated CSFs

CSF 02: This option would make things clearer for stakeholders. By providing instructions on when and how to determine compensation for their projects, including appropriate examples. Government would be providing assistance and clarity to developers that may allow them to expedite the development of their compensation packages. However, it would not enable the strategic element of compensation which would allow for improvements to the environment.

CSF 05: Although this option would be functional within the time constraints, it is unlikely to have much impact on the UKG targets and ambitions for the Clean Power Mission.

Green Rated CSFs

CSF 04: This option would not require government to fund compensation and would rely entirely on developer's contributions.

Option 3: Library of SCMs and guidance but no formal MRF

Red Rated CSFs

CSF 01: This would alleviate resource burden on developers seeking to understand the consenting process and enable collaboration between developers. However, without a formal platform for collaboration, existing issues around commercial sensitivities and information sharing in the industry remain. Guidance and a LoSCM would not go far enough to support the mission to radically increase OFW capacity.

CSF 03: This was red rated for CSF 03 because without a formal platform for collaboration it is unlikely to improve developers' access to sufficient or strategic compensation and prevents them accessing measures that can only be delivered by Government.

Amber Rated CSFs

CSF 05: Whilst this will likely function in time, there is uncertainty around whether this could provide sufficient intervention to contribute to the ambitious UKG OFW targets and mission.

Green Rated CSFs

CSF 02: This option would be an improvement on the current system for all identified stakeholders, as it would simplify the planning and consenting process, and provide strategic compensatory measures which could benefit the environment.

CSF 04: This was green rated for CSF04 due to it not requiring government to fund compensation and will rely entirely on developer's contributions.

Option 4: Voluntary Industry led MRF*

Red Rated CSFs

CSF 03: There have already been industry discussions to suggest that a voluntary industry led MRF wouldn't enable the delivery strategic compensation due to reasons outlined in the asterisked point for Option 4.

CSF 05: This option would not have access to sufficient resources and would be unlikely to contribute to targets and mission of policy objectives. This is due to the explanation in the asterisked point at the end of this option.

Amber Rated CSFs

CSF 01: This option would contribute to the acceleration of planning and consenting times, and would enable strategic compensation to be delivered through a formal platform, which could support the government's ambition to radically increase OFW capacity. An industry led MRF could be suited to the consenting requirements of each jurisdiction, however this is dependent on who the operator is. Therefore, this option may not be supported by all Devolved Governments.

Green Rated CSFs

CSF02: This option would be an improvement on the current system for all identified stakeholders as it would simplify the planning and consenting process, and provide environmental improvements through SCMs.

CSF 04: This was green rated for CSF04 due to it being of no extra cost to government and will rely on developer's contributions.

*In 2021, the Offshore Wind Industry Council (OWIC) Derogation subgroup explored the creation of an industry led, collaborative shadow fund. The industry led fund faced challenges of resource availability, different compensation priorities, information sharing, and limitations of delivering strategically, in comparison with the SCMs to be delivered by government through the MRF.

Option 5: UK-Wide MRF

Amber Rated CSFs

CSF 01 & 05: This option is unlikely to be favourable with SG, who have expressed a clear preference for a sMRF that can be better tailored to the constitutional, legal, and sectoral environment in Scotland. There is also uncertainty that the limited time between the MRF coming into operation and 2030 may restrict its impact on addressing 2030 targets, however it is likely to meet targets for 2050.

Green Rated CSFs

CSF 02, 03 & 04: This option will be an improvement on the current system for all identified stakeholders, it meets all criteria under the description for supplier capacity and capability, and relies on developers' contributions in the long-term, so will not require government to fund compensation.

Option 6: Two MRFs: one for England, Wales and NI and one for Scotland

Amber Rated CSFs

CSF 05: This was amber rated for CSF05 due to the limited time between the MRF coming into operation and 2030, which may restrict its impact on addressing 2030 targets. This is primarily due to possible differences in the MRFs' use of measures and different consenting systems that may prompt different timelines for opening up OFW pipelines for respective applicants in both Funds. Relative to a single MRF, two MRFs working on different timelines leaves the possibility that one Fund works at a slower pace to meeting operating targets by proposed deadlines.

Green Rated CSFs

CSF 01, 02, 03 & 04: This option meets all the criteria under the description for strategic fit and business needs. This option will be an improvement on the current system for all identified stakeholders, meeting all criteria under the description for supplier capacity and capability, and relies

on developers' contributions in the long term, so will not require government to fund compensation. It will also contribute towards government's environmental targets and objectives.

Options carried through to the short list

Option 1 – Do Nothing

Option 5 – UK-Wide MRF

Option 6 – Two MRFs: one for England, Wales and NI and one for Scotland

Options 2, 3, and 4 have been discounted as they scored red against one or more critical success factors in the long list appraisal. These options would not go far enough in facilitating the delivery of strategic compensation, or in contributing to the government's targets for the radical expansion of OFW.

Option 1 (Do nothing), although has scored red against three CSFs (CSF 1, 2 and 3) has been carried forward to the shortlist to use as a baseline against which the other options will be evaluated.

Consideration of SaMBA and Medium-sized Businesses

Small and Micro Business Assessment

Option 1- Do Nothing

Not relevant to Do Nothing, as there would be no policy change, and therefore no expected resulting impacts on businesses.

Option 5 – UK-Wide MRF

The need to consider whether small (<50 employees) and micro (<10 employees) sized businesses should be exempt from the scope of the policy is negated by the fact that a MRF would be an optional mechanism. Therefore businesses, in this case OFW developers, will not be required to use the MRF if it is not their preferred route to compensating for their projects. Exempting any businesses could put them at a disadvantage compared to their competitors.

The benefits to developers of using a MRF are expected to outweigh the costs, therefore the net impact to developers from using a MRF is expected to be positive. The main cost to business of this policy intervention would be the cost of familiarisation (see analysis section for more information). Familiarisation costs per developer are expected to be less than £2,000 to read and disseminate technical guidance and documentation in this option. It is also possible that these costs are not realised, as the MRF is an optional mechanism, developers do not have to use it, and therefore may not face these costs.

In addition to the above rationale for small and micro businesses to not be exempt, there are no small or micro OFW developers that we are aware of, with the industry generally made up of large multinational companies who are able to finance the upfront costs of developing an OFW farm. The cost for the development and project management activities before an OFW farm is even able to begin construction are estimated to be around £120million³¹ for a 1GW wind farm. In this context, the familiarisation costs of under £2,000 are negligible even if small and micro businesses did exist in this industry.

Option 6 – Two MRFs: one for England, Wales and NI and one for Scotland

Similarly to in Option 5, consideration for whether small (<50 employees) and micro (<10 employees) sized businesses should be exempt from the scope of the policy is negated by the fact that there would be no material benefit to excluding them, as the MRF is an optional mechanism, and developers are not required to use it. The policy intervention is expected to have a net positive impact on businesses and exempting them could put them at a disadvantage.

