

Natural Capital, the Natural Capital Committee and Environmental Accounting in the UK

(Background Paper for The Hague WAVES 2016 Meeting)

Background

The UK became interested in the concept of natural capital about a decade ago. It was increasingly aware of: the critical role that our natural environment plays in our prosperity – economy and wellbeing; and the growing risks to the flow of benefits we receive from it (such as clean air, flood protection, clean water etc).

The solution, therefore, was seen as viewing the environment and our prosperity as inextricably linked, which is core to a natural capital approach. This led to the Government producing a major environment policy paper in 2011 which:

- Championed a natural capital approach to managing the environment (incorporating the environment into decision making);
- Committed to establishing what was thought to be the world's first Natural Capital Committee;
- Committed to incorporating natural capital into the national accounts.

The Natural Capital Committee

The Natural Capital Committee was established in 2012, with a fixed three year term, as an independent advisory body to Government. It reported to the Economic Affairs Committee which is a ministerial committee chaired by the Chancellor of the Exchequer (the UK's main finance minister). Its main role was to advise the Government on how to ensure England's 'natural wealth' is managed efficiently and sustainably, thereby unlocking opportunities for sustained prosperity and wellbeing.

The Committee was chaired by Professor Dieter Helm with seven members, who were chosen for their science, economics, accounting and business expertise. Their main advice, outlined in their 2015 report to Government, was for the Government to develop a long-term (25 year) plan to improve the environment. The Conservative party adopted this idea as one of their 2015 election manifesto commitments and were then elected in May 2015. Another of their manifesto commitments was to extend the life of the Natural Capital Committee to the end of the Parliament (2020), and to work with it to develop the 25 year environment plan (25 YEP).

The Committee was then re-established, again as an independent advisory body, in 2016 for a fixed period through to 2020. The Chair, Dieter Helm, was reappointed along with three previous members – to retain the core experience and expertise of the first Committee. In addition, three new members (academics who work in policy

delivery) have been appointed to bring more practical natural capital user and promotion experience. Their Terms of Reference this time are primarily focussed on supporting “the development and implementation of the 25 year environment plan” including having “a strong focus on embedding the use of open data, tools and techniques to facilitate positive action on the environment across the country”. Their current work programme covers the following areas.

1: Advice to Government on:

- The 25 YEP and how to best test the natural capital approach it contains in four pilot areas across the country;
- Appropriate governance structures to best deliver the 25 YEP – at a local and national level;
- The incorporation of natural capital into the national accounts and making this policy relevant;
- The role of valuation in improving policy making effectiveness.

2: Production of annual reports assessing the Government’s progress against its commitment to develop a 25 YEP – the first in expected in early 2017.

3: Production of a natural capital ‘how to do it manual’; providing a step by step guide to local authorities and other organisations on how to go about developing a place-based plan to systematically improve the environment in their area. This will cover a range of issues from the need to develop natural capital accounts in order to establish the baseline and understand how natural assets are changing through time, through to the need to sort out local environmental governance.

4: Mainstreaming natural capital through working with a range of organisations to encourage them to embed it into the way they operate.

UK National Environmental Accounting

The UK committed in 2011 to incorporating natural capital into the national accounts. It then published a roadmap in 2012 setting out how it would do this. Since then work has been underway to systematically measure, value and account for each major broad land cover types. In particular:

- Initial accounts have been produced for woodland, farmland and freshwater ecosystems, with scoping studies completed for coastal margins, marine ecosystems and peatlands;
- Proposals to develop accounts for urban ecosystems are currently being evaluated, with further work planned for semi-natural grassland, mountains, moorlands and heaths;

- Projects are underway to develop and improve the monetary estimates of the value of air pollutant absorption, flood protection and recreation services;
- A summary of the latest estimates of the overall value of natural capital in the UK will be published by the Office for National Statistics on 30 November 2016.

The development of these accounts has benefitted from a strong working partnership between the UK's environment ministry (Defra) and the Office for National Statistics which has helped to provide access to data sources and scientific advice and to ensure policy relevance.

The Natural Capital Committee's role has largely been two fold. Firstly, to encourage the UK's Office of National Statistics to maintain its commitment to this accounts programme. Secondly, to promote the importance of the accounting approach, the policy relevance of them, and to raise the profile of the accounts by bringing them to a wider audience and drawing attention to the results.

A Natural Capital Approach to Managing the Environmental

After considerable work and challenge, natural capital seems to be the best framework for developing policy on how the environment is managed (at least in the UK). Natural capital accounts and the Natural Capital Committee are central to this natural capital approach and to its success to date. The advantage of and success with natural capital as a framework for managing the environment in a better way is because of a number of factors, including:

- It is a stock concept as opposed to only flows and so encourages a long-term sustainability view (focusing purely on short-term flows tells you nothing about how sustainable those flows are). A robust natural capital accounting approach can help provide this longer-term view which is more useful to inform appropriate policy responses;
- It encourages actions based on the environment being a system as opposed to traditional silo thinking that only considers one individual element of the environment. We know that changes to one aspect of the environment (say cutting down trees) has multiple impacts and so a systems view encourages a broader view of the costs and benefits allowing for more efficient actions. Such a natural capital system view, where all the costs and benefits are incorporated, also helps with identifying a wider range of solutions to a problem. For example, it enables natural solutions to flooding to be properly considered and compared on an equal basis to traditional concrete infrastructure flood solutions;
- It drives better use of resources by helping prioritise action – to identify the most important (net costly/beneficial) problems and the optimal solutions to

these. This allows greater environmental improvement to be obtained for each dollar spent. The accounts are central to this prioritisation – helping identify assets which are particularly beneficial and/or are declining and hence which warrant policy attention;

- It talks the language of Treasury (finance ministries), by bringing a hard economic focus that addresses the value for money of environmental interventions (e.g., cost benefit ratios) in order to make the case for public spending on the environment;
- We have been able to use results from the accounts as an education tool to demonstrate to ministers and senior decision makers how the environment provides a large range of very valuable benefits which are often ignored in market prices. Accounting results have also enabled us to make the case more generally for why better management of the environment is economically sensible.

In addition, the Natural Capital Committee has had a powerful effect in promoting the concept and use of a natural capital approach and therefore in shaping environmental policy in England. The main aspects of which has been its advice to the Government to: develop a long-term (25 year) comprehensive plan to improve the environment based on a natural capital approach; and to continue its programme of incorporating natural capital into the national accounts. These have both been adopted by the Government.

There are a few key ingredients to the Natural Capital Committee's success, these include:

- Positioning itself as an independent body that is prepared to give frank advice on what needs to be done, while avoiding becoming a pressure group;
- Undertaking and presenting robust economic analysis to demonstrate how investment in the environment compares very favourably to non-environmental interventions such as building new transport infrastructure (even when not all the environmental benefits can be monetised);
- Reporting into the centre of Government which means that more notice is taken of its advice;
- Having a very influential Chair who knows and is respected by politicians from all parties and who is supported by genuine multidisciplinary experts who can provide compelling advice, for example, on the benefits of why natural capital should be incorporated into the Government's appraisal guide (the Green Book).

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