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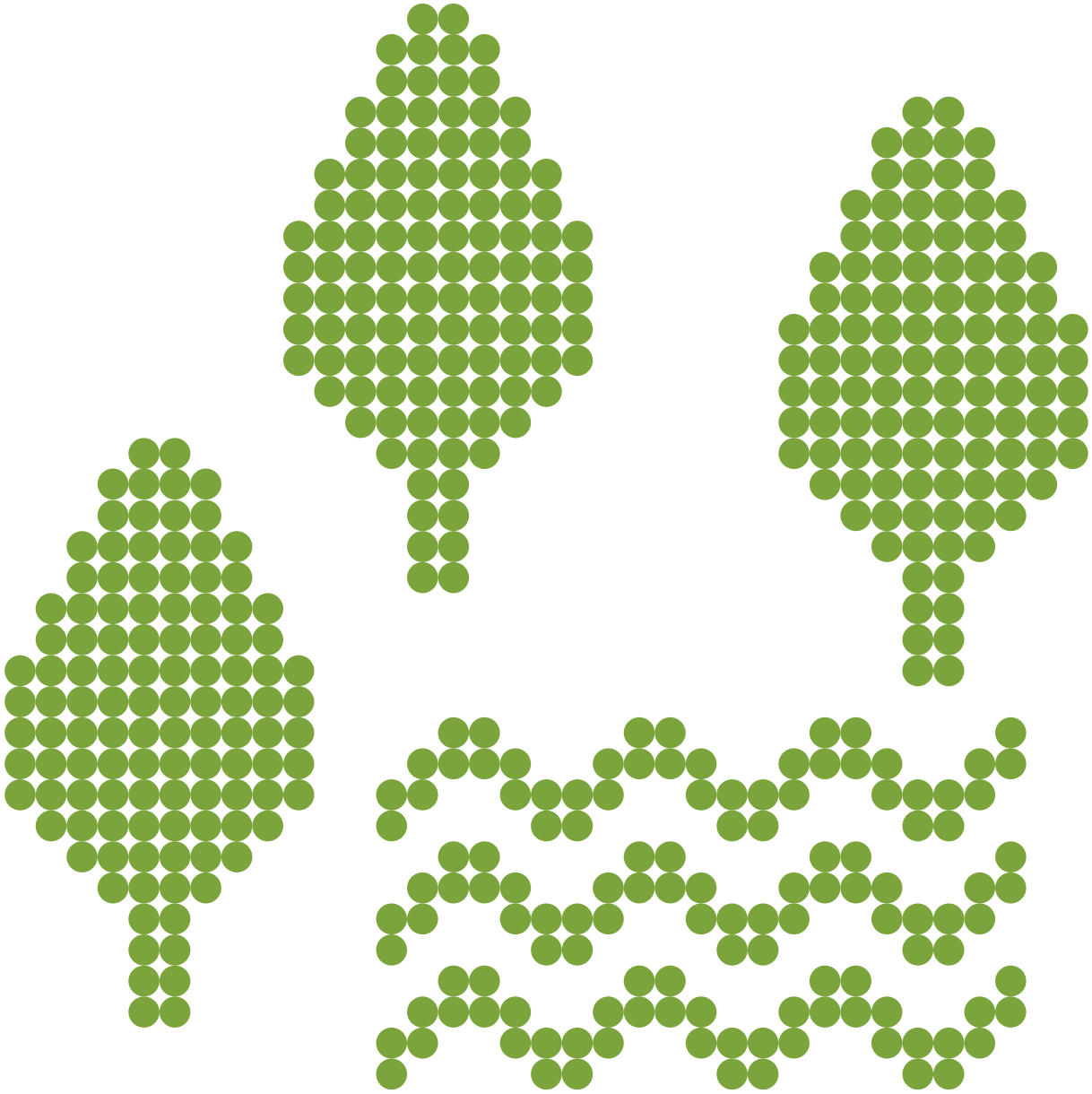
LEADERS FOR A SUSTAINABLE ECONOMY



INVESTING IN OUR NATURAL ASSETS : HOW GOVERNMENT CAN SUPPORT BUSINESS ACTION

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ALDERSGATE GROUP

The Aldersgate Group is an alliance of leaders from business, politics and civil society that drives action for a sustainable economy.

OUR MEMBERS

Our members include some of the largest businesses in the UK, leading NGOs, key professional institutes and politicians of all parties. We believe that economic success, both now and in the future, depends upon a political and economic framework that delivers a healthy environment and sustainable use of resources, good environmental performance at the organisational level, growth, jobs and competitive advantage in rapidly growing environmental sectors.

Our policy proposals are formed collaboratively and benefit from the expertise of our members who span a wide range of industry sectors and public interests. Our breadth and collegiate approach allow us to formulate progressive policy positions to benefit all organisations and individuals in the UK.

While members support this publication and provided extensive input, individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed.

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EXECUTIVE SUMMARY

A resilient and competitive economy is one that carefully maintains and improves the state of its natural resources.

Our dependency on natural capital is fundamental. It underpins the economy and our health and wellbeing. Soil is a good example of this and one that is particularly under-appreciated. It performs several vital functions such as supporting food production and storing water and carbon, and its ability to do so is lessened as it becomes degraded. It has been estimated that the costs of soil degradation in England and Wales amount to £1.2bn per year.[1] This has an impact on agricultural production, both in terms of reduced output and increased costs, and the UK's ability to regulate greenhouse gas emissions, flood risk and water quality. Environmental damage therefore feeds directly into costs for government, business and households, whereas investing in natural capital will improve the resilience, health and productivity of our economy.

