

# The Government & Natural Capital



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# Background

# Growing understanding of the role of nature

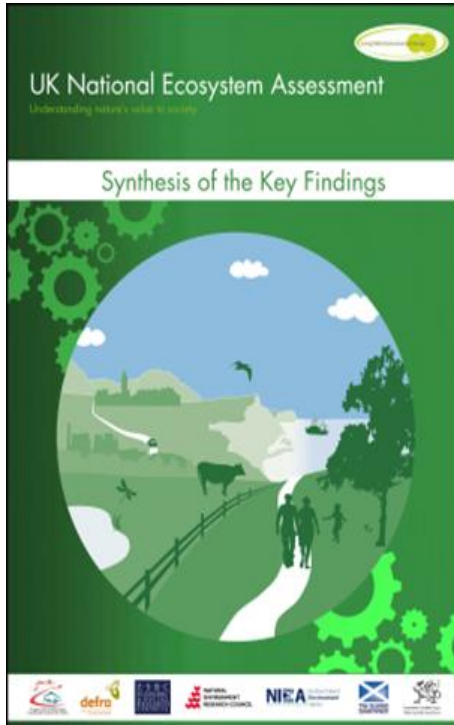
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Increasing global awareness of:

- The critical role that our natural environment plays in our prosperity – economy and wellbeing;
- The growing risks to the flow of benefits we receive from it (such as clean air, flood protection, clean water etc).

The solution is increasingly seen as viewing the environment and our prosperity as inextricably linked, the natural capital approach.

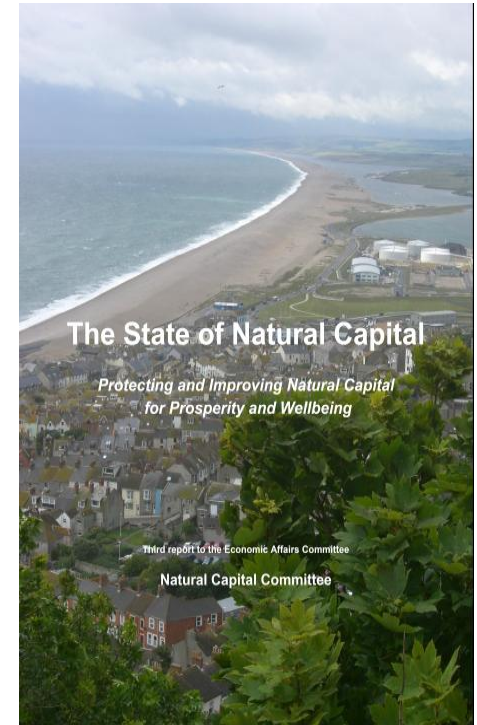
# The major Gov't NC milestones



The 2011 **National Ecosystem Assessment** provided the first analysis of the benefits of our natural environment for society and economic prosperity.



The 2011 **Natural Environment White Paper** noted that a healthy natural environment is the foundation of sustained economic growth and wellbeing, embracing the concept of valuing nature and established the **Natural Capital Committee**.



The **Natural Capital Committee's third State of Natural Capital report (2015)** recommended that Government produce a clear 25 year plan to enhance natural capital, prioritising those areas that provide the greatest economic benefits.

## In effect, the NCC's advice is to:

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Take a natural capital approach to protecting and improving the environment, with a 25 year plan.

**Taking account of (measure, value)** natural capital and use that as the basis to manage it better (better decision making).

Better decision making includes investing in the environment where appropriate – using innovative funding mechanisms.



# The Gov't response: 25 Year Env Plan

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“We set up the Natural Capital Committee to put hard economic numbers on the value of our environment, and we will extend its life to at least the end of the next Parliament. We will work with it to develop a 25 Year Plan to restore the UK’s biodiversity, and to ensure that both public and private investment in the environment is directed where we need it most”.



