

# Natural Capital Committee

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## **Advice to Government on the 25 Year Environment Plan**

**September 2017**

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## Introduction

The Secretary of State for Defra asked the Natural Capital Committee (NCC) to advise on what the 25 Year Environment Plan should aim to achieve, how it should seek to do so and what the necessary conditions for success are. This note sets out the NCC's advice and recommendations on what the government should consider when drawing up the Plan, building on the Committee's previous recommendations over the past 5 years.

In its 2011 White Paper, *The Natural Choice*<sup>1</sup>, and repeated in successive manifestos, the Government has stated it wishes to be "*the first generation to leave the natural environment of England in a better state than it inherited...*". The NCC was set up to advise on how to deliver this objective and recommended that government produces a comprehensive Plan. The Committee also recommended a number of 'Pioneer Projects' to explore the challenges and opportunities raised in implementing a natural capital approach in practice, focusing on river catchments (Cumbria), urban areas (Manchester), landscapes (North Devon) and marine areas (Devon and East Anglia). The NCC has commented on the lack of progress with the Plan since 2015 and stressed the urgency for government to develop and publish an initial version of the Plan.

A good plan requires: a clear **vision** for the environment in 25 years' time; a set of actions and associated **investments** to deliver this vision; credible and measurable **milestones**; and robust **governance** to oversee implementation. The acid test for the Plan is whether these building blocks are put in place. The NCC's advice addresses each of these in turn.

The Plan should be based upon the principles of a natural capital approach which the NCC has set out in previous advice to government<sup>2</sup>. A natural capital approach to the environment brings established economic and accounting methods for public and private assets together with the best natural science understanding. Properly measured and accounted for, the approach brings disparate activities and their consequences together into a single strategic perspective that addresses the complexity and long-term nature of making the most of our natural capital.

The Plan is a huge economic and social opportunity that can genuinely transform the natural environment, support the growth of the economy, allow citizens to reconnect with the health, wellbeing, spiritual and educational benefits of interacting with nature, and gift our children a richer, better and more resilient natural inheritance. With a natural capital approach, the environment should no longer be regarded as an obstacle to development; rather, a healthy environment is the basis of sustainable economic growth.

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<sup>1</sup> The Natural Choice: securing the value of nature (2011): <https://www.gov.uk/government/publications/the-natural-choice-securing-the-value-of-nature>

<sup>2</sup> The NCC has defined natural capital as those elements of the natural environment which provide valuable goods and services to people. See <https://www.gov.uk/government/collections/natural-capital-committee-documents>.

This report sets out the NCC's advice to government on the development and implementation of the plan. It will be the responsibility of Defra to lead the work, liaising closely with other government departments, so that the Plan joins seamlessly with other cross government initiatives like the Industrial Strategy and the Clean Growth Plan. In addition local councils, private industry, the voluntary sector, NGOs and researchers will also have a key role to play. If this is to be a genuinely transformative plan, as we think it should, then everyone will need to play their part.

**Our advice is in five parts:**

1. What should be the vision, ambition and **goals** for the next 25 years?
2. What type and scale of activities and **investments** in natural capital assets should the Plan consider to deliver the ambition?
3. The need to incorporate **milestones** into the Plan.
4. The importance of considering **governance**, accountability, monitoring, measurement and implementation.
5. The special dimensions of **agricultural** subsidies in the context of BREXIT.

## 1. The Prize: what should be the vision, ambition and goals for the next 25 years?

The 25 Year Environment Plan should set out a clear, accessible vision for the state of the natural environment in 25 years' time, expressed in ways that everyone can understand, and provide quantified measures of success so that all know where they are heading and how close they are to achieving the goals.

This is Defra's first task. Without it the Plan will most likely go the way of many well intentioned initiatives in the past, and the overarching objective of leaving the natural environment in a better state for the next generation will not be achieved. The Plan needs to recognise the sheer scale and urgency of the task. At present UK natural capital is not even maintaining its current condition; it is declining. This is by definition unsustainable and if unchecked will not only leave the UK with a degraded environment, but with lower economic growth and a reduced quality of life for those that live here.

Below we provide some suggested goals for the Plan. This is not a comprehensive list but provides a starting point which government should take into account when developing the Plan. All goals should be specific, measurable and ambitious, while also being closely linked to improving human health, wellbeing and the economy. Over the period of the Plan new issues will arise that need to be considered and addressed. Hence both the goals and plan will need to be reviewed on at least a 5 yearly basis and modified in the light of progress and new findings.