³¹ [Guide-to-offshore-wind-farm-2019.pdf](#).

The main cost to business of the policy intervention would be the cost of familiarisation. Familiarisation costs per developer are expected to be less than £3,000 in this option, these are the cost associated with reading and disseminating technical guidance. In Option 6, these costs are expected to be slightly higher than those in Option 5, as there would be guidance for each MRF (MRF and sMRF) that developers may want to familiarise themselves with. As stated above for Option 5, there are no small or micro OFW developers we are aware of, and a familiarisation cost of under £3,000 per developer in the context of the costs OFW developers are expected to pay pre-construction (£120million for the development and project management activities before construction for a 1GW farm) are negligible.

Medium Sized Business Assessment (Option 5 and 6)

The rationale for not exempting small and micro businesses from this policy also apply to medium sized businesses (50-499 employees). There would be no benefit to their exclusion, it could put them at a disadvantage, and the cost to business of familiarisation in the context of the upfront costs that businesses pay for the development and project planning activities pre-construction are negligible.

The OFW industry is made up of large multinational companies. Over the consultation period we will seek to produce a more detailed profile of businesses within the OFW industry.

6. Description of shortlisted policy options carried forward

Option 1: Do Nothing

Where an OFW plan or project is likely to have a significant effect on a SAC or a SPA, OFW developers and plan promoters would need to secure compensation as they do now, usually on an individual plan/project level. This would involve conducting their own research into what is most appropriate whilst consulting with SNCBs. Developers will have to provide evidence to the appropriate consenting authority to secure a measure and must incur all costs and responsibility for maintaining and monitoring a measure throughout its lifecycle.

The other two options considered as part of the short list to be assessed against the baseline of Option 1 (Do Nothing) were:

Option 5: UK-Wide MRF

Using the regulation-making powers provided in the Energy Act, a MRF would be created which would allow developers to discharge their compensation obligation by paying into the MRF, which will deliver compensation using SCMs in the LoSCM. This should save developers time and resource used to secure compensation and simplify the process. In this option, there would be a single UK-wide MRF to cover projects in England, Scotland, Wales and NI.

In the current process, applicants must identify and secure appropriate compensation themselves. Due to the novel nature of marine infrastructure and its impact on the environment, sourcing suitable compensation has become a significant source of delays for OFW developers in securing consent. Many compensation measures would benefit from being implemented on a strategic scale. However commercial, competition, and other project management information sensitivities limit opportunities for developers to easily deliver compensatory measures in collaboration with other developers. Developers are also encountering delays post-consent. Having secured their DCO on the condition that they deliver a particular form of compensation, they are struggling to deliver the compensation that is required for them to progress to the next phase of their development.

The MRF will provide developers of offshore windfarms with access to strategic compensatory measures that have been pre-approved as suitable and effective Defra SoS (or, where relevant, by

Devolved Ministers) – with advice from COWSC (including SNCBs) – that they otherwise wouldn't be able to deliver themselves. Pre-approved measures will be published in the non-statutory LOSCM.

The MRF will only be able to supply compensation that is listed in the LoSCM, and the consenting authority (DESNZ SoS/Scottish Ministers for Scottish Waters/Other Relevant Consenting Bodies) would still retain the ultimate decision as to whether proposed compensation is sufficient. The risk of a compensatory measure being considered unsuitable during the Examination process would be smaller, as the measures in the LoSCM will have previously been tested with stakeholders and cleared by the Defra SoS (or, where relevant, by Devolved Ministers). This MRF will be accessible to applicants from all jurisdictions, however projects will still be subject to the consenting system of the jurisdiction in which they are situated. Having one UKG-led MRF that caters to the consenting systems of all jurisdictions could be challenging and is a risk to the overall efficacy of this option to accelerate planning and consenting timelines.

This approach will provide: a) The delivery of wider-scale compensatory measures which are more likely to have a greater environmental benefit (therefore reducing risks to our Marine Protected Area (MPA) network); b) greater certainty for OFW developers that the measures selected will be suitable for their project's impacts, which should assist in a faster planning and consenting process.

Option 6: Two MRFs: one for England, Wales and NI and one for Scotland

Option 6 is described in detail in Section 4. This option would use the regulation-making powers in the Energy Act to establish two MRFs. The first would cover projects in England, Wales, and Northern Ireland, subject to agreement from their Ministers, and the second MRF would cover projects in Scotland.

Preferred Option and Reasoning – Option 6 - Two MRFs

Our preferred option is to use the powers in the Energy Act to establish two MRFs, one for use by projects situated in English, Welsh and Northern Irish waters, and one for SG to operate according to their own consenting system and compensation requirements.

This option is understood to be the most favourable. Above all, it would provide strong environmental benefits and a practical intervention to reach environmental objectives. Further, it eliminates the risks and challenges of a single UK-wide MRF (Option 5), because each MRF could be tailored to the needs of the jurisdictions and consenting systems it would serve, whilst allowing for collaboration and coordinated delivery of measures.

This option has also received general support from all Devolved Governments, fulfilling a critical success factor, and was seen as the only viable option from SG. It is also politically favourable in that it suits the preferences and steers from SG to have the powers delegated to them to operate and manage their own fund according to their requirements and industry. This could strengthen the relationship between UKG and SG, as the latter will have autonomy over the sMRF, showing UKG have taken their views and preference into consideration, and demonstrating its commitment to resetting the relationship with Devolved Governments.

Two MRFs is the option that is most likely to help in achieving all our policy objectives, it will allow us to tackle the industry challenges, whilst strengthening ties with Devolved Governments. This option seems the most effective and efficient use of the powers in Section 292 of the Energy Act 2023, which allows for delegation of functions relating to the operation or management of a MRF to Devolved Governments.

The costs and benefits are largely similar in Options 5 and 6, therefore the primary motivations in determining the preferred option are the political considerations outlined above.

7. Regulatory scorecard for preferred option

Part A: Overall and stakeholder impacts

More detail on each section can be found in the summary of analysis below.

