

# Aligning the UK's economic goals with environmental sustainability

## Aldersgate Group written evidence, January 2022

### BACKGROUND

1. The Aldersgate Group is an alliance of major businesses, academic institutions, professional institutes, and civil society organisations driving action for a sustainable and competitive economy. Our corporate members, who have a collective turnover in excess of £550bn, believe that ambitious and stable low carbon and environmental policies make clear economic sense for the UK.<sup>1</sup> They have operations across the UK economy and include companies such as Associated British Ports, BT, CEMEX, the John Lewis Partnership, Johnson Matthey, Vestas, Michelin, National Grid, Octopus Energy, Orsted, Ramboll, Scottish Power, Siemens, SUEZ, Tesco and Willmott Dixon. Our membership also includes environmental organisations like the RSPB, WWF and Green Alliance.
2. We develop independent policy solutions based on research and the expertise and diversity of our members. Through our broad membership, we advocate change that delivers benefits to an ever-growing spectrum of the economy.

### INTRODUCTION

3. **The Aldersgate Group has long called for the alignment of economic policy and environmental sustainability.**<sup>2</sup> In recent years, protecting and restoring nature – in the UK and beyond – has increasingly become a priority for UK businesses and financial investors.<sup>3</sup> Since its creation in 2006 the Group has consistently emphasised that ambitious and stable low carbon and environmental policies make economic sense for the UK. Our members and the wider business community are increasingly becoming aware of the role that biodiversity and ecosystems play in underpinning economic activity and their importance in delivering our climate targets. Similarly, the COVID-19 pandemic has changed the way the public values, accesses and engages with the natural environment.<sup>4</sup>
4. The Group therefore strongly welcomed *The Economics of Biodiversity: The Dasgupta Review*, which was commissioned by Her Majesty's Treasury and written by Professor Sir Partha Dasgupta. The report's publication marked the first time a major economy has explored the link between economic activity and biodiversity loss, making the case for incorporating biodiversity and ecosystems into the economic framework, just as *The Economics of Climate Change: The Stern Review* did for climate change.
5. In response to the Review, the government highlighted a number of positive policies to drive investment into nature – such as establishment of the Taskforce for Nature-related Financial Disclosures (TNFD), revision to the Environmental Land Management Scheme, and the biodiversity net gain principle, among others. **However, there remains a significant opportunity for further policies to be**

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<sup>1</sup> Individual recommendations cannot be attributed to any single member and the Aldersgate Group takes full responsibility for the views expressed.

<sup>2</sup> For further details please see the Aldersgate Group reports *Seize the moment: building a thriving, inclusive and resilient economy in the aftermath of COVID-19* (June 2020) and *Rebuilding to last: How to design an inclusive, resilient and sustainable growth strategy after COVID-19* (July 2020 – researched and written in partnership with the London School of Economics Grantham Institute on Climate Change and the Environment)

<sup>3</sup> South Pole (21 May 2021) "The Green Deal series: Part 3 – Investing in biodiversity is a green business opportunity"

<sup>4</sup> Natural England & Defra (30 September 2020) "Public love for nature during Covid-19 highlighted by new survey"

introduced which will more deeply embed nature's value into the way decisions are made, as well as how natural capital is measured within the economy.

6. **The Aldersgate Group therefore recommends that the government – in particular Her Majesty's Treasury – commits to a globally leading reform of how economic prosperity is measured in the UK.** The new measure should include natural capital and other indicators of economic sustainability, or 'inclusive wealth' as advocated for by Professor Sir Dasgupta, which would incorporate areas like education and health. This would ensure the UK's measures of economic prosperity, like Gross Domestic Product (GDP), accurately reflect the assets required to underpin sustainable economic activity – beyond just producing goods and services. This approach could help to embed understanding of the important role that both natural and human capital play in the health of a the UK's economic system. This consultation response will set out detailed recommendations for how this reform to economic prosperity could be conducted, as well as outlining policy recommendations for operationalising and mainstreaming 'inclusive wealth'.

