

# Accounting for Natural Capital in Business

*Ian Dickie, eftec*



**eftec**

**Rural Growth Board, West Cheshire  
& Cheshire Council, 23 Feb'17**

**What is Natural Capital?**

**The Natural Capital Protocol**

**Natural Capital Accounting Tools**

**Developments in Natural Capital Accounting**

- Leading consultancy specialising in environmental economics in the UK providing economic analysis for effective and sustainable environmental policy and management
- 25 years old, 12 Core staff
- Our work regarding natural capital:
  - Majority of research contracted by Natural Capital Committee in the UK
  - Technical Author of Natural Capital Protocol
  - Corporate Natural Capital Accounting method
  - Potential investments in natural capital

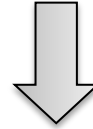
# What is Natural Capital?



# ‘Natural Capital’



- Analyses show high value of Ecosystem Services (MEA, TEEB)



What capacity is there to keep producing them in the future?



## NATURAL CAPITAL

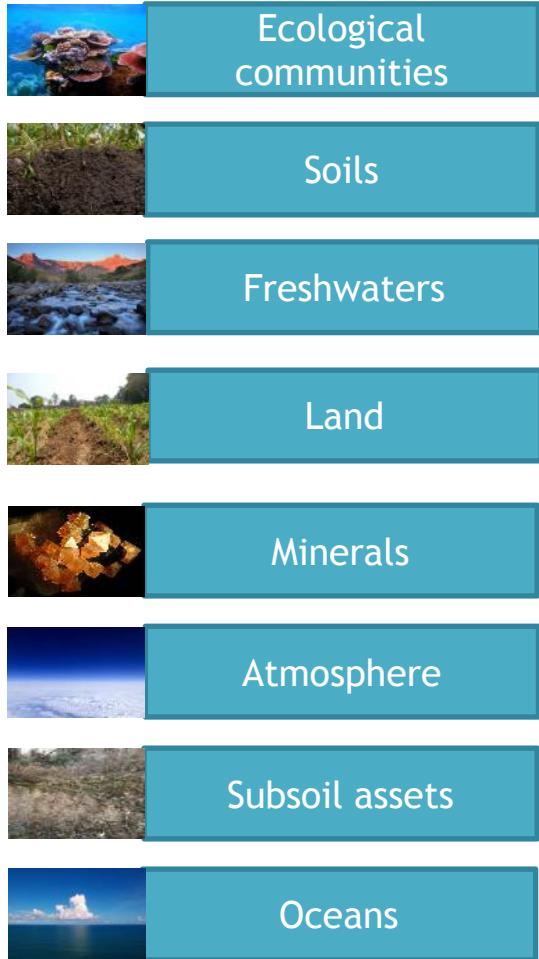
*The stock of renewable and non-renewable natural resources (e.g. plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people*

- Use familiar concept/ language of ‘capitals’
- Capture all strategic natural resource issues



# Natural capital concept

## Natural capital stock



Ecosystem  
Service Flows

Inputs from  
other capital

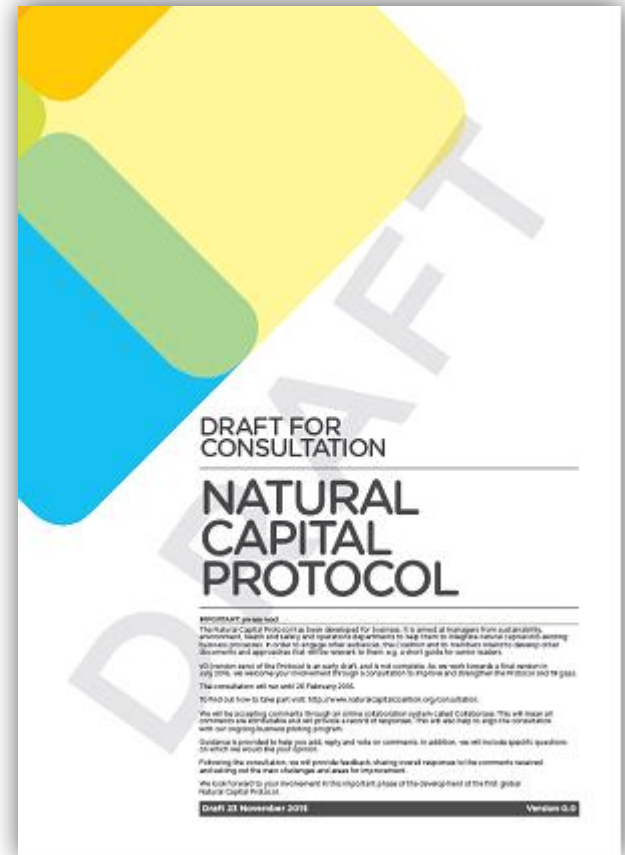
## Natural capital benefits



# The Natural Capital Protocol

# Natural Capital Protocol

1. All-encompassing scope/purpose on measurement & valuation of NC
2. Avoid 'green wash' & focus on materiality... ask the right question
3. Economic valuation of the environment to answer that question
4. Based on sound environmental and economic principles
5. Recognise moral, technical and other boundaries...