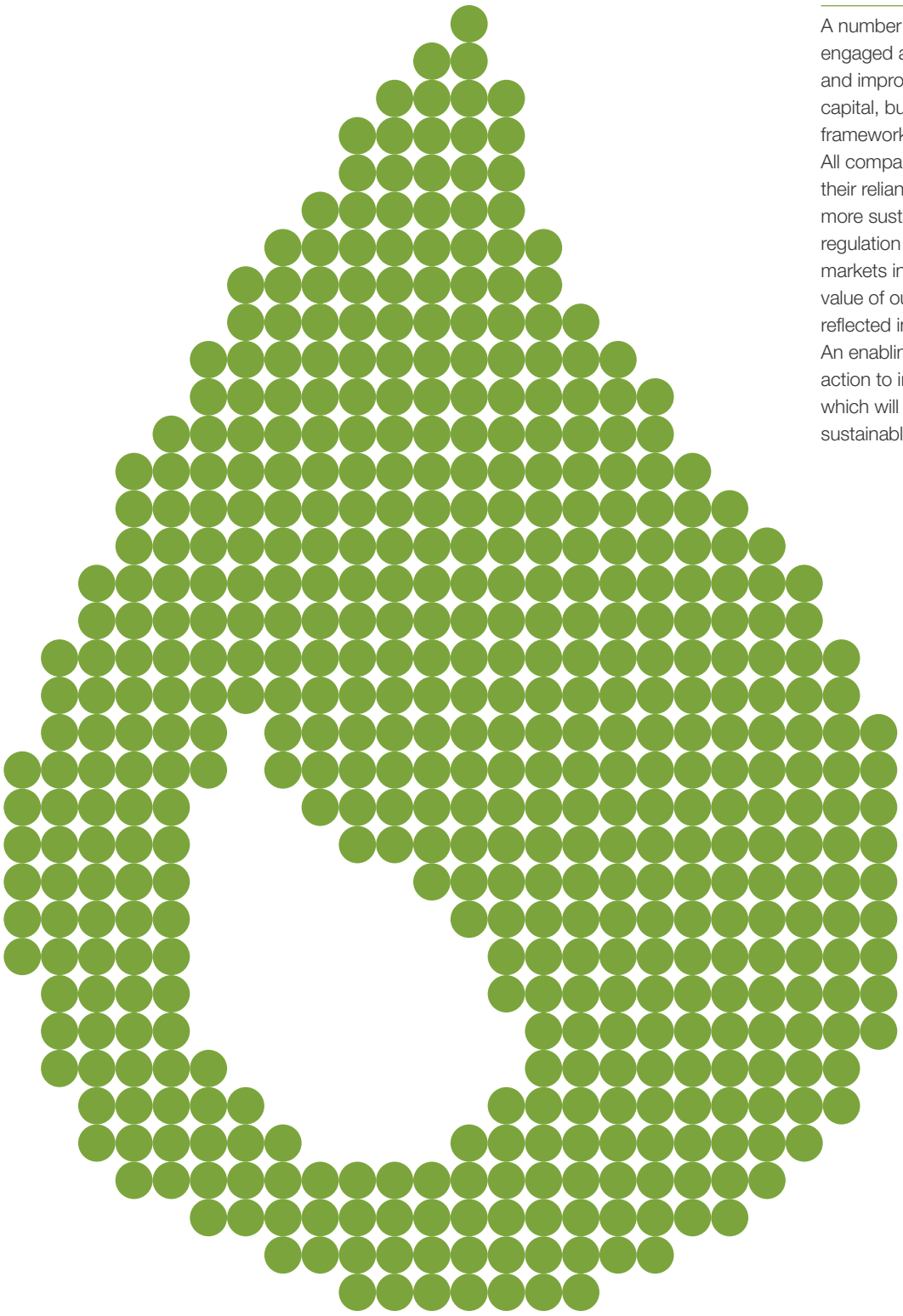
The government has reconfirmed its ambition to leave the natural environment in "a better state than that in which we found it".[2] It has also committed to extending the life of the Natural Capital Committee until at least the end of this Parliament and to develop a 25 Year Plan to restore the UK's biodiversity. These are commendable goals and have helpfully moved the debate on from whether action should be taken, to what this action should be. However these objectives have not yet properly fed through to policy decisions and infrastructure projects. The government must now prioritise action to embed the value of natural capital into mainstream economic activity and formalise its governance.

Recognising the economic, health, social and environmental benefits of protecting and improving the state of the UK's natural capital, the government should:

- **Improve natural capital through better policy integration and deliver cost savings:** investing in natural capital projects produces benefits for multiple departments and policy objectives (Chapter 2).
- **Help tackle the investment gap and develop new market opportunities:** by improving the availability of long-term finance, reforming subsidy schemes and unleashing new markets for ecosystem services (Chapter 3).
- **Support the incorporation of natural capital into decision making:** improving understanding of our reliance on natural assets underpins actions to monitor and improve them (Chapter 4).
- **Lead by example:** ensuring major government investments and infrastructure projects, such as HS2, lead to net improvements in natural assets and incorporate cost-effective nature-based solutions (Chapter 2).
- **Strengthen institutional arrangements:** including confirming the Natural Capital Committee's future remit and incorporating natural capital improvements into the government's climate change risk assessment and 25-year plans for biodiversity and food and farming (Chapter 5).