## EVIDENCE

***Q1. How does the way the Government currently uses GDP in setting macro-economic policy affect the development of environmental policy and of cross-departmental action to achieve the UK's environmental goals?***

7. Currently in the UK, Gross Domestic Product (GDP) is calculated by the production of goods and services. This approach means that natural capital<sup>5</sup> and human capital (such as health, education) are omitted from most assessments of whether a nation's economy is functioning in a sustainable way which delivers "inclusive wealth", as outlined by Professor Dasgupta in his Review.
8. This has a direct impact on the whole economy, as **the omission of natural capital in accounting has allowed the over-extraction and depletion of nature**, upon which many supply chains and our overall economy depend. It subsequently excludes other services which are provided by the natural environment, like producing clean air and water, and ignores the vital importance of human health and knowledge in an economic system.
9. Similarly, decisions in government departments have an impact on how the private sector thinks about nature and biodiversity. Private investment into natural capital is unlikely to grow to the rapidity and scale required to meet the UK's nature restoration and climate targets if ecosystem services and biodiversity lack a clear value. It will therefore be critical to embed natural capital into economic measures, and to create policies and business models which make investment into nature restoration and conservation attractive.<sup>6</sup>
10. More broadly, private companies are only expected to report on their income and balance sheet – data which is used to calculate GDP - with no requirement to include details of natural or human capital accounting. Though policies have been introduced which aim to change the way corporates and financial institutions think about climate change and its impact on supply change and investments (such as climate-related financial disclosures) this does not yet extend to disclosing risk from nature loss. This means that both businesses and government are operating under an economic model

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<sup>5</sup> <https://www.worldbank.org/en/topic/natural-capital#1> [Accessed 12 January 2022]

<sup>6</sup> The natural capital and private investment business models being developed by Defra, the Environment Agency (EA), Esmée Fairbairn Foundation (EFF) and Triodos Bank UK are a good example of innovation in this area.

which does not place productivity and profits in the wider context of environmental and social outcomes.

11. The government has made some good progress on setting policy which will help to increase investment into nature. For example, the 2021 Environment Act will enable the introduction of policies such as biodiversity net gain and species abundance targets – which will require developers to mitigate their impacts on nature. It will also enable the setting of legally binding long-term targets in four priority areas – air quality, biodiversity, waste and resources, and water. **Nonetheless, there remains an opportunity for greater ambition from the UK government in embedding natural and human capital more deeply into macroeconomic assessments.** Like with GDP, there is potential for the government to update its accounting methods to incorporate natural and human capital in a way which highlights their value in the economy; the ONS already measures many of these indicators (see #27 for further details). Taking this approach would also send the right signal to the private sector of the government’s ambition in this area.
12. It is worth highlighting here that **there is a wider need for a holistic way of thinking about natural and human capital to be embedded across Whitehall.** Currently, conservation comes under the remits of the Department for Environment, Food and Rural Affairs (Defra) and Natural England, even though nature is impacted by the activities of all departments. For example, the Department for Transport (DfT) can impact nature by constructing new roads, and the Department for Levelling Up, Housing and Communities (DLUHC) can impact biodiversity through the construction of new houses. Although there are planning requirements in place to manage biodiversity impacts, the role of nature conservation is largely the responsibility of Defra and Natural England. This siloed approach leads to unintended adverse consequences on the economy, as nature is depleted in parallel with plans to protect it.
13. Similarly, a healthy economy is one in which the workforce possesses the right skills to meet the evolving requirements of employers and the economy at large. Yet skills policy is largely the focus of the Department for Education – with some involvement from BEIS, given its Net Zero remit – even though skills gaps can significantly hinder the delivery of climate and nature restoration targets across all government departments.
14. Similarly, whilst health is impacted by environmental and nature policy decisions taking place in BEIS and Defra, identifying co-benefits and producing cross-departmental strategies in collaboration with the Department for Health and Social Care is not commonplace. Recommendations for ways in which to tackle this siloed thinking can be found in #23.