# Natural Capital Accounting Tools

# Why natural capital Accounting?



## Share

- Within the organisation
- With customers/ society
- With funders/ investors

## Save

- Identify risks
- Improve efficiency

## Return

- Long term sustainability
- Beyond financial profit

# Accounting for natural capital assets

*Corporate natural capital accounting adapts how companies think about physical assets to their management of natural capital assets.*

## Conventional physical assets



- Benefits to the company (revenue streams)
- Benefits at a single, local, scale
- Depreciate in value over finite lifetime
- Exclusively owned and controlled by the organisation for entirety of useful life

## Natural capital assets



- Benefits to the company and wider society
- Benefits at multiple scales (local, regional, global)
- Without intervention, value may decline or remain stable
- Value may appreciate over an infinite lifetime
- Often only partially 'owned' or controlled (e.g. certain use rights) for a defined period of time

# Natural Capital Accounting Tools for Business

- Many CSR/KPI/physical data approaches, e.g. GRI guidelines
- Environmental Profit and Loss - the balance of environmental impacts across a value chain
  - Corporate and sector examples: Kering Group, Brazilian commodities risk
  - Good for complex supply chains
  - Focusses on flows
- Corporate natural capital accounting
  - Designed in England for land assets: where an organisation has management responsibility for natural capital within a spatial boundary
  - 5 pilot applications
  - Large-scale studies for the Public Forest Estate in England and Duchy of Cornwall, published Summer 2016.

# Corporate natural capital accounting

**1. What do we have?**

Stocks of natural assets

**2. What does it produce?**

Flows of services

**3. What is that worth?**

Natural capital benefits

**4. What does it cost to maintain these benefits?**

Natural capital maintenance

# A Natural Capital Balance Sheet looks like this

At 31 <sup>st</sup> March 2016	Private	External	Total	Financial
	£m	£m	£m	£m
<b>Assets</b>				
Baseline				
Gain/Loss				
Addition/Disposal				
Revaluation				
Gross Asset Value				
<b>Liabilities</b>				
Legal				
Other				
Total Maintenance				
<b>Total Net Natural Capital Assets</b>				

# Developments in Natural Capital Accounting



**It works!**

**Builds on existing  
expertise**

**Links to science**

**Proportionate setup  
effort**

**Uses natural capital  
and commercial data**



# Economic valuation of the environment

## 3 STEP: Qualitative, quantitative, monetary process

### Primary monetary methods:

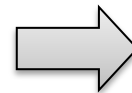
- Market prices
- Proxies through observed behaviour in markets
- Surveys of individual's preferences

### Value transfer:

- Use existing evidence: more cost-effective and uncertain



from this...



to this...



*How much does individual's wellbeing change?*

# Duchy of Cornwall CNCA - Summary

## External annual values

Large positive recreational value: over £4m  
Large negative carbon value: over £4m

## Private annual values

Private rents per year of £5m from tenancies  
Minerals (£0.1m) and timber (£0.3m) revenues