1 Cranfield University (2015) *The Total Costs of Soils Degradation in England and Wales.*

2 The Conservative Party (2015) *The Conservative Party Manifesto 2015.*



A number of businesses are already engaged and ready to invest in protecting and improving the state of the UK's natural capital, but need a supportive policy framework to underpin their activities.
All companies must be encouraged to assess their reliance on natural capital and incentivise more sustainable business practices. Smart regulation and support for the creation of new markets in ecosystem services will allow the value of our natural environment to be better reflected in prices and decision making.
An enabling policy framework will facilitate action to improve the UK's natural capital which will enhance prospects for long-term sustainable economic growth.

ONE: THE BUSINESS CASE FOR AN AMBITIOUS NATURAL CAPITAL POLICY

Natural capital improvements will strengthen the UK's resilience and wellbeing.

What do we mean by 'natural capital'?

The term natural capital is used to describe all natural resources that provide goods and services of value to people and our economy. The benefits that flow from these resources include ecosystem services such as the provision of healthy air, clean water, food, timber and opportunities for recreation as well as the regulation of flood risk and climate. Any business case for natural capital improvements relies on an assessment of the benefits of these goods and services.

It is important that using the language of natural capital does not undermine the case for conserving nature for its own sake. It is not expected that all the reasons for protecting and restoring the natural environment can be captured in natural capital arguments. However, as the Natural Capital Committee (NCC) has pointed out, what is not measured can often be ignored.[3] Nature is often invisible in the market economy and traded off against other objectives, resulting in significant damage to wildlife and human wellbeing. Providing measurement tools to assess the value of nature helps ensure that the benefits and services it provides are not simply taken for granted.

TREE DISEASE AND NATURAL CAPITAL

Chalara ash dieback is now present across the country and as ash is one of the UK's commonest species, the loss of trees over the coming years is expected to exceed the scale of Dutch Elm Disease, which ravaged the country in the 1970s. For most woodland the loss of ash will present opportunities to other species, although those animals, plants, lichens and fungi that depend heavily on ash will struggle. In the wider countryside many hedgerow and roadside trees will be lost, impacting on gene flow between woodland patches. A large reduction in landscape resilience, its ability to respond to further shocks, is imminent.

This is not just a problem for wildlife. Ecosystem services that flow from trees often depend on their spatial configuration. A hedge, for example, provides protection from soil erosion and runoff far more effectively than the same number of trees planted in a cluster. So in calculating the costs of tree disease, those beyond the chainsaw must also be included such as lost flooding protection, lack of year-round forage for pollinating insects and a less beautiful countryside.

The Woodland Trust is working to understand these wider societal costs of tree disease to justify the implementation of comprehensive recovery and restoration plans in the wake of ash dieback and other serious threats to the UK's trees and woods. It is clear even at this early stage that the true costs to society extend much further than the closure of roads and felling of trees.

WOODLAND TRUST

3 Natural Capital Committee (March 2014) *The State of Natural Capital: Restoring our Natural Assets.*

NATIONAL GRID'S APPROACH

National Grid has developed tools to value, monetise and account for the value of its natural capital and ecosystems services. This has enabled a new approach, prioritising action on its estate and targeting investment where the greatest environmental, social and economic returns can be realised. This is done through applying the valuation tool to various sites to value the baseline natural capital/ecosystem services present, and to investigate the value that may arise under various management scenarios.

This 'scenario analysis' provides National Grid with a series of management options, and ecosystem service net benefits (expressed in monetary terms), for each of the sites the tool is applied to. Values are not only applied to benefits arising to National Grid, but also to benefits arising to broader stakeholders. Working with a range of stakeholders including Wildlife Trusts, local farmers and community groups has led to a joined up approach to developing scenarios that optimise natural capital outcomes. These scenarios can then be compared to see which gives rise to the greatest Cost-Benefit ratio, which is most practicable and which achieves benefits most aligned with National Grid's needs and local and regional stakeholder priorities.

The costs and benefits assessed for each site are estimated over a 25 year period, essentially looking at long-term returns. The valuation tool estimates benefits associated with environmental and social outcomes such as recreational activities, pollinator services and air quality, whilst financial returns may be captured through mechanisms including Payments for Ecosystem Service schemes, biodiversity offsetting or carbon offsetting.

The pilot study has shown that for two sites innovative approaches to the management of these landholdings can drive positive long-term returns from investment in natural capital assets.

© National Grid

AMBERGATE PMC DEPOT, DERBYSHIRE

Stuart Bailey, Head of Sustainability & Climate Change, National Grid: "Recognising the value of our natural assets – the natural environment around our operational and non-operational estates – is helping us to identify and focus on managing our environmental assets in ways that deliver the greatest value to us and our stakeholders, and therefore providing new opportunities to work with partners to preserve and enhance these assets."

The Ambergate site consists of 77 acres of operational and non-operational land. Historically a small part of the non-operational land has been let to a local farmer for grazing and remainder left unattended with minimal maintenance. Part of the site has been identified as a Local Nature Reserve and due to its importance both from an ecology and heritage perspective the site has recently been designated by Natural England as part of a new SSSI – Crich Chase.

Derbyshire Wildlife Trust (DWT) will now deliver proactive land management through a 5 year plan. Working in cooperation with the local farming community and Natural England, actions include practical restoration of SSSI land through habitat management and enhancement and greater public access. DWT will further leverage the value of the site through incorporation into a recognised regional conservation programme, DerwentWISE, quickly gaining National Grid external recognition. The value generated through managing sites via this natural capital approach leverages initial investment by over 8 to 1.

A natural capital approach broadens our understanding of how the goods and services nature provides impact on a whole range of life essentials from products and supply chains to profits and our health. The interdependency of economic and urban development, job creation and the natural world means natural capital policy has broad economic, security and social implications.