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# The 25 YEP & Natural Capital

# The 25 Year Environment Plan

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Between now and end 2016 the Gov't will develop a 25 YEP, with an interim framework likely this summer.

Our ambition is for Britain to be the healthiest and the most beautiful place in the world to live, to work and to bring up a family of any country of its type.

With the generation growing up now to be more connected to nature than ours.

The Gov't's vision puts the environment at the heart of decisions that we all make, so that when we act, we do so knowing the value of our impact on the environment.



# Four principles will run through the Plan

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- **Modern** The innovative use of the power of technology and data to get the best results for the environment, whilst encouraging innovation and growth. Develop innovative ways of financing environmental improvements.
- **Integrated** The environment is an integrated system and decision-making needs to reflect that. For example, taking opportunities to restore and link up biodiversity habitats as part of flood risk management, forestry and built development.
- **Local** The Plan will only make a sustained difference if local communities are able to own and drive local action to protect and improve the environment.
- **Open** The Plan needs to be open to everyone who wants to participate. We must harness people's ideas, enthusiasm and energy and make sure that our children grow up with a real appreciation of the benefits that nature provides.

# Underpinned by natural capital as the common currency

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Everyday decisions are imposing environmental costs on businesses and society.

This is because markets are not providing the correct price signals and some environmental values are missing completely from decisions.

A natural capital lens helps to identify environmental costs and benefits in a systematic and comparable way; the basis for better decisions.

# This is not about putting a price on nature to sell it off

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We need to take account of its full value. All decision making involves trade-offs and if we are ignorant of the true value of nature we all too easily place a value of zero on it.

Hence NC has historically been over-consumed and under-invested in.

Its about valuation, not pricing.

While recognising that the values are likely to be at the low end as we cannot robustly value everything.

# Potential aspects of the Plan

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- **Better decision making (using a natural capital approach)**
- **Financing/funding improvements**
- **Connecting people to nature**
- **Subsidiarity (decisions made at the appropriate level)**

# Why decision making matters (1)

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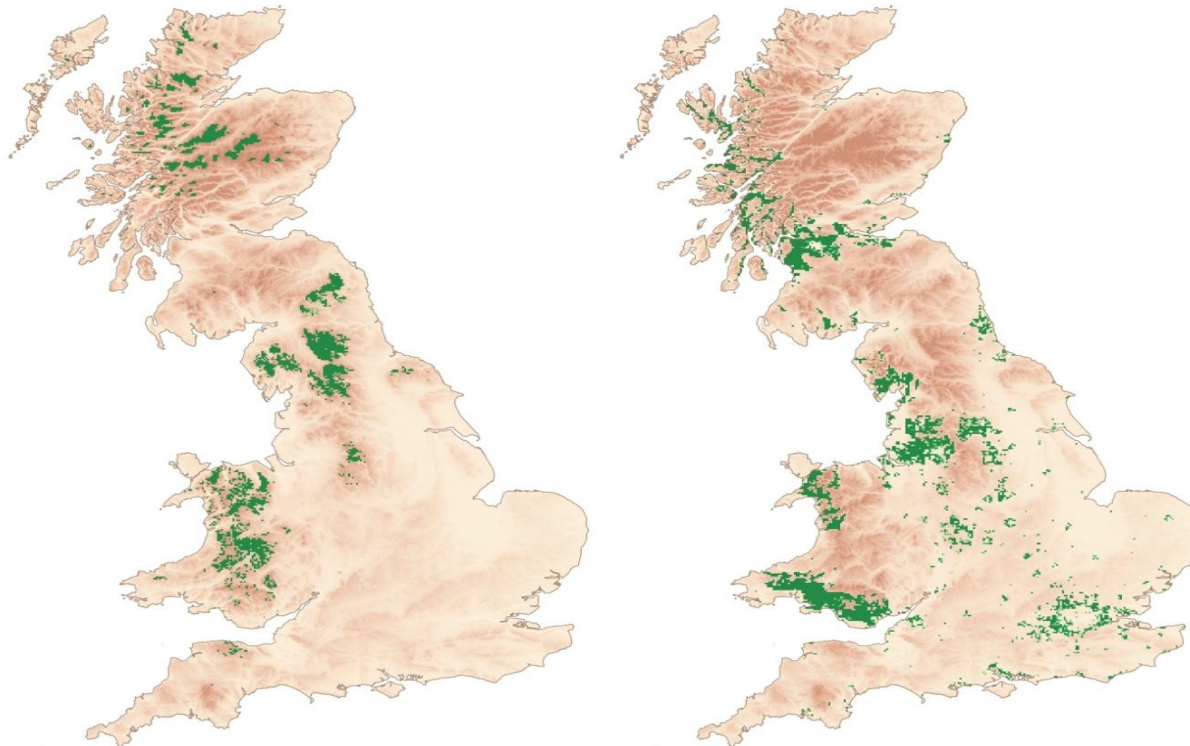
Would the Aral Sea disaster have happened with good decision making frameworks?