## Natural capital maintenance cost

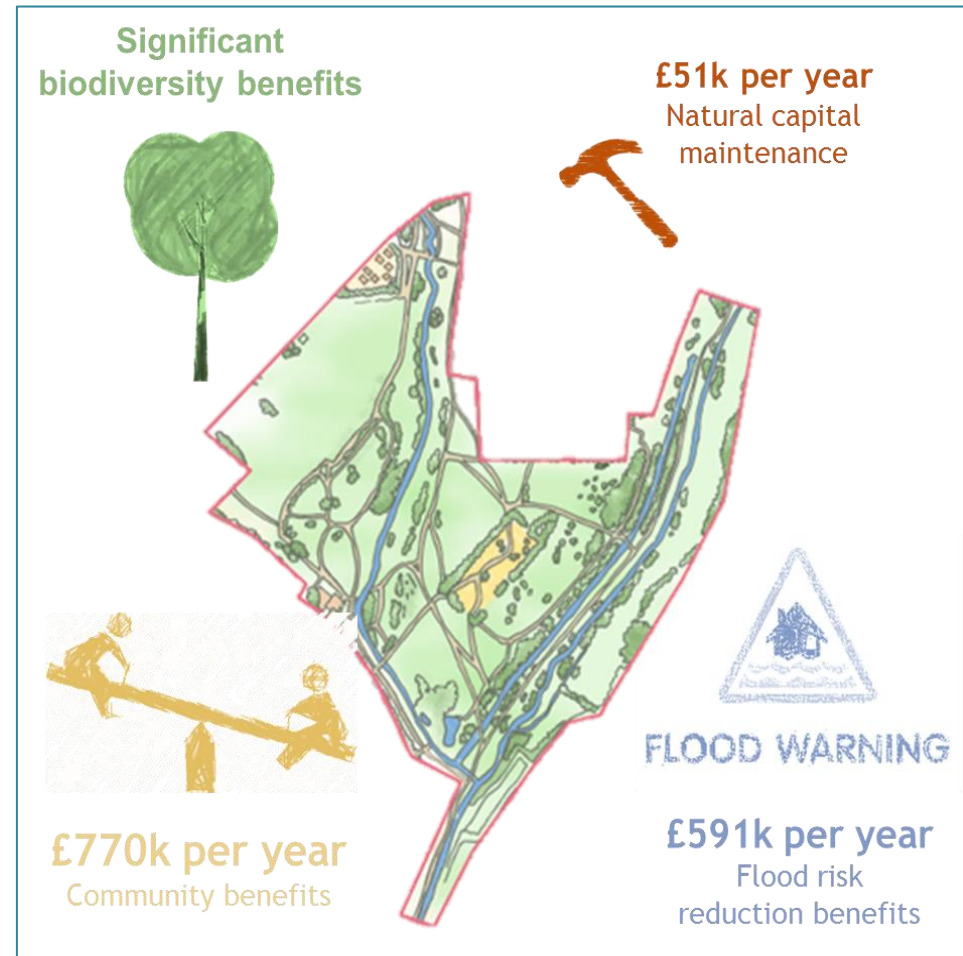
£1.1m per year on natural capital assets  
£29m in perpetuity

## Natural capital asset register

Majority is farmland and mountain/moor/heath  
Large SSSI area, more condition data needed

# Beam Parkland - Summary

- Financial accounting portrays Beam Parklands as a liability rather than an asset
- CNCA demonstrates the significant natural capital asset values from Beam Parklands that financial accounting does not capture
- Results enhance the case for financing management of similar sites and for adding new sites to the Land Trust's portfolio