For instance, UK supply chains are dependent on the goods and services provided by overseas natural assets. Disruption can cause price volatility and impact manufacturing output, such as occurred to Honda's operations during the floods in Thailand in 2011. Its factory in Ayutthaya province was shut down for almost six months which saw operations at its Swindon plant disrupted.[4]

4 See article detailing impact of Thailand floods on Honda: http://bbc.in/1jKGCFN

Rapid action is required to halt the deterioration of the UK's natural capital

"Nearly two thirds of the services provided by nature to humankind are found to be in decline worldwide".[5] This rapid global decline of our natural assets means the benefits we derive from natural capital are at risk.[6] In the UK, the NCC has well documented this decline and argued that "by not managing our natural capital assets well, we are essentially eroding their performance capabilities".[7]

A reversal in the deterioration of natural capital can be a slow process and involve lags between action and results. This makes early action to address the most significant declines all the more important. It also increases the imperative of a reliable and stable long-term policy framework to enable business and other stakeholders to act.

There is an environmental, economic and health case for taking action on natural capital

The UK will derive significant economic benefits from maintaining and improving its natural assets. A helpful example is the economic value provided by natural capital in coastal habitats – particularly in relation to sea and flood defences. The value provided by coastal wetlands in terms of buffering the effects of storms and flood control has been estimated at £1.5bn annually.[8] If coastal developments were designed to enhance and not erode these benefits, the need for traditional engineered interventions would reduce. As a result, the cost to business and society of maintaining the integrity of our coastal communities would be less, and the attractiveness of our coastline would be enhanced.

Another compelling economic offer is that presented by woodland planting. The NCC concluded that if woodland was planted on the periphery of major towns and cities it would deliver net economic benefits of nearly £550m per annum once a range of non-market values such as recreation and impacts on greenhouse gases had been taken into account.[9]

The value of natural capital close to population centres is well documented.[10] Natural England has estimated that if every household in England had equitable access to good quality green space, then £2.1bn could be saved in averted health costs.[11] Given current concerns about the NHS budget, and the need to address the determinants of poor public health, this link between natural capital and public health should be a key focus for government going forward.

Not properly valuing natural capital poses economic risks but natural capital projects can also provide excellent investment opportunities. Government and business can manage risk more effectively through a focus on natural capital and will reap the benefits in terms of resilience and competitiveness.

5 Millennium Ecosystem Assessment (2005) *Living Beyond our Means: Natural Assets and Human Wellbeing, Statement from the Board.*

6 WWF (2014) *Living Planet Report.*

7 Natural Capital Committee (April 2013) *The State of Natural Capital: Towards a framework for measurement and valuation.*

8 HM Government (June 2011) *The Natural Choice: securing the value of nature.*

9 Natural Capital Committee (2015) *The State of Natural Capital: Protecting and Improving Natural Capital for Prosperity and Wellbeing.*

10 Int. J. Environ. Res. Public Health (2015) *Green Infrastructure, Ecosystem Services, and Human Health.*

11 Natural England (2009) *Our Natural Health Service: The role of the natural environment in maintaining healthy lives.*

TWO IMPROVING NATURAL CAPITAL THROUGH BETTER POLICY INTEGRATION

A joined up natural capital approach offers a route to greater efficiencies and cost savings across several key policy areas.

Achieving multiple objectives at lower cost

Better integration between different policy areas could help improve natural capital and other connected objectives in a more cost-effective way. For example, agriculture, water supply and flood risk reduction are three policy areas with separate budgets. It is estimated that over the next 15 years, £100bn from taxes and bills will be spent on water supply, flood risk measures and agricultural subsidies.[12] Developing one solution that tackles all three areas could be more cost-effective and also lessens the risk of deploying individual budgets in a manner that is counterproductive to the others.

Health and social care is another policy area that would benefit significantly from the increased integration of natural capital solutions. The NHS Forest project is focused on improving "the health and wellbeing of staff, patients and communities through increasing access to green space on or near to NHS land".[13] Exposure to this green infrastructure has helped produce better outcomes for patient rehabilitation and recovery.

The Ecominds programme run by Mind highlighted the effectiveness of treating mental health issues using nature-based interventions. The lower cost of the contribution that these interventions can provide becomes increasingly relevant to the health and social care sector at a time of budgetary strain: "ecotherapy initiatives have the potential to improve health and wellbeing for individuals and to significantly reduce public health costs by encouraging healthier communities".[14] Benefits can be very cost-effective but are not being picked up by health and social deprivation budgets. Nor is there proper consideration of the positive impact on employment.

It is also important the planning system better recognises the value of natural capital and particularly that access to good quality green space, park and woodland helps improve health and wellbeing. Planning authorities must embed quality green infrastructure in their development plans to help inform the shape of new development, integrate compensation for any value lost and ensure that on a net basis local natural capital is enhanced rather than degraded. This will help ensure that the opportunities for cost savings via the deployment of natural capital solutions in planning decisions are best realised.

Budget reductions have already led to a reduction of environmental expertise in-house so the capacity of local authorities to undertake such work must be protected. Boosting the resources and responsibilities of Local Nature Partnerships is one solution to ensuring access to the necessary skills and evidence base in order to design natural asset enhancing development plans. For instance, Surrey Nature Partnership has just published a local natural capital investment strategy, which outlines opportunities to deliver local benefits via investment in the natural environment of Surrey.[15]

Investing in natural capital projects sees benefits accrue to multiple departments and different levels of government. Far from just affecting the Department for Environment, Food & Rural Affairs, improving the UK's natural capital is beneficial for the work of other departments such as the Department for Communities and Local Government and Department of Health. HM Treasury must take this into account when allocating budgets and recognise that cross-departmental work is key to effectively managing these interdependencies. Furthermore major infrastructure projects overseen by departments such as the Department for Transport should factor in at an early stage the need to protect and enhance natural capital. This will help incorporate cost-effective opportunities for nature-based solutions and natural capital improvements into infrastructure developments.