***Q2. How could GDP, or other current measures of macro-economic activity, more fully account for human and natural capital assets? What are the challenges and/or opportunities in moving to a way of measuring economic progress which takes greater account of such assets?***

15. As outlined, GDP is currently measured as simply the value of goods and services in the UK.<sup>7</sup> Currently, the Office for National Statistics (ONS) evaluates economic prosperity by looking at GDP and other measures of economic prosperity such as employment and foreign direct investment (FDI). None of these indicators are able to provide a sense of how healthy the UK’s natural environment is, nor the quality of

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<sup>7</sup> Office for National Statistics (17 December 2021) “Understanding the UK economy”

employment or types of foreign investment. There are a number of ways for these current measures of macro-economic activity to be built on in a way which accounts for human and natural capital assets.

16. **The government should include natural and human capital in addition to the economic prosperity measures outlined in #15.** One existing methodology which takes this approach is the Sustainable Development Index (SDI).<sup>8</sup> The SDI takes education, life expectancy and income (the latter of which is already used by the UK government as a signifier of macroeconomic health) as well as CO<sub>2</sub> emissions and material footprint per capita, to provide a more complete picture of the economic sustainability of a nation. **Including variables like emissions reductions and the value of natural capital as indicators, both of which have direct impacts on the UK economy's prosperity, alongside data on GDP, FDI and employment, would provide a more accurate picture of the sustainability of the UK economy and inform policy decisions in both the public and private sectors.**
17. Making changes to how the UK measures economic progress would have multipliers for some of the government's other targets. Members of the Aldersgate Group recognise that protecting nature will play a significant role in delivery of the UK's net zero target, and that **nature-based solutions are more cost-effective in reducing carbon in the atmosphere than technologies** which featured in the government's Net Zero Strategy – such as greenhouse gas removal technologies and green hydrogen.<sup>9</sup> Nature-based solutions can also play a key role in helping the UK to adapt to climate change – for example, reducing the severity of flooding by planting trees.
18. **Furthermore, nature-based solutions, unlike greenhouse gas removal technologies, can deliver additional improvements such as improved air quality and other wellbeing benefits.** Nature-based solutions therefore have positive implications for health services through reduced pollution-related illnesses and improved mental health. The government expects the cost of air pollution to be as high as £1.5 billion to the NHS and social care by 2025, and £5.1 billion by 2035,<sup>10</sup> and the WWF estimates that failing to protect nature could cost the UK economy £16 billion a year.<sup>11</sup> However, according to calculations from the Natural Capital Committee, if woodland was planted on the periphery of major towns and cities, it would deliver net economic benefits of nearly £550m per annum through improved health and wellbeing impacts.<sup>12</sup> Investing in nature can therefore deliver multiple positive benefits across different sectors.
19. Similarly, the Aldersgate Group is acutely aware of the vital role that the right skills will play in facilitating the transition to a low carbon economy – such as skills in low carbon manufacturing, construction, nature restoration and green finance. Using these variables to monitor progress on delivering net zero, restoring nature and growing the low carbon skills base in the UK, as well as overall economic prosperity, is an important opportunity.
20. **Reviewing and strengthening how GDP is calculated is also an opportunity for the UK to demonstrate leadership on sustainable economic policy.** Because each

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<sup>8</sup> <https://www.sustainabledevelopmentindex.org/> [Accessed 12 January 2022]

<sup>9</sup> HM Treasury (February 2021) *The Economics of Biodiversity: The Dasgupta Review*

<sup>10</sup> Public Health England (May 2018) *Estimation of costs to the NHS and social care due to the health impacts of air pollution: summary report*

<sup>11</sup> WWF (February 2020) *Global Futures: Assessing the global economic impacts of environmental change to support policy-making*