# The Public Forest Estate - Summary

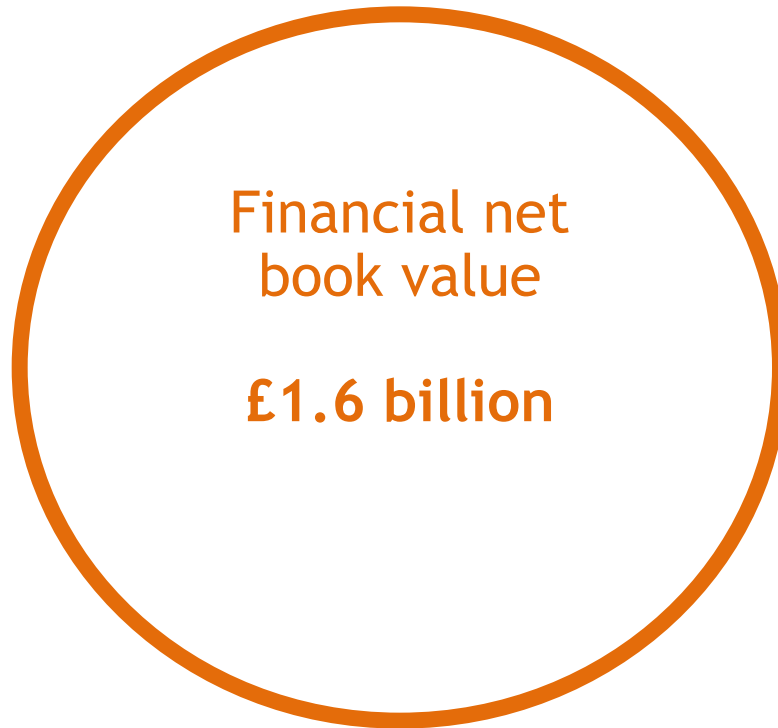
Annual

Capital

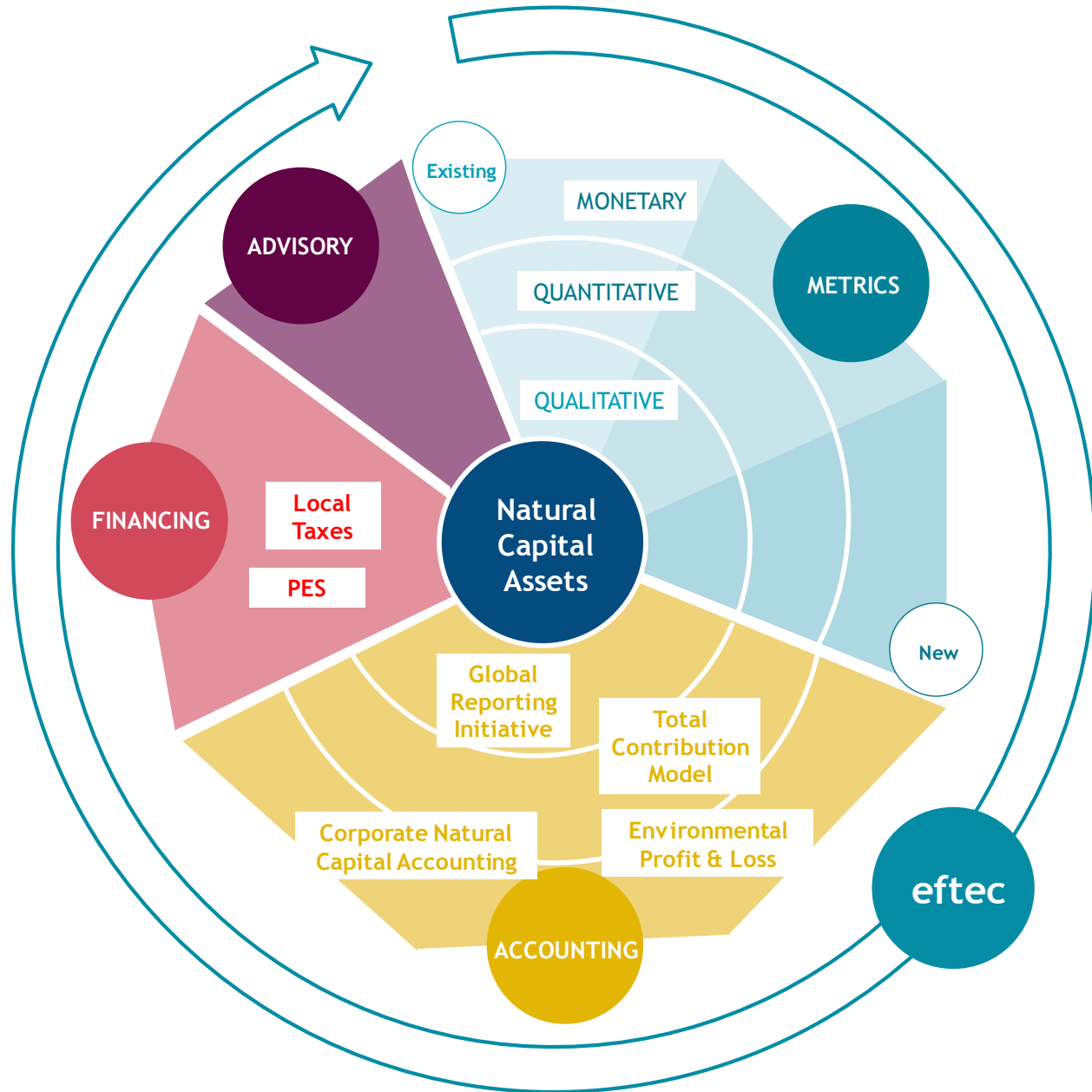
Government  
funding



Annual  
income



CNCA net  
asset value  
**£ 10+  
billion**



# Quotes

“Natural capital is a positive concept - it is about the good things the natural environment gives us and how we maintain them”

*Ece Ozdemiroglu, Director, eftec*

“Capital maintenance is the reason accountancy was born: Have I created value, or just depleted my stock?”

*Michael Izza, Chair Executive, ICAEW*

“This is a new language but the concepts build on what we have been doing for decades; and improvements in evidence and computing mean this is the right time to apply it”

*Sir Harry Studholme, Chair, Forestry Commission*

“This approach allows us to recognise the significant value and importance of natural capital assets not captured in financial accounting”

*Andrew Philipps, Rural Director of Finance, Duchy of Cornwall*

# economics for the environment consultancy (eftec)

*Ian Dickie*

[ian@eftec.co.uk](mailto:ian@eftec.co.uk)

0207 580 5383

[www.eftec.co.uk](http://www.eftec.co.uk)

Natural capital accounting at the local and landscape scale

An introduction: Half day seminars in Bristol (28<sup>th</sup> February), Liverpool (8<sup>th</sup> March), Perth (9<sup>th</sup> March) and Peterborough (17<sup>th</sup> May)

<http://ecosystemsknowledge.net/events/local-accounting-2017>