12 Indepen (July 2014) *Discussion paper on the potential for catchment services in England.*

13 NHS Forest website: http://nhsforest.org

14 University of Essex (2013) *Ecominds effects on mental wellbeing: an evaluation for Mind.*

15 Surrey Nature Partnership (November 2015) *Naturally richer: A Natural Capital Investment Strategy for Surrey.*

Integrating the climate change adaptation and natural capital agendas is a necessity

Clear co-ordination is needed between the UK's climate change adaptation and natural capital strategies. Some of the most destructive management of natural capital such as seabed trawling, poor soil management, over-application of agri-chemicals and degradation of upland peat are also the most carbon-intensive. Moreover, climate change will exacerbate the degradation of the natural environment and increase our dependency on its ability to regulate extreme events. Improvements in the extent and condition of the UK's key natural capital assets will help bolster the natural environment's resilience to climate impacts.[16]

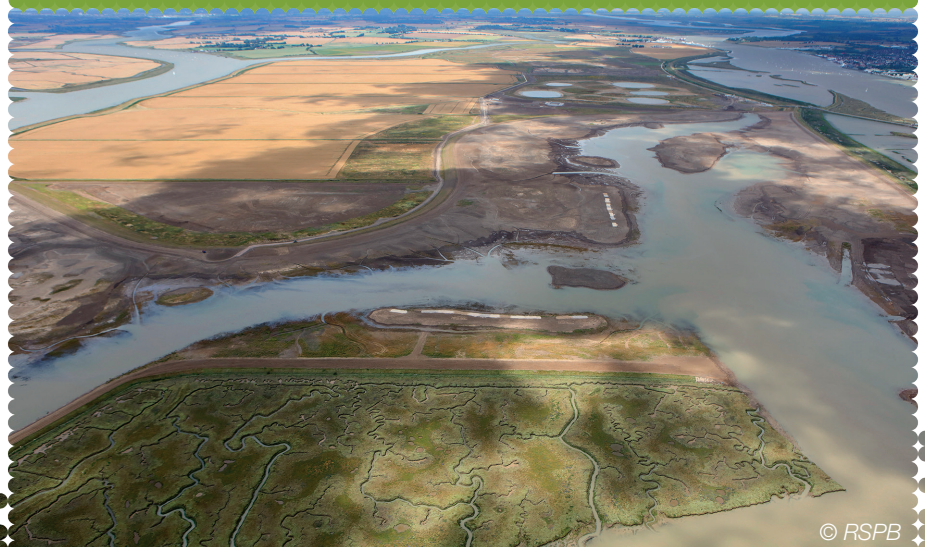
The Committee on Climate Change's most recent adaptation report calls for significant improvements in the next National Adaptation Programme with a focus on measurable outcomes. Four key areas are identified that overlap or are closely connected with the natural capital agenda: water scarcity, flood risk, heat stress and impacts on natural assets and agriculture.[17]

The UK is spending large amounts of money anticipating climate change in adaptation measures and particularly on coastal defences, but the opportunities in restoring wetlands and coastal systems to provide better defences at a lower cost with a range of co-benefits are largely underestimated.

RSPB'S WALLASEA ISLAND WILD COAST PROJECT

Mike Clarke, Chief Executive, RSPB: "Made possible through a unique collaboration between the RSPB and Crossrail, more than three million tonnes of earth tunnelled from beneath London's streets has been used to help transform Wallasea Island into the largest habitat creation project of its type in Europe. Once complete, Wallasea will provide a wetland haven for thousands of migratory birds and become one of the UK's most innovative flood defence systems."

There are economic benefits from this landmark conservation and engineering scheme including financial savings from flood risk management and positive employment impacts. The re-created wetland will accommodate substantial quantities of water during tidal surges, reducing the risk of an unmanaged breach with associated negative impacts, including disruption to navigation, erosion of adjacent sea defences and loss of built assets on Wallasea. Furthermore, it is estimated that the new intertidal mudflats at Wallasea will sequester carbon at a rate of about 4 tonnes per ha per year. The tourism and leisure industry can also benefit by playing an increasingly significant role in the local economy.



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16 Committee on Climate Change Adaptation Sub-Committee (July 2013) *Managing the land in a changing climate.*

17 Committee on Climate Change (June 2015) *Progress in preparing for climate change: 2015 Report to Parliament.*

THREE: TACKLING THE INVESTMENT GAP: REWARDING IMPROVEMENTS TO NATURAL CAPITAL

Long-term investments in natural capital improvements and new market opportunities can be supported by targeted government action.

Investing to protect and improve natural capital

Putting a value on something that has previously been considered free will always be controversial. Firstly we must assess who will benefit from natural capital improvements as this will help determine who should pay for them and how. Once a clearer view has been reached of the goods and services that are being provided, when and to whom, it is easier to consider what revenue streams could contribute to covering their cost.

Businesses and landowners have begun to assess their dependence on natural capital but policy makers must make it easier for natural capital projects with long-term returns to have access to funding. Possible levers at their command include taxes, regulation and compensation payments from developers. Furthermore, existing institutional arrangements could be utilised such as embedding responsibility in licenses or reforming subsidy schemes.

THE ENVIRONMENT BANK

Working with planning authorities, developers and landowners, the Environment Bank brokers biodiversity compensation agreements. It calculates the biodiversity impact of a proposed development and helps facilitate investment in wildlife conservation schemes via 'habitat banking'.