(1) Overall impacts on total welfare		Directional rating
		Note: Below are examples only
Description of overall expected impact	Two MRFs will allow for strategic compensation to best protect the marine environment and will accelerate the expansion of OFW, which will reduce carbon emissions from the UK's production of energy. This creates benefits to society, including improved air quality and helping mitigate climate change. OFW developers will also see a reduction in option fees and reduced planning and consenting period, benefitting businesses and the OFW market in the UK.	Positive Based on all impacts (incl. non-monetised)
Monetised impacts	Total Net Present Social Value (NPSV) is £2.4bn, with a range from £510m to £4.3bn. This large range is derived from the difference in DESNZ capacity forecasts and the high and low carbon values. Reduced option fees are estimated to have a Net Present Value (NPV) of £1.3bn to businesses. These will net off, meaning any reduction in option fees paid by businesses being equal to the reduction in fees received by government. The significant monetised benefits come from carbon savings.	Positive Based on likely £NPSV
Non-monetised impacts	All anticipated significant impacts have been quantified. Relatively insignificant non-monetised impacts include improved government reputation and supporting the UK's energy security. Developers will also see time savings and transfer of liability and risk to government. The innovative approach will increase the UK's international reputation in OFW. As these are relatively insignificant, and are both costs and benefits, they have been rated as neutral.	Neutral
Any significant or adverse distributional impacts?	Yes The only significant distributional impacts will be between businesses and the public sector, with OFW developers paying less option fees and government generating less revenue from option fees as a result. As there are no significant distributional impacts between geographical regions or groups within society, this has been rated as neutral.	Neutral

(2) Expected impacts on businesses		
Description of overall business impact	The policy will have a positive impact on businesses through reducing the amount developers pay in option fees and reducing the planning and consenting period for OFW, and improving the businesses' environment.	Positive
Monetised impacts	Business NPV £1.3bn Equivalent Annual Net Direct Cost to Business (EANDCB): £-76m, of which: Admin costs £0.07m Option fee savings £-76m No passthrough has been calculated on this analysis.	Positive Based on likely business £NPV
Non-monetised impacts	There are no significant non-monetised impacts to businesses. The main impact to business is time savings over the planning and consenting period which is quantified via Option fee savings.	Neutral
Any significant or adverse distributional impacts?	No No significant distributional impacts between business sectors or regions. A MRF would benefit all businesses that choose to use it, regardless of size and location. There will be no transfer between different businesses or industries from this policy as no businesses are expected to be negatively impacted.	Neutral

(3) Expected impacts on households		
Description of overall household impact	There are no anticipated direct impacts on households.	Neutral
Monetised impacts	There are no anticipated direct impacts on households.	Neutral Based on likely household £NPV
Non-monetised impacts	There are no anticipated direct impacts on households. There is a possibility that businesses will pass on the reduction in option fees to households in the form of lower electricity prices, but there is too much uncertainty to estimate this, it may not happen and the impact on electricity prices from this individual policy alone is likely to be insignificant. For these reasons non-monetised impacts have been rated as neutral.	Neutral
Any significant or adverse distributional impacts?	No There are no anticipated direct impacts on households.	Neutral

Part B: Impacts on wider government priorities

Category	Description of impact	Directional rating
<p>Business environment: Does the measure impact on the ease of doing business in the UK?</p>	<p>The policy is expected to improve the business environment for OFW developers in the UK. It will reduce the option fees developers have to pay, reducing a barrier to entry in the market by reducing the upfront investment required to develop OFW. It will also reduce the planning and consenting period for OFW, further improving the business environment by reducing the time between the start of OFW development and the first revenues that developers will receive</p>	<p>Supports</p>
<p>International Considerations: Does the measure support international trade and investment?</p>	<p>In 2022 the UK imported 37% of energy consumed.³² This policy will accelerate the expansion of OFW in the UK, reducing the amount of energy the UK needs to import. Great Britain's practical offshore wind potential exceeds its estimated final energy consumption in 2050. This policy will help the UK expand its offshore wind energy production above domestic demand, which it can then export.</p> <p>By improving the business environment for OFW developers, this policy will make OFW more attractive to foreign investors, encouraging them to choose UK developments.</p>	<p>Supports</p>
<p>Natural capital and Decarbonisation: Does the measure support commitments to improve the environment and decarbonise?</p>	<p>Reduced greenhouse gas emissions from this policy have been estimated at between £510m and £4.3bn over the appraisal period, by accelerating the expansion of offshore wind. This large range accounts for the variation in DESNZ OFW capacity forecasts between different scenarios, and the range in carbon values.</p>	<p>Supports</p>

³² [DUKES 2023 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk).

8. Monitoring and evaluation of preferred option

A post implementation review will be undertaken by 01/01/2032. This will be six years since the beginning of MRF becoming operational. This allows sufficient time to evaluate numerous factors, including:

- Whether strategic measures are being delivered as a result of the MRF, and the environmental outcomes of these.
- Whether the MRF has been a successful policy intervention, and if any adjustments are required carrying forward.
- Whether the MRF has contributed towards the UKG's 2030 OFW targets in the Clean Power by 2030 Mission.
- An evaluation of the MRF against its critical success factors and SMART objectives.
- An assessment on whether expected costs and benefits were realised and understand any deviations.
- An evaluation of the performance of the MRFOs, including how accessible the MRF(s) are, their uptake, and how well they have delivered SCMs to meet Government targets and objectives.

We have proposed a six-year review for the first Post Implementation Review (PIR) to be done by 01/01/2032 to allow us to measure outcomes against the 2030 OFW targets. This will mean we can assess how much the policy intervention has contributed towards the targets, which is one of our primary objectives. If we were to conduct a PIR on the standard five-year review, we would not have enough time to collect the necessary data and analyse it to be able to provide a view as to whether the legislation has delivered against its objectives. Subsequent PIRs, however, would follow the standard five-year cycle after our six-year initial review.

Commercial sensitivities have led to a lack of information sharing between developers. This, in turn, has limited the availability and transparency of current data. Nonetheless, existing monitoring data on the use of compensation measures will continue to be utilised when reviewing and targeting the success of the MRF. For example, the Offshore Wind Enabling Actions Programme (OWEAP), which is the Defra team that actions OWEIP, undertakes evaluations to consider the benefits, costs, wider impacts, and reflections from implementing policies in the OWEIP package. MRF reputational and performance targets will be enveloped in future reports and tested against OWEAP benefits realisation reports. Within this report, it is outlined that the MRF's targets can be assessed against the following metrics:

1. Track the number of plans/projects choosing to utilise the MRF to discharge compensation consent conditions.
2. Measure the length of the planning and consenting period for those using the MRF compared to those that do not.
3. Compare the process of plan promoters/project developers using the MRF vs. those not using it. This can be used to help determine which process is least resource intensive.
4. Assess the estimated revenue from the additional capacity of OFW brought forward that can be attributed to the MRF.
5. Measure carbon savings based on capacity (GW) delivered via projects utilising the MRF.
6. In assessing energy security and costs, look at data trends for cost of energy and price volatility of energy. If applicable, also assess impacts of global shocks on cost/volatility.