<sup>12</sup> Natural Capital Committee (March 2015) *The state of natural capital: Protecting and improving natural capital for prosperity and wellbeing*

country can take its own approach to the methodology used to calculate GDP, the UK can decide how it will account for and report on its wealth.<sup>13</sup> **The UK, as the COP26 President until November 2022, could use its position as a global leader on climate and biodiversity to start a global dialogue about GDP methodologies.** This would be of particular interest to developing countries, where natural capital is of a higher share of national wealth.<sup>14</sup>

**Q3. How effective has the Government's response to the recommendations of Sir Charles Bean's Independent Review of Economic Statistics (2016) and Professor Sir Partha Dasgupta's Review of the Economics of Biodiversity (2021) been to date?**

21. It was welcome to see the government respond to the Dasgupta Review in June 2021. The response sets out some of the policies in place under the 2021 Environment Act which aim to improve species abundance (such as biodiversity net gain and setting legally binding long-term targets). The response also referenced plans to explore improving the way nature is accounted for in national accounts and to publish government guidance for embedding nature into decision-making.
22. However, the plan did not outline the ways in which the government intends to integrate the recommendations of the Dasgupta Review into the way the UK measures economic prosperity. **The Aldersgate Group strongly recommends that Her Majesty's Treasury (HMT) takes a leadership position on reviewing the process of embedding sustainability and healthy biodiversity into the way GDP is calculated.** This should take place alongside the work being carried out by the ONS, which was highlighted in the government's response.
23. **Similarly, the response did not set out an action plan for taking the findings of the Dasgupta Review forward and engaging all government departments on these findings.** It is critical that the recommendations of the Dasgupta Review are developed into actionable policies which reflect the role of nature across the UK economy.<sup>15</sup> It will be important to establish a cross-departmental framework which incorporates the value of nature and biodiversity into decision making in every department. This could be supported by the work carried out by the Committee on Climate Change, or by establishing a new Taskforce, which would have a mandate to incorporate these considerations across government. **In either of these options, it will be crucial to create a comprehensive framework, with strategic leadership from HMT. Engagement must include representatives from departments such as DfT, DLHUC and the Department for Health and Social Care as well as Defra. This will enable a more holistic approach to valuing natural and human capital across government** (see #14 for further details).

**Q4. How could Professor Dasgupta's conception of 'inclusive wealth' be made operational as an economic measure?**

24. There are a number of ways in which Professor Dasgupta's concept of 'inclusive wealth' can be made operational as a macroeconomic measure of prosperity. **The most obvious opportunity is for the government to include natural and human capital as variables when calculating GDP.** As outlined in #20, the UK has the autonomy to decide which variables it uses in calculating its GDP measure. The government should begin to include variables identified by Professor Dasgupta which

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<sup>13</sup> The Economist (26 March 2014) "How countries calculate their GDP"

<sup>14</sup> <https://www.worldbank.org/en/topic/natural-capital#1> [Accessed 12 January 2022]

<sup>15</sup> For more details about the next steps for government please see the Broadway Initiative & Aldersgate Group briefing (April 2021) *Dasgupta Review: How the Government's response can help business invest in nature*

measure 'natural capital' (for example, the abundance and quality of biodiversity and ecosystems) and 'human capital' (for example, the improving standard of education, health and skills) in addition to the existing standard of 'produced capital'.