For instance, a Local Planning Authority can agree with a developer that planning consent will be granted with the conditioned requirement of a Biodiversity Offsetting Scheme to compensate for residual biodiversity impact (residual impacts are those persisting after the normal mitigation hierarchy of avoid and reduce harm where possible has been followed).

Long-term conservation management plans are submitted to the bank that will, if funded, deliver biodiversity gain calculated to produce a certain amount of 'conservation credits'. The developer then buys the suitable number of credits to offset the impact of the development.[18]

The farming and fishing community have an important role to play

The farming and fishing industry plays a critical role in providing food to the public but the sector also has a significant potential to improve the UK's natural capital.

Intensive forms of farming and fishing can have negative impacts on the environment including reductions in the quality of arable land, farmland wildlife, the state of the seabed and fish stocks by practices that are unnecessarily carbon intensive. Financial support to the farming and fishing communities, for example through EU policies, must be focused on rewarding activities that improve the state of the land and the marine environment.

In order to maximise funding for ecosystem services, there could be a greater transfer of EU Common Agricultural Policy Pillar 1 funds towards Pillar 2, which supports agri-environment and rural development schemes.[19] This will help support the farming community in delivering positive environmental outcomes such as the enhancement of wild species and habitats, improved water catchment management and reductions in greenhouse gas emissions. By delivering sustainable practices that enhance rather than degrade the environment, farmers can play a key role in addressing the depletion of our natural capital.

18: Environment Bank website: www.environmentbank.com

19: Ecosystem Market Task Force (March 2013) *Realising nature's value: The Final Report of the Ecosystem Markets Task Force.*

The case for creating markets for ecosystem services

The restoration of our natural capital will require the unleashing of new markets for ecosystem services and biodiversity. Whilst businesses are ready to respond to the opportunity to invest in natural capital schemes, the extent and quality of environmental markets are typically determined by the quality of government regulations. Government action is essential in helping create these markets in the first place.

It has a number of instruments at its disposal:

- fiscal incentives
- standards
- smart regulation
- targeted public procurement
- encouragement of voluntary approaches, where these can deliver tangible results

Formed following a commitment in the last Parliament's Natural Environment White Paper, the Ecosystem Markets Task Force (EMTF) was an industry-led review into business opportunities arising from the proper valuation of natural capital. One recommendation was the increased use of product certification akin to schemes utilised in the fish and timber industries by the Marine Stewardship Council and Forest Stewardship Council but extended to cover the management of a broader range of services to help in "connecting consumers with nature".[20]

LANDMARK'S ECOSERVICES PLATFORM

This is being developed as a scoping tool for PES arrangements. Initially focusing on water companies, Landmark are creating a model with Leeds University that will identify the habitats that need to be created and where to solve river-related problems.

For instance, the platform could tell a company where to create wetland and plant woodland to help ensure a river meets water quality standards. The company can then approach the appropriate landowner and negotiate payment. This will create a purely commercial PES scheme with one party who needs a service being connected with one who can provide it.

However the most promising idea to open up new market opportunities and increase investment in natural capital schemes at scale is the development of **payments for ecosystem services (PES).**

The valuation of ecosystem services offers scope for making those responsible for damage pay for it; however, PES are developed on the basis that the beneficiaries of an environmental service pay those who maintain the ecosystem that provides it.

For example, Wessex Water makes payments to farmers to implement improvements in their farming operations. This helps improve water quality by reducing nitrates, phosphates, agrochemicals and sediment in surface run-off.[21] There are a number of such schemes in the water industry but uptake in other sectors has been slow without any regulatory support.

PES arrangements create engagement between investors and ecosystem service providers but the latter must create a business case to which businesses can respond. Schemes can then produce a win for both buyer and seller. Government can play a role in helping to support PES by removing existing barriers, creating stable and predictable conditions, and encouraging the brokerage of transactions.

20 Ibid.

21 Defra (May 2013) *Payments for Ecosystem Services: A Best Practice Guide.*

KINGFISHER AND SUSTAINABLE TIMBER

Timber is one of the most important resources for Kingfisher's business. Around the world, forest is still being lost at an alarming rate. Between 2000 and 2010, about 5.2 million hectares of forest were lost each year. Demand for timber is set to triple by 2050 which could lead to global shortages and significant price increases.

Kingfisher's aspiration as a business is to become 'Net Positive' for timber by helping to sustain and create more forest than it relies on for its products. The first steps were to understand the dependency the business has on materials sourced from forests, forecast that out against its growth strategy and monetise the importance of timber and paper products to the business model. By integrating the financial importance of a specific resource in this way, a company's sustainability strategy takes on a new meaning. When timber is viewed through the lens of natural capital dependencies, a restorative approach coupled with responsible sourcing is the only sensible strategy.

Kingfisher has reached 92% responsibly sourced timber in the products it sells. It's working towards 100%, enabling all of its customers to make the sustainable choice every time they buy timber products. The company is now looking to mirror those achievements for all the wood and timber used in its business that isn't sold to the customer but used as a result of its operations. Kingfisher is also involved in a collaborative initiative to understand the contribution that FSC certification makes to forests and thereby measure the positive impact of its procurement decisions. It is also enhancing and restoring forests to benefit biodiversity and local communities with projects in China, the UK, Poland and Spain.

Kingfisher

The Green Investment Bank has a role to play

Many investable projects to maintain and improve the state of natural capital will see benefits being delivered over a long period of time, so the availability of finance to support novel natural capital projects with long-term returns is important. The Natural Capital Financing Facility from the European Investment Bank has been established to help finance projects that promote the preservation of natural capital and hence de-risk corporate investment but there is room for greater support.