Whilst we will attempt to quantify the metrics above, it will also be important to recognise any qualitative factors that may impact the results. For example, the first users of the MRF may experience longer planning and consenting periods than those that come later on as they may have waited for the MRF to become operational to discharge their compensation obligations. Therefore, metrics will be accompanied by assumptions, caveats and key considerations. The longer the MRF is operational, the more reliable the metrics will become.

SNCBs, as advisors to developers producing compensation plans for their OFW projects, have worked as industry checks against developers intending to implement ecologically ineffective or undeliverable measures. SNCB roles will continue in this capacity, as well as continuing to be important sources of monitoring data. We will utilise our consultation in Spring 2025 to identify further sources and methods for extracting data (i.e. baselining to assess impacts). This will be done with social researchers, potentially in collaboration with an external body.

To meet its objectives, a review will consider various challenges and the extent to which they have affected performance of the MRF. These include:

- MRF uptake. The MRF will be voluntary and, therefore, difficult to estimate demand.
- The pipeline and capacity of measures available.
- Availability of further suitable measures from the LoSCM.

Whilst the aforementioned will be reviewed after six years, we recognise that the UK OFW industry is moving rapidly. If there is low uptake and/or lower than expected appetite for the MRF, review may come earlier. The same applies if finances or the operator are not allowing the MRF to remain functional. During the third year of operation, the MRF will be subject to a separate review and the Defra SoS will take a decision on a future, longer-term operator. Officials within Defra will be operating the day-to-day functions of the MRF, on behalf of the Defra SoS, for this initial 'incubation' period of three years.

For household and business impacts, we are working on the assumption that the MRF will be a net benefit (see analysis section for more detail). The MRF is an optional mechanism, and businesses choosing to use the MRF recognise the expected benefits. The household impacts as a result of the MRF are expected to be minimal, in the analysis section we outline potential household impacts as a result of OFW as a whole. For the final impact assessment, we will attempt to quantify household impacts by assessing the impact renewable energy – in particular offshore wind energy – can have on household energy bills. We will be seeking clarification during consultation for the potential impacts of the MRF and if they align with our analysis. This will enable us to capture relevant impacts and understand if there are changes/provisions that need to be made.

9. Minimising administrative and compliance costs for preferred option

Use of the MRF is voluntary and, as such, this negates any regulatory and administrative imposition on businesses and people which may come from a mandatory mechanism. Further, the MRF is built with the purpose of reducing planning and consenting burdens for developers. Its broader aims are enveloped in stripping away current administrative and resourcing requirements for OFW developers who must formulate compensation plans before they can apply for project consent.

Where there are inherent burdens for developers seeking to apply to the MRF, such as providing relevant documents to signal intent and eligibility to use the Fund, the MRF application process is intended to have a minimalist approach to volumes of expected documentation. To streamline the process further, the preferred option will include guidance for applicants which demonstrates the full application lifecycle when using the MRF and steps them through the process as a time saving method.

In addition, much of the application process will follow current industry practices and will include regular discussion with relevant stakeholders. This allows for familiarity with current industry practices to maintain a strong presence in OFW, thus making the introduction of a MRF a smoother transition to the market. SNCBs will also continue to work as vital advisory bodies in the industry, assisting prospective applicants on the appropriate measures to pursue via the MRF, prior to application. Since the MRF will encompass monitoring, adaptive management, and decommissioning of measures, in contrast to current industry practice where developers undertake these duties, the Fund not only pre-empts possible additional reporting requirements, it offers the opportunity for developers to discharge all related responsibilities.

Declaration

Department:

Contact details for enquiries:

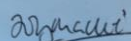
Jak Allen (Policy Advisor) – Jak.Allen@defra.gov.uk

Helen Lee (Economist) – Helen.Lee@defra.gov.uk

Director responsible:

I have read the Options Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed:



Date:

Summary: Analysis and evidence

Price base year: 2024

PV base year: 2024

	Option 1 - Do Nothing (baseline)	Option 5- One MRF	Option 6- Two MRFs (preferred)
Net present social value (with brief description, including ranges, of individual costs and benefits)	£0	NPSV = £2.4bn The benefits are derived from carbon savings, with a range of £510m to £4.3bn. This large range is derived from the difference in DESNZ capacity forecasts and the high and low carbon values. Changes to option fees will net off.	NPSV = £2.4bn Same costs and benefits as option 5 but with an additional £0.05m increase in familiarisation costs.
Public sector financial costs (with brief description, including ranges)	£0	£0 No additional public sector financial costs are anticipated.	£0 No additional public sector financial costs are anticipated.
Significant un-quantified benefits and costs (description, with scale where possible)	None	There are no significant un-quantified costs. The most significant un-quantified benefits are the improvement in government reputation from facilitating an increase in offshore wind and the associated benefits to the UK's energy security.	Same as option 5.

Key risks (and risk costs, and optimism bias, where relevant)	Risk that developers continue using the current planning and consenting process without sufficient compensation available. This will slow down planning and consenting for offshore wind and may result in sub-optimal compensation being delivered.	Optimism bias has been included in all analysis, in line with green book supplementary guidance. Having one MRF may not consider the specific needs of different administrations, creating a less effective MRF.	Optimism bias has been included in all analysis, in line with green book supplementary guidance. Having two MRFs may lead to inconsistencies between different administrations.
Results of sensitivity analysis	...	To be developed further for the final IA. Ranges have been calculated for the significant impacts of option fees and carbon savings. Realising the maximum costs and minimum benefits would still create a positive and significant NPSV.	To be developed further for the final IA. Ranges have been calculated for the significant impacts of option fees and carbon savings. Realising the maximum costs and minimum benefits would still create a positive and significant NPSV.

Baseline (Do nothing – Option 1)

‘Do Nothing’ is used as a baseline to assess the impacts of Option 5 and Option 6 and has no expected costs or benefits.

Monetised Impacts

The monetised costs and benefits for Options 5 and 6 are shown in comparison to the baseline of ‘Do Nothing’ (Option 1). The Data and Assumptions table at the end of the section summarises the data and assumptions of the analysis.

Option 5 – One MRF

Costs

To Government - Option fee revenue loss (Transfer from Government/TCE to OFW developers) - £1.3bn

Option fees, (please see Monetised Benefits for more information) are payments from the OFW industry to TCE to secure seabed rights for development. By shortening the planning and consenting period, the MRF will reduce the amount of time industry has to pay the option fees. However, as the public sector is the recipient of the fee, this does mean less revenue for Government. Option fees are therefore considered a transfer from government to industry.

To business - Familiarisation - £0.07m

Familiarisation costs of the MRF to industry would be the cost of understanding and disseminating information throughout the business by reading technical guidance. This will include familiarisation with the Statutory Instrument (SI), statutory guidance, Expression of Interest forms and any other associated documentation. The familiarisation cost is expected to be a one-off cost to industry, calculated using the following formula:

$$\text{Number of employees affected} \times \text{time taken to familiarise} \times \text{wage} \times \text{non-wage uplift}$$

This gives a cost of familiarisation of £0.07m to industry in 2024 prices and present value.