25. **Including natural capital as a measure can be done in the near-term using data published annually by the ONS on the value of the supply of natural capital.** Because GDP is assessed based on whether an asset value has increased or decreased against the previous year, adding the supply of natural capital as a measure is relatively straightforward. However, it is also important that an assessment of the quality of nature is included as a measure – as it is important to minimise the risk of investment in nature going towards simplified projects like monocultures. Using the supply of natural capital as an initial measure can then be built on in the future, as an additional supply of data on natural capital quality becomes available.
26. **However, it is important that the process of calculating the value of natural capital is improved, as natural capital is often under-valued.** For example, in the UK, the asset value of natural capital and ecosystem services was estimated by the ONS to be worth £921 billion in 2018, more than a third of which was attributable to regulating services such as pollution removal and carbon sequestration, which keep our air clean and our planet liveable.<sup>16</sup> This is just 0.01% of the estimated value of the UK housing market in the same year, at over £7.29 trillion.<sup>17</sup> The ONS figure is therefore likely to be an underestimation of the value of nature, as it is difficult to calculate the precise value of biodiversity and ecosystems, and this must be taken into account in initial assessments of the value of natural capital assets in the UK.
27. **At the macroeconomic level, measuring education and health as indicators would reflect the human capital dimension of 'inclusive wealth'.** As outlined in #16, the Sustainable Development Index (SDI) uses these variables to estimate the sustainability of a nation's economy. The ONS already reports statistics on national health, education and wellbeing<sup>18</sup> – though they are not always reported annually. **These statistics could be built upon with the view to incorporate them into annual calculations linking directly to GDP and economic prosperity.**
28. **There are several additional environmental metrics the government should consider including in measures of economic prosperity, alongside natural and human capital.** For example, the government could **include a resource efficiency metric based on reducing absolute resource use**, building on the targets outlined in the 2021 Environment Act.<sup>19</sup> This would help the UK to overcome an overreliance on the extraction of raw materials, which was identified in the Dasgupta Review as a key challenge for reconsidering nature's role in the economy. Metrics relating to climate and net zero could also be included – such as **emissions reductions** (which is included in the SDI methodology), or the **amount of energy produced by renewables**, both of which are reported by the ONS already. Finally, the **size of natural protected areas** in UK territories (both on land and in the marine environment) could be included as a metric to indicate the UK's commitment to, and progress on, increasing the amount of nature which is being conserved.
29. **There are other opportunities to make 'inclusive wealth' operational in the economy at the microeconomic level through introducing policies which will encourage businesses to think about their impact on biodiversity and nature.**

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<sup>16</sup> Office for National Statistics (November 2020) *UK natural capital accounts: 2020*

<sup>17</sup> Savills (4 February 2019) "Value of UK housing stock hits record high"

<sup>18</sup> <https://www.ons.gov.uk/peoplepopulationandcommunity> [Accessed 12 January 2022]

<sup>19</sup> For more information on resource efficiency please see the Aldersgate Group's report *Closing the Loop: Time to crack on with resource efficiency* (July 2021).

The government has already introduced policies which will more effectively take account of natural capital assets – for example, Local Nature Recovery Plans, the Environmental Land Management Scheme and the Natural Environment Investment Readiness Fund. It is now important for these different policies and projects to be integrated, and to deliver clear environmental regulation to businesses. These policies can be strengthened by introducing further policies focusing on embedding nature and climate into business decision-making over the next few years. Recommendations for such policies are outlined in the following paragraphs.

30. The framework being produced by the TNFD – which will be published in 2023 – will be critical here. **Introducing a mandatory requirement for large businesses to publish nature-related disclosures in the future will embed risk relating to nature loss into decision-making**, just as the mandatory requirement for publishing in line with the Taskforce for Climate-related Financial Disclosures has embedded climate risk into decision-making.
31. Similarly, **introducing double materiality** – whereby a business must disclose the risk of their business activities contribute to climate change or biodiversity loss, in addition to identifying how their business could be affected by those events – **would be beneficial in increasing a holistic understanding of how a business or investment is dependent on nature and the environment**. Introducing a requirement for **scenario analysis for biodiversity loss**, which will complement scenario analysis for climate change (a mandatory reporting requirement from April 2022), would further increase understanding of future risks and enable forward-planning. **Encouraging businesses to publish biodiversity loss disclosures on a voluntary basis in the near-term, should also be a focus**. A key factor in this will be ensuring that data is available to help businesses in producing these disclosures – as a lack of data has been cited as the biggest barrier to investing in nature.<sup>20</sup> Defra’s MAGIC data portal will be critical here and must be expanded and promoted accordingly.<sup>21</sup>
32. **It is also important to ensure that government policy not only recognises nature protection, but also capitalises on opportunities for nature enhancement**. This will be a crucial component of realising the government’s vision of reversing nature’s decline and maximising the value from ongoing policy changes. For example, Defra’s draft policy statement on environmental principles focuses exclusively on nature protection, but by taking a broader perspective on nature, and recognise the role of enhancement in addition to protection, it is possible to get a more holistic view of the value of nature. This is something which will also send a strong signal to the private sector regarding the need to fully consider nature as part of economic decision making.