From the world's 4<sup>th</sup> largest lake supporting 40k fishermen in the 60s.....to a polluted desert in 50 years.

# Why decision making matters (2)

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Hypothetical policy decision to plant 3/4m ha more trees (over the next 50 years).



**Social Value:**            - £66 million p.a.

   + £546 million p.a.

Incorporate wider impacts/benefits to society and the resulting better informed decisions can boost wellbeing.

# Better gov't decisions (Green Book and national accounting)

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Measurement, valuation and accounting tell us what is going on and whether it matters. Need to build this info into policy making.

- UK National Accounts – Defra and the ONS incorporating NC. E.g., woodland - the combined annual value of carbon sequestration and recreation of UK woodland is 15 x greater than the annual timber value.
- Decisions made based on the value of timber alone are likely to be very different to those where the full range of benefits are of concern.



# Better corporate decisions

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- Private (and quasi-private) sector organisations are responsible for the majority of the UK's natural capital assets.
- Conventional financial accounts reflect the value of natural capital to the extent that they produce a financial income or incur a cost.
- The various benefits associated with natural capital that do not have a financial impact are not currently taken into account.
- Hence the Natural Capital Committee's and Natural Capital Coalition's corporate accounting work.
- **What is stopping business do this, what should be done to help?**

# Financing/funding improvement

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Natural Capital Committee: “Having the appropriate funding and incentive mechanisms in place will be a determining factor in the success of the [25 year] plan ... and will need innovative approaches to funding and delivery”.

Options include:

- Capital maintenance from all asset owners (corporate NC accounting);
- Rents from non-renewable resources (e.g. oil or shale gas – wealth fund);
- Compensation payments from developers;
- Greater use of economic instruments (e.g. taxes and charges);
- Potential new and innovative sources (e.g. plastic bag charge, crowd funding schemes, Payment for Ecosystem Services);
- Take advantage of match funding opportunities (e.g. the EU Life Programme).

Responsibility lies with both private and public sectors.

# Other options include:

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- Green bonds?
  - Potential to tap into significant capital to deliver I-t investment in NC. For investors, can offer useful diversification but challenges around investment case to provide financial flows to support inv return.
- Trust Funds?
  - Creation of a not for profit entities to pool funding from multiple beneficiaries. This could bring a more strategic approach to PES and developer schemes, reducing transaction costs and targeting natural capital investment.

# The UK is a world leader on NC

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- ONS/Defra incorporating NC into the national accounts. Great progress.
- NCC framework for incorporating NC into corporate accounts ('CNCA'), and main global organisation developing knowledge and standards on corporate NC accounting is here in the UK – the NC Coalition.
- We have the first/only NCC in the world, directly reporting into the centre of Gov't on NC – the envy of the world.
- World Forum on NC held in Scotland
- Wildlife Trusts, RSPB, WWF, National Trust all interested in NC.
- Many LNPs taking a NC approach.