In the context of the UK, the Green Investment Bank could play an important role in investing in natural capital projects and helping bring more finance to the sector. The government's proposal to privatise the Green Investment Bank must be undertaken in a way that maintains its environmental mission and a structure supportive of natural capital investment. The government must explore what safeguards can be put in place to help ensure the bank retains its ability to invest in novel green projects that other mainstream private sector investors are less likely to support on their own.

This could include considering recapitalisation models that would support the bank's continued focus on novel green investments (such as through the participation of UK based institutional investors like the Environment Agency Pension Fund and citizen finance) and maintaining a requirement for the bank to report annually on its green investments.

FOUR: INCORPORATING NATURAL CAPITAL IN POLICY AND CORPORATE DECISION MAKING

Measuring reliance on natural resources will enable better decision making and support economic growth over the long term.

What does not get measured gets ignored

There are already some good examples of companies measuring their reliance on natural capital and taking steps to monitor and reduce it; however we need more businesses and government to integrate natural capital fully into their decisions through a focus on measurement, valuation and accounting.

Once natural assets at risk are clearly identified and the effectiveness of protection or improvement schemes can be properly measured, this will produce better decision making and unleash investment opportunities. The ability to measure is critical for transparency and good public policy making.

The work started by the Office for National Statistics (ONS) on incorporating natural capital into the UK Environmental Accounts by 2020 must be continued. Other potential innovations could include its incorporation by HM Treasury in the National Infrastructure Plan and running natural capital stress tests as occurs with financial capital risks, an idea advocated by WWF.[22] These stress tests would help evaluate the level of exposure of UK Plc and individual economic sectors to potential changes in the state of natural capital and inform decisions about what level of assets should be maintained to mitigate this risk.

WILLMOTT DIXON'S NEW MODEL FOR CONSTRUCTION

A contractor's involvement with a site is finite. Yes, they can install bat boxes, sow wildflower meadows, plant green roofs – but once the project is complete, they leave the site. Since it can take several seasons and years for flora and fauna to colonise new areas, monitoring the success of these interventions is very difficult for the contractor. Insufficient learning means that contractors up and down the country may be continuing to implement the same ineffective measures, year after year, despite all the best efforts made.

In 2014 Willmott Dixon signed a memorandum of understanding which would fundamentally change their approach. The understanding was crafted with The Wildlife Trusts. The agreement included a framework for collaborative working, as well as accessing a full range of local ecology consultancy services, reinvesting benefits for wildlife in communities where Willmott Dixon operates.

Based on principles of early engagement, locally expert advice and lasting legacy, the benefits of this approach to local biodiversity and communities are huge. The individual Wildlife Trusts are run and resourced by people living in local communities, who can engage with site users and monitor new builds long after the contractor has left the site. Information collected before, during and after the build can contribute to the wider pool of local natural environment knowledge, with data channelled through local records centres.

WILLMOTT DIXON

22 WWF (2015) *A Greener Budget: sustaining our prosperity in a changing world.*

THE CROWN ESTATE'S CNCA PILOT

The CNCA framework developed for the NCC by eftec, RSPB and PwC was applied to the Crown Estate's Windsor Estate – around 6,400 hectares of parkland, woodland and gardens.

The framework enabled better understanding of the wider societal value generated by the Estate's natural capital assets in terms of recreation, landscape amenity, climate regulation and air filtration.[23] This helped inform budgetary discussions and stimulated discussion of natural capital at a senior management level.

The importance of natural capital accounting at the organisational level

Businesses and other organisations must carefully measure their reliance on natural resources and the efficiency with which they use them. We need to see the establishment of company level schemes of ecosystem accounting with board level engagement.

The development of **corporate natural capital accounting (CNCA)** has already been very important. The NCC has undertaken substantial work in this area running a number of pilots: "the aim of CNCA is to establish a framework within which organisations can account for natural capital, documenting assets and liabilities in a balance sheet format that extends traditional financial reporting."[24]

We need increased take-up and trials of such accounting. Businesses must learn from the best practice available and accounting bodies have a role to play in mainstreaming and harmonising these practices.

Professional bodies also have a role to play in helping to support and spread awareness of natural capital knowledge and skills as well as to connect professionals from different disciplines. Some bodies are already working to do this, such as IEMA who are exploring new approaches to valuation and building collaboration between environmental and finance professionals.[25]

The work of the Natural Capital Coalition and partners to develop a Natural Capital Protocol[26]

The Natural Capital Protocol aims to provide a "standardized framework for business to measure and value their direct and indirect impacts and dependencies (positive and negative) on natural capital".[27]

It will provide clear guidance on qualitative, quantitative and monetary valuation of natural capital impacts and dependencies, be framed for use in different business applications including different organisational levels (corporate, project, products and site) through the value chain and be applicable to all business sectors across all geographies.

23 Natural Capital Committee (2015) *The State of Natural Capital: Protecting and Improving Natural Capital for Prosperity and Wellbeing.*

24 Ibid.

25 IEMA and ICAEW (2012) Leading the Way event: http://bit.ly/1MezilG

26 Natural Capital Coalition website: http://bit.ly/1RG4LbS

27 Natural Capital Coalition (March 2015) *Developing the Natural Capital Protocol and Sector Guides for business: an overview.*

FIVE: WHAT NEXT FOR INSTITUTIONAL ARRANGEMENTS?

Strengthening institutions such as the Natural Capital Committee will safeguard the UK's natural capital strategy and steer policies towards delivering better environmental outcomes in the long term.