Benefits

Time savings

The current planning and consenting period for OFW developments is estimated to be between 5 and 7.5 years (Defra policy assumption). This is from when a developer becomes the preferred bidder following TCE's leasing process, up until construction of the OFW farm begins. The policies within OWEIP are collectively expected to save time over the planning and consenting period through simplifying and standardising the design and assessment of OFW developments, expanding the range of compensation available, and allowing for compensation to be delivered strategically across multiple OFW projects. Collectively, the policies within OWEIP could shorten the planning and consenting process by 1-2 years.

Time savings from OWEIP rely on all the policies working in conjunction with each other, with each one dependent on the others to maximise effectiveness. The OFW industry is expected to grow exponentially in the decades to come in order to contribute towards OFW and Net Zero targets; this, as well as the novel nature of compensation in the marine environment mean the future is highly uncertain. This makes determining each policy's contribution to time savings over the planning and consenting process very difficult.

For the purpose of this analysis we have assumed that the Marine Recovery Fund (MRF) is responsible for 40% of the time savings from OWEIP, Environmental Assessment Reforms (EAR) for 30%, and Offshore Wind Environmental Standards (OWES) for 30%. This split is our current best estimate based on our understanding of industry needs, future OFW pipelines and expected compliance/uptake.

There are a range of factors that could impact the time savings from OWEIP, which include but are not limited to: the pipeline of compensatory measures available, uptake of the MRF, compliance with OWES and future policy development.

Time savings quantified via Option fee savings to industry and carbon savings.

To society - Carbon Savings (indirect benefit) - £2.4bn

A shorter planning and consenting period, and quicker rollout of OFW, will mean a quicker move to renewable energy sources. Carbon savings will only occur once an OFW development is operational, and the energy generated from OFW is able to replace its alternative. Construction of OFW developments is estimated to take 2 years, therefore the earliest we expect to see any carbon savings as a result of this policy intervention would be in the year 2028. This would be after the SI is laid, the MRF is operational (2025), and the construction is complete (2026-2027).

The carbon savings are estimated by comparing the CO₂ emissions from OFW with the carbon intensity of the grid for the increased OFW capacity as a result of this policy, and valuing this with Carbon Values from the Green Book supplementary guidance.

To business - Option fees savings (Transfer from Government to Industry) £1.3bn

Over the planning and consenting period, developers must pay Option Fees to TCE to reserve their area in the seabed, this is paid annually until construction begins. In leasing round 4, average annual option fees were £110m per GW³³. The current length of the planning and consenting process is estimated to be between 5 and 7.5 years (Defra policy assumption), with OWEIP expected to save anywhere between 1-2 years in the planning and consenting process. Of this, the MRF(s) are expected to account for around 40% of the time savings from OWEIP. Developers paying

³³ <https://www.thecrownestate.co.uk/media/3920/round-4-tender-outcome-dashboard.pdf>

option fees over a shorter time period as a result of the MRF is estimated to save them £1.3bn (of a total £3.2bn from OWEIP as a whole), in 2024 prices and present value. This includes an optimism bias of 43.2% in line with Green Book supplementary guidance.

Option fees are paid by developers to TCE, therefore option fee savings to developers are equal in value to the reduction in revenue generated by TCE from option fee payments. 100% of TCE's net revenue profit is paid to HM Treasury (HMT) to then be used to fund the Sovereign Grant and to contribute towards HMT spending. Therefore, option fees are considered to be a transfer from government to industry and have no impact on the Net Present Social Value.

Option 6 – Two MRFs

Costs

To Government - Option fee revenue loss (Transfer from Government/TCE to OFW developers) - £1.3bn

The option fee revenue loss for TCE/Government is expected to be the same in Option 6 as Option 5. This is because we assume there is no difference in time savings between the two options, please see the benefits section below for more detail.

To business - Familiarisation - £0.12m

Familiarisation costs are expected to be higher in Option 6 compared to Option 5. With two MRFs, we assume that there could be slight differences in guidance, Expression of Interest forms and other documents for each MRF, resulting in the need for developers to potentially familiarise themselves with both sets of documentation for each of the MRFs. This could lead to an additional cost to business of £0.05m, and an overall familiarisation cost of £0.12m.

Benefits

Time savings

Time savings in Option 6 are expected to be the same as those in Option 5. By having two MRFs, there is a risk that an inconsistent approach across the whole of the UK could result in less time savings, however, there is also the possibility that a second MRF tailored specifically to Scotland's needs could be more efficient and therefore lead to greater time savings. As the likelihood of either scenario is unclear, we assume that time savings are the same in both Option 5 and 6.

To business - Option fees savings (Transfer from Government to Industry) - £1.3bn

As time savings are the same in Options 5 and 6, Option fee savings to business are also assumed to be the same in both options.

To society - Carbon Savings (indirect benefit) - £2.4bn

As time savings are the same in Options 5 and 6, carbon savings are also assumed to be the same in both options.

Data and Assumptions

Description	Assumption	Source
<p>Appraisal Period 2025 - 2050</p>	<p>The standard appraisal period of 10 years would not effectively capture the impacts of the policy as environmental impacts can take a longer time to materialise, and there is a lag before we see some of the impacts from this policy. The policy is designed to accelerate the expansion of offshore wind to help the UK reach its net zero target by 2050, therefore we have used a 25-year appraisal period which runs until 2050. Although we have used a 25-year appraisal period, impacts are expected to continue after this period.</p>	<p>N/A</p>
<p>Time savings from the MRF 0.4 – 0.8 year</p> <p>Used in calculating value of option fees and carbon savings.</p>	<p>Plannign and consenting period for OFW developments between 5 and 7.5 years.</p> <p>Time savings from OWEIP of 1-2 years</p> <p>The time savings estimate of OWEIP is a conservative estimate, with the range capturing the potential cumulative effectiveness of all policies in reducing the planning and consenting time for OFW developments.</p> <p>Time savings from the MRF ~ 40% of the savings from OWEIP</p> <p>For the MRF, the range of 0.4 – 0.8 years' time savings is underpinned by policy assumptions on factors such as: the LoSCMs, the efficiency of the MRF and MRF uptake. The lower</p>	<p>Defra policy assumption</p> <p>We held a workshop between economists and policy advisors working on OWEIP to determine how long the planning and consenting process is, and how much time OWEIP could reduce this by. Assumptions were based on timeframes published by other sources, case studies, stakeholder feedback and policy expertise. The initial expectation was that OWEIP could reduce planning and consenting times by 2-3 years,</p>