***Q7. How might the public, businesses, financial institutions and the financial system react to any move away from GDP as the primary indicator of prosperity? What challenges could this present for policymakers, and how might these be overcome?***

33. As outlined in #1, the private sector’s understanding of the role the environment plays in underpinning economic activities in the UK is growing. Investors are increasingly interested in identifying opportunities for nature and biodiversity investment. Businesses are developing partnerships and strategies to minimise their impact on ecosystems, or even to restore nature to a higher quality than they found it. For

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<sup>20</sup> Responsible Investor (22 January 2021) “Data voted the biggest hurdle for investors trying to address biodiversity”

<sup>21</sup> <https://magic.defra.gov.uk/> [Accessed 14 January 2022]

example, Wessex Water has published a biodiversity action plan,<sup>22</sup> and IKEA has partnered with WWF to accelerate action to enhance biodiversity.<sup>23</sup> The public has also reported an enhanced relationship with nature resulting from the COVID-19 pandemic,<sup>24</sup> and nature was high on the agenda at COP26, with nature-based solutions one of the key action tracks.<sup>25</sup>

34. These activities demonstrate growing support with regards to thinking about biodiversity and ecosystems alongside other economic activity. Regulatory policies and mechanisms – such as the work for the TNFD and biodiversity net gain – can help to accelerate this and help to overcome inertia from sectors which are considering natural capital and nature-based solutions to a lesser extent. Publishing guidance can further help companies to overcome barriers to doing so in their strategic planning – for example by directing businesses towards the MAGIC data portal (referenced in #31) and providing details about the TNFD framework when it is available in 2023.
35. **When it comes to changing the way economic prosperity is measured in the UK, the Aldersgate Group recommends that GDP be reformed and updated to include measures of ‘inclusive wealth’ rather than moving away from GDP entirely.** This approach will help make the already established measure of GDP more nuanced, and will promote a better understanding of the relationship between nature, climate and economic prosperity – something which will be crucial as the UK looks to realise its climate and environmental goals.
36. **It is important that these changes be introduced over the course of a few financial years,** to allow for policymakers and other stakeholders across the economy to prepare and adjust. The government should ensure that the inclusion of these measures is accompanied by guidance and communication about the motivations behind the change. It will also be necessary for government to work with a wide range of stakeholders – such as businesses, local government and financial institutions – to increase buy-in and understanding of the changes that are taking place. Once in place, there is also a real opportunity for the UK to lead on this agenda internationally as part of its climate diplomacy and promotion of the Dasgupta Review.
37. Finally, enhancing the portal of data available on the ONS website – which is already comprehensive – would further help to make the reformations accessible and useful to businesses, the public and financial institutions – both in the UK and globally.

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<sup>22</sup> Wessex Water (2019) *Biodiversity action plan*

<sup>23</sup> IKEA (12 May 2021) “Renewed IKEA and WWF partnership to accelerate action to enhance biodiversity”

<sup>24</sup> Natural England & Defra (30 September 2020) “Public love for nature during Covid-19 highlighted by new survey”

<sup>25</sup> Carbon Brief (17 November 2021) “COP26: Key outcomes for food, forests, land use and nature in Glasgow”