The future of the Natural Capital Committee

The Aldersgate Group has previously argued for the establishment of a permanent advisory body in law with powers to hold the government to account.[28] Discussions must be undertaken with the devolved administrations to determine whether the Committee's focus should be extended beyond England.

The NCC must continue to monitor the state of our natural capital, provide oversight for the integration of natural capital metrics in the national accounts by 2020 and the development of markets for ecosystem services, and scrutinise upcoming legislation that impacts the natural environment.

It should also take a holistic view of big government capital investment projects to design out unnecessary natural capital damage and design in net positive compensatory aspects. Good progress made in certain departments must be spread throughout government and the NCC can help ensure this is embedded.

How other institutional arrangements could help

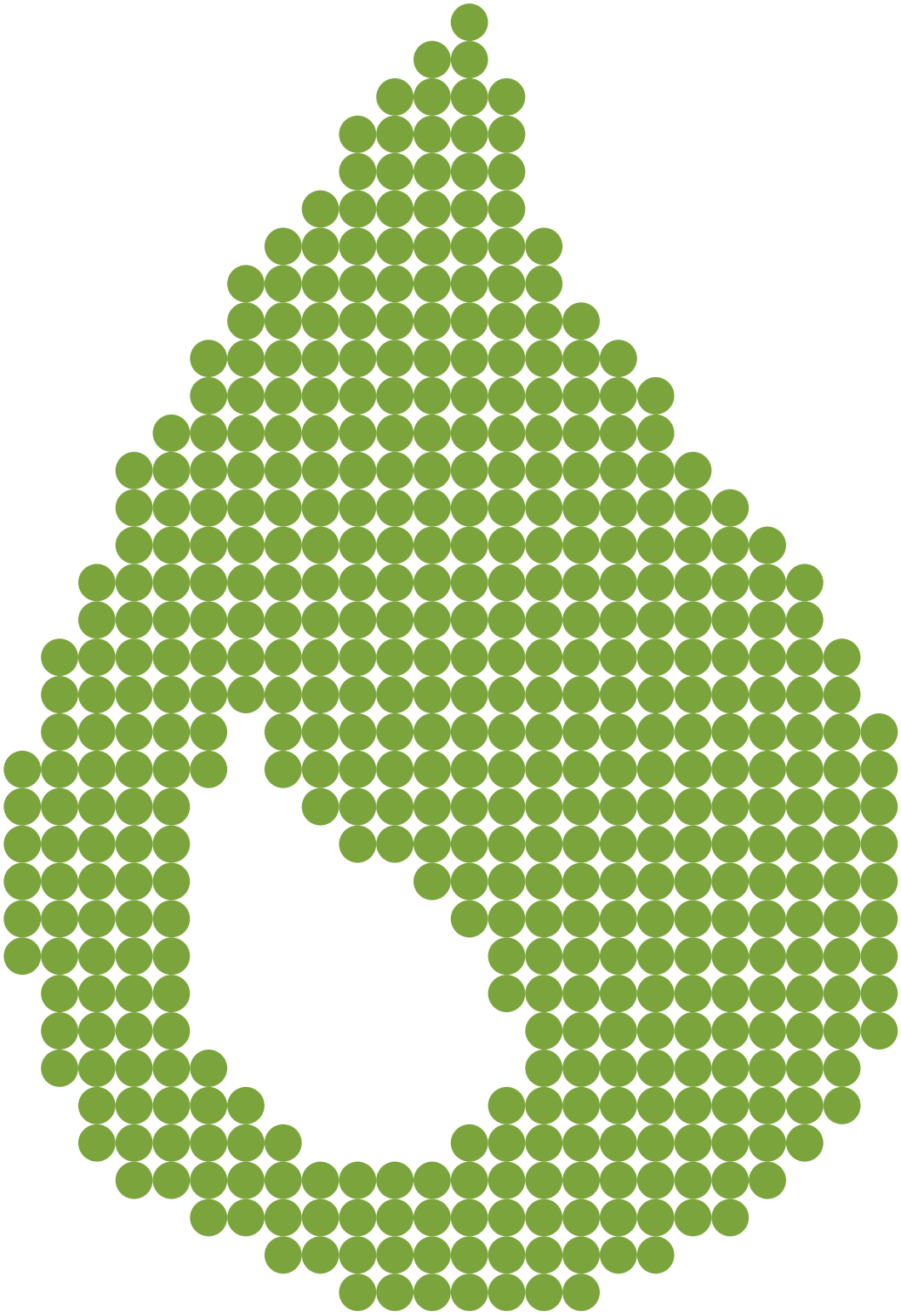
The effectiveness of other institutional arrangements to hold the government to account in terms of improving the state of the UK's natural capital must be improved.

The government should explore what role the ONS can play in supporting the capture, standardisation and distribution of natural capital data. Public sector bodies and regulated industries who own and manage natural capital must have responsibility for maintaining it enshrined in their licenses. The ability of the Department for Environment, Food & Rural Affairs and its agencies to continue to engage meaningfully in this area must be maintained even in the context of reduced budgets.

Health and Wellbeing Boards should take into account the opportunity presented by the natural environment in preventative health and explore what local action on natural assets could do to reduce healthcare demand and increase wellness amongst their population.

Lastly the government's 25-year plans in both biodiversity and food and farming need clear goals and milestones to slow the decline and start improving the different natural assets that they cover. They must be sufficiently ambitious and give a clear indication that the state of the UK's natural capital must be enhanced for the benefit of the economy, society and the environment.

28 Aldersgate Group (December 2014) *Aldersgate Group Manifesto: priorities for the next parliament.*



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