	bound estimate shows the 'worst case' scenario for time savings from the MRF.	however we have used 1-2 years to account for optimism bias.
<p>Familiarisation - £0.07 -0.12m</p> <p>Includes 19.68% optimism bias in line with Greenbook guidance.</p>	<p>Developers need to familiarise themselves with:</p> <p>Option 5:</p> <ul style="list-style-type: none"> • Expression of Interest Form (5 pages) • Statutory Instrument (50 pages) • Statutory Guidance and (50 pages) • Other relevant documents (50 pages) <p>Option 6:</p> <ul style="list-style-type: none"> • Expression of Interest Form (10 pages) • Statutory Instrument (50 pages) • Statutory Guidance and (100 pages) • Other relevant documents (100 pages) <p>Each page estimated to have ~500 words</p> <p>Technical reading central estimate (words per minute) = 75 words</p> <p>Salary (Average salary of 3 relevant professions; between legal and management) - £44,703</p> <p>Hourly wage (assuming 8-hour workday) - £21.49 per hour</p>	<p>Pages - policy estimate</p> <p>Technical reading – govt guidance</p> <p>Wage – Office for National Statistics</p>

	<p>Non-Wage uplift – 1.22</p> <p>No of staff to be familiarise (central) – 3 per development</p> <p>No of OFW firms in UK - 44</p>	<p>Wage uplift – Regulatory Policy Committee guidance</p>
<p>Carbon savings - £2.4bn</p> <p>Includes 43.2% optimism bias in line with Greenbook guidance.</p>	<p>Offshore wind rollout follows DESNZ capacity forecast.</p> <p>OWEIP could reduce planning and consenting by 1 to 2 years and 40% of these time savings are attributed to MRF.</p> <p>Energy intensity of the UK grid is 0.085kgCO₂e/kWH on average</p> <p>2025 Carbon values in 2022 prices - £137 to £410 per tonne of CO₂</p>	<p>DESNZ estimates</p> <p>Policy expertise using a conservative estimate</p> <p>International Energy Agency</p> <p>Gov.UK valuation of greenhouse gas emissions</p>
<p>Option fees - £1.3bn</p> <p>Includes 43.2% optimism bias in line with Greenbook guidance.</p>	<p>OFW rollout follows DESNZ capacity forecast.</p> <p>OWEIP could reduce planning and consenting by 1 to 2 years and 40% of these time savings are attributed to MRF.</p>	<p>DESNZ estimates</p> <p>Policy expertise using a conservative estimate</p>

	<p>All option fees are paid according to the calendar year.</p> <p>Option fees, based upon average annual leasing round 4 option fees, in 2023 prices - £110m per GW.</p>	<p>Simplifying assumption made by economists with minimal impact on quantification</p> <p>TCE leasing round 4 tender process outcome</p>
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Non-Monetised Impacts

The non-monetised costs and benefits for Options 5 and 6 are shown in comparison to the baseline of 'Do Nothing' (Option 1). These are impacts that we have not been able to quantify. The non-monetised impacts for both options are expected to be the similar, therefore they have been presented together in this section.

Option 5 and 6 – One MRF or Two MRFs

Costs

To Government - Monitoring and Evaluation for OWEIP

The Defra policy measures under the OWEIP will need to be monitored and evaluated. This would involve a cost to Government, and possibly industry if the cost is passed on, in time and resources to ensure it is carried out to an appropriate standard.

To business - Using the MRF

The MRF is intended to be self-financing, with the charge to developers for using the MRF covering the delivery of compensation, administrative costs for operating the MRF and a risk premium to cover the cost of adaptive management.

There are no expected additional costs to developers for using the MRF in comparison to delivering compensation on their own. In the 'Do Nothing' option, developers would have their own administrative costs, costs of finding and agreeing compensation, adaptive management and decommissioning.

The MRF is not expected to increase the cost of compensation to developers but instead is assumed to lead to more ecologically beneficial outcomes as compensation will be considered on a more strategic level rather than a project-by-project level. This will have better consideration for the overall marine ecosystem and mean compensatory measures that were previously out of scope for individual developers will be deliverable using through the MRF.

Benefits

To Government - Reputational/Meeting Targets

A MRF will help enable government to meet Clean Power by 2030 mission, contribute towards 2050 Net Zero Targets, and ensure the environment is protected to align with the government's environmental commitments. It will show the government is taking action to address issues raised by the OFW industry, who are in favour of government intervention through OWEIP, which includes the creation of one or more MRFs. An MRF would also ensure an aligned approach across government to compensation (where compensation in the LoSCMs will have been approved by Defra, SoS will provide assurance to the DESNZ SoS that compensation is appropriate), and the objective for a Britain to become a 'clean energy superpower'.

To Business - Simplified Process

An MRF would simplify the planning and consenting process for developers. Rather than investing time and funds into finding suitable compensatory measures (which often includes consulting with scientists, SNCBs, and other environmental stakeholders), gaining approval for these from the Consenting Authority, and delivering compensation, developers would be able to discharge these actions to the MRF. The MRF will only use measures from the LoSCMs, therefore reducing the risk that measures would not be suitable and be rejected by the Consenting Authority. The MRF is intended to be an optional mechanism, therefore, developers would still be able to find and deliver their own compensation if they wanted to, or if there was no suitable compensation in the LoSCM.

To Business - Transfer of liability and risk

OFW developers needing to compensate for their projects, will be able to transfer this responsibility to the MRF after paying into it. This means that the delivery, monitoring, adaptive management and decommissioning of compensatory measures will be done via the MRF. By transferring responsibility to the MRFO, developers have certainty over the cost profile of their compensation in an area that is novel and lacks evidence and therefore highly uncertain.

To Business - Time savings: Increased revenue from faster rollout of OFW

By simplifying and streamlining the planning and consenting process, OWEIP is expected to deliver time savings over the planning and consenting period. A shorter planning and consenting period would mean that OFW developments can be constructed and operational quicker. This will allow developers to start generating revenue from the production and sale of OFW energy at an earlier date than they otherwise might have been able to.

To Society - Environment/other

A MRF delivering compensation from the LoSCMs is expected to have greater benefits to the marine environment, as SCMs will go through a rigorous approval process, which includes a strategic element to ensure measures are delivered that benefit the Marine Protected Area network. Thinking on a larger scale will allow for impacts to be considered across projects with consideration of the whole marine network and how best to improve environmental conditions. Overall, the environmental outcomes are expected to be better using an MRF than they would be if projects continued to secure project-level compensation.

To Society - Energy security/Cost of energy

The MRF will contribute towards an accelerated rollout of OFW, increasing the capacity generated more quickly than in the 'Do nothing' scenario. By contributing to the increase in domestic energy supply, this will support the move to greater energy security where the UK is less dependent on importing energy, and therefore less susceptible to impacts from global energy supply shocks. A more reliable energy system will ensure higher levels of price stability. Renewable energy production is also generally cheaper than fossil fuels, especially over longer time periods.

Household Impacts

UK households will benefit from an increased and accelerated deployment of OFW. This includes cheaper and less volatile energy prices, safer air quality, and reduced climate change related risks.

Within the UK, energy prices in recent years have soared, leading to an "energy crisis". In 2022, the average British household faced their energy bills increasing by 54% in April and by 27% in October.³⁴ A recent analysis by Aurora Energy Research for RenewableUK found households could save

³⁴ [Domestic energy prices - House of Commons Library \(parliament.uk\)](#)

approximately £68 a year by 2035 with an electricity system dominated by OFW.³⁵ Affordable energy comes through the creation a home grown, secure energy sector. In general, the move towards renewable energy is cheaper for billpayers in the long term.

Savings from option fees means OFW developers face lower costs. This saving could be passed onto the consumer in the form of lower prices, representing a benefit to households.

This policy will contribute towards an accelerated rollout of OFW, which in turn reduces emissions that lower air quality and mitigates and reduces the negative impacts from climate change, all of which impact households.

The policy proposed is likely to increase energy equality. Speeding up the move towards OFW means more affordable energy prices, safer air quality, and improved employment opportunities in coastal communities.

Defra sent a Request for Information (RFI) to stakeholders in 2023 to gather feedback on proposed operating models of a MRF(s) and the possible impacts. From the RFI, stakeholders within the industry indicated that if costs for compensation go up, then these costs will likely be passed on to energy consumers. On the other hand, if developers experience cost savings from using the MRF, they could also pass these savings on to consumers. The MRF is not expected to change the cost of compensation, however, so neither of these impacts could materialise. Responses from the RFI indicated that a healthier marine environment as a result of government intervention with the MRF could have local economic benefits for coastal communities.

OFW development, whilst generally supported by the public, does raise some concerns regarding impacts of construction and development on transport routes and the potential displacement of other marine activities. Whilst the OFW capacity is expected to grow in the 'Do Nothing' option, the accelerated rollout of OFW could emphasise these concerns in the short term.

Wider impacts

The policy options proposed through the OWEIP are not predicted to lead to any direct wider impact. However, they will hopefully contribute towards an accelerated and increased development of OFW. Therefore, leading to several indirect impacts.

Trade

The indirect impacts on trade and investment can be broken down into two main areas: net imports/exports of energy and increased demand for materials.

Currently, the UK is reliant on imports of oil, gas and coal to sustain its demands for energy. In 2022, the UK imported 37% of its overall total energy consumed.³⁶ Over 90% of energy imports are made up from oil and gas.³⁷ An increased deployment of OFW would decrease the UK's need for gas

³⁵ [Public support for cross-party consensus on renewables - offshore wind is best value for billpayers.](#)

³⁶ [DUKES 2023 \(publishing.service.gov.uk\).](#)

³⁷ [DUKES 2024 Chapter 1 \(publishing.service.gov.uk\).](#)

and oil imports. A study undertaken by Oxford university found that the UK is able to reach an energy self-sufficient future, as the practical potential for wind and solar energy in Britain (2,896 TWh/year) far exceeds the maximum estimated final energy consumption of Great Britain in 2050 (1,500 TWh).³⁸ The UK could then export its excess electricity to Europe using interconnectors.

Much of the supply chain for OFW in the UK comes from abroad. While blades are made in Britain, the country relies on imports from the EU for towers, turbines and nacelles.³⁹

While the UK will need more materials to expand its production of OFW, some of this increase could be met by greater production from UK suppliers, creating an uncertain impact on trade. Growing the UK's supply chain for OFW could capture £92 billion of Gross Value Added (GVA) to boost the UK's economy by 2040, according to a report by OWIC and the Offshore Wind Growth Partnership (OWGP).⁴⁰

Business Environment

The UK is the second largest OFW market in the world.⁴¹ This is due to government support for OFW investment, as well as the UK's natural geographical advantages. The UK continues to drive investment and innovation in its thriving OFW sector through its world-leading ambition and deployment of new technologies.⁴² By reducing planning and consenting timelines, investors will receive revenues from OFW earlier, increasing profitability. This increases the attractiveness of the OFW business environment and may increase international investment, which will increase economic growth and employment. Each new large OFW farm is estimated to add £2-3bn to the economy.⁴³

Stakeholder feedback from a Request for Information (RFI) carried out in November 2023, indicated that an MRF would improve investor confidence, potentially unlocking millions of pounds of investment in the UK economy and create skilled 'green jobs'. The MRF also has the potential to strengthen the industry by supporting smaller developers to deliver compensation.

Distributional Impacts

³⁸ [Could-Britains-energy-demand-be-met-entirely-by-wind-and-solar.pdf \(ox.ac.uk\)](#).

³⁹ ['It's just harder work': Wind-turbine makers adapt to UK's post-Brexit realities | S&P Global Market Intelligence \(spglobal.com\)](#).

⁴⁰ [Supply-Chain-Capability-Analysis_092023.pdf \(owgp.org.uk\)](#).

⁴¹ [Offshore wind - great.gov.uk international](#).

⁴² [Offshore wind - great.gov.uk international](#).

⁴³ [Offshore wind industry unveils Industrial Growth Plan to create jobs, tripling supply chain manufacturing and boosting UK economy by £25 billion | The Crown Estate](#).

Fuel poverty refers to households that are forced to spend a high proportion of their total income on energy bills. The charity National Energy Action estimated that 6 million households in the UK were in fuel poverty in 2024.⁴⁴ One of the main aims of green energy and OFW is to provide affordable energy at stable prices. Therefore, the policy suggested will likely benefit low-income households in particular in the long term.

Furthermore, air pollution disproportionately impacts people of low-income households and of ethnic minorities.⁴⁵ A clear example of environmental injustice. This policy will accelerate the movement towards a clean air future, particularly helping those in lower income urban areas.

Employment

The OFW sector spans a range of jobs, with a lot of these jobs based in small coastal communities, areas often with lower economic status. In 2022, there were 32,000 jobs recorded in the offshore energy sector. By 2030, this is set to rise to more than 100,000.⁴⁶ This includes direct jobs (solely in OFW) and indirect jobs, for example within the supply chain. From East Anglia One windfarm, 100 long term jobs were created in Lowestoft. Whilst in the 'Do nothing' option OFW capacity is expected to grow, the MRF accelerating the rollout of OFW could result in more jobs being created quicker, allowing these communities to see benefits sooner.

Targets have grown faster than employment, causing a growing gap between the skilled workers available and those needed to meet targets.⁴⁷ It is possible that without an active effort to train new employees, a lack of skilled workers could prevent the growth of the OFW sector. However, these ambitious targets also create the opportunity for significant increases in employment in the OFW sector in the UK.

Risks/Considerations

Risks associated with 'Do Nothing' (Option 1)

Longer consenting process - **High**

A risk of doing nothing is that OFW projects take longer to move through the planning and consenting process and/or are unable to find the appropriate compensation. This would impact the UK's ability to meet OFW capacity and Net Zero targets.

⁴⁴ Fuel poverty in the UK - House of Commons Library (parliament.uk).

⁴⁵ Air pollution's disproportionate impact on minorities and disadvantaged communities – AirQualityNews.

⁴⁶ Offshore wind industry unveils Industrial Growth Plan to create jobs, tripling supply chain manufacturing and boosting UK economy by £25 billion.

⁴⁷ UK offshore wind sector creates thousands of jobs | en:former.

Negative reaction from Industry - **Medium**

'Do nothing' risks negative reactions from industry and environmental Non-Governmental Organisations, who have made it clear they would like government intervention and are supportive of OWEIP. By doing nothing, developers may choose to build OFW developments in other countries where the planning and consenting process is quicker and easier.

Ineffective compensation delivered - **High**

'Do nothing' could also result in ineffective compensation being delivered, as developers find it difficult to find and collaborate to deliver strategic and ecologically effective compensation. This could have negative impacts on the MPA network.

Risks associated with an MRF (Both Option 5 and Option 6)

Availability of measures in the Library of Strategic Compensatory Measures - **Low**

The LoSCM is not part of the MRF, and is consulted on through COWSC, which is a separate entity to the MRF. The MRF is heavily dependent on the LoSCM to be effective in realising the outlined benefits.

There are currently three approved Strategic Compensatory Measures (SCMs), with the expectation that the LoSCM will continue to grow to offer more options for compensation. As compensation in the marine space is novel and there are gaps in the evidence base, it may be difficult to continue to grow the library with measures agreed on by COWSC stakeholders and signed off by Defra ministers. For developments currently seeking consent, the three approved measures are expected to be sufficient to cover their compensation needs, however there is no certainty that future compensation needs will have the appropriate SCM to be matched to. Current policy development on environmental assessment reforms (EAR) as part of OWEIP is however expected to broaden the range of acceptable compensatory measures.

MRF uptake - **Medium**

The MRF will be optional for developers to use, although they have shown support for the MRF, they can choose not to use it. If MRF uptake is low, this will minimise the benefits. Once the MRF is operational, the uptake is expected to be high based on stakeholder engagement.

Risk Specific to Option 5 (One MRF)

Flexibility – **Low**

By having one MRF for all of UK, it may be difficult to make sure the specific needs of each administration are considered. Devolved governments can have different priorities and different consenting systems, and the MRF will need to cater to all of these.

Risks Specific to Option 6 (2 MRFs)

Inconsistent Approach - **Medium**

Having two MRFs raises the risk that the different administrations will take differing approaches to the operation and management of the MRFs and provide different guidance. This could lead to inconsistencies across how compensation is being delivered across the UK's Marine Protected Areas (MPAs) and have knock on impacts on the overall network.

Sensitivities

The short list appraisal uses central estimates for the monetised costs. The table below shows the range of estimates for monetised impacts.

	Maximum cost, minimum benefit (£m)	Central (£m)
Option 5* NPSV	510	2,400
Option 5 EANDCB	-26	-76
Option 6** NPSV	510	2,400

Option 6 EANDCB	-26	-76
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*Option 5 - One MRF

**Option 6 - Two MRFs (preferred)

The maximum cost, minimum benefit, takes the high estimates for costs and low estimates for benefits to show the 'worst case scenario'.

- High-cost estimate* (Familiarisation cost):
 - o Assumes 4 people per OFW development (as opposed to 3) need to be familiarised with the relevant documents
- Low-benefit estimate (Carbon savings):
 - o Assumes 0.4 years' time savings from the MRF (lower bound time savings estimate)
 - o Uses the low series for carbon value
 - o Uses low net zero pathway

Evidence Gaps to Implement for final IA

The final IA will use updated data where relevant (including updated OFW capacity forecasts from DESNZ), incorporate any findings from the consultation, and carry out any necessary sensitivity analysis. In addition to this, the final IA will attempt to quantify household impacts as a result of this policy intervention.

GLOSSARY

AEol – Adverse Effect on Integrity

ALB – Arms Length Body

CBD – Convention on Biological Diversity

COP26 – 26th United Nations Climate Change Conference of the Parties

COP29 – 29th United Nations Climate Change Conference of the Parties

COWSC – Collaboration on Offshore Wind Strategic Compensation

CSF – Critical Success Factor

DCO – Development Consent Order

Defra – Department for Environment, Food and Rural Affairs

DESNZ – Department for Energy and Net Zero

EAR – Environmental Assessment Reform

eNGO – Environmental NGO

EANDCB – Equivalent Annual Net Direct Cost to Business

EU – European Union

GDP – Gross Domestic Product

GES – Good Environmental Status

GVA – Gross Value Added

HMG – His Majesty's Government

HMT – HM Treasury

HPMA – Highly Protected Marine Areas

HRA – Habitats Regulations Assessments

IA – Impact Assessment

IROPI – Imperative Reasons of Overriding Public Interest
LoSCM - Library of Strategic Compensatory Measures
MCAA – Marine and Coastal Access Act 2009
MCZ – Marine Conservation Zone
MEEB – Measures of Equivalent Environmental Benefit
MPA- Marine Protected Areas
MRF – Marine Recovery Fund
MRFO – MRF Operator
NI – Northern Ireland
NPSV – Net Present Social Value
NPV – Net Present Value
OA – Options Assessment
OFW – Offshore wind
OGD – Other Government Departments
ONS – Office for National Statistics
OWEIP – Offshore Wind Environmental Improvement Package
OWES – Offshore Wind Environmental Standards
OWIC – Offshore Wind Industry Council
OWGP – Offshore Wind Growth Partnership
PIR – Post-Implementation Review
RPC – Regulatory Policy Committee
SAC – Special Area of Conservation
SaMBA – Small and Micro Business Assessment

SG – Scottish Government
SI – Statutory Instrument
SMART – Specific, Measurable, Achievable and Time-bound
SNCB – Statutory Nature Conservation Body
SoS – Secretary of State
SPA – Special Protected Areas
SSSI – Sites of Special Scientific Interest
SUDG – Seabed User and Developer Group
TCE – The Crown Estate
UK – United Kingdom
UKG – UK Government
UKCCC – UK Climate Change Committee
UKMS – UK Marine Strategy