Proposed goals for the Plan should include:

1. Everyone breathes air that meets international health based standards.
2. Everyone is protected against a 0.5% annual probability flood event through a combination of natural flood risk management measures, engineered structures and property level resistance and resilience measures. Everyone is able to return to their homes and businesses within a maximum of five days of a flood event.
3. All surface and ground waters at least meet good status requirements in line with existing international commitments. Bathing waters are healthy places for swimming and recreation, meeting international standards for excellence.
4. We continue to meet or exceed greenhouse gas emission reduction targets including the contributions from land use and land use change.
5. Everyone has access to local greenspace and recreation and can benefit from the physical and mental health benefits it provides. Specific targets should be set, for example, one hectare of local nature reserve per 1000 people, two hectares of natural greenspace within 300 metres of where they live, and a 20 hectare site within two kilometres.

6. Everyone, especially children, is better connected with their environment. People understand, enjoy and appreciate its benefits and can spend more time in green spaces.
7. Wild species and habitats are thriving and populations are restored and enhanced to levels that are sustainable into the future despite the challenges from climate change and increasing pressures from built infrastructure.
8. Seas are clean, productive and biologically diverse. Fish populations are restored to sustainable levels, and new pollutants, such as plastics entering the marine environment are eliminated and existing contamination is addressed.
9. Soils are healthy, productive and managed sustainably. All historic contaminated land is cleaned up.
10. The country makes a net positive contribution to the global environment, including being among the leading nations in terms of contribution to global environmental commitments and an ever decreasing international impact.
11. Discharges and emissions of polluting substances to air, land and water are prevented or are managed at levels where they do not have an adverse effect on people, wildlife and habitats.
12. All development and the use of renewable and non-renewable resources are managed in ways that result in an overall net increase in natural capital.

While the above list covers some of the most critical areas requiring action, there are others where specific and measurable goals should be developed, including but not limited to resource efficiency and waste, and chemicals and the use of hazardous substances. These are important growing pressures on our natural capital assets.

## 2. What type and scale of investments in natural capital assets should the Plan consider in order to deliver the ambition?

The Plan should show clearly how the goals in section 1 are to be delivered in a coherent, integrated 25 year programme of work. The NCC recommends that the government include investment details for how these goals will collectively be delivered. To assist Defra in this task, some examples of investment opportunities are set out below. It is beyond the NCC's remit and resources to propose detailed projects; this is for government. The example investment opportunities reflect and build upon the advice the NCC has given to date, notably through the Committee's four State of Natural Capital reports. In the most recent of these, we recommended that a programme of investment in natural capital by the private and public sectors is required to deliver the Plan; and that resources and investments should be guided by valuations of the net benefits they generate<sup>3</sup>.

In developing this aspect of the Plan, government should recognise that many of the above goals are inextricably linked, so action aimed at one affects others, sometimes positively, sometimes negatively. Good decision making and prioritisation requires that all of these aspects are considered together and those changes and locations which deliver the best mix of improvements are targeted. For example, increasing woodland and vegetation cover can make a significant contribution to many of the goals identified in section 1. Planting the right trees in the right places can deliver major gains in terms of reducing air and water pollution, decreasing flood risk and soil erosion, delivering recreation and health benefits, providing habitats for wild species and reducing greenhouse gases, storing carbon and helping to stabilise the climate. Woodlands can also offer sustainable renewable fuel supplies thereby contributing to associated industries and employment together with tourism and timber revenues. All of these should feature in the appraisal and decision making progress to ensure best value for money from any investment.

As with the goals in section 1, the list of potential investments below is recommended to government for more detailed consideration. The list is not comprehensive but a starting point to achieve the goals.

1. Increase woodland by at least 250,000ha by 2040.
2. Restore peatland systems, particularly in upland areas, to favourable condition.
3. Restore natural hydrological processes including better habitat management, wetland creation, wildlife passages, channel restoration and natural flood management approaches as appropriate in river catchments.

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<sup>3</sup> The NCC's 4<sup>th</sup> State of Natural Capital Report, (2017): <https://www.gov.uk/government/publications/natural-capital-committees-fourth-state-of-natural-capital-report>

4. Develop and implement a national network of conservation areas to provide bigger, better and more joined up habitats, including more nature reserves.
5. Significantly expand green spaces and outdoor recreation areas, especially in and around urban and well populated areas, particularly within disadvantaged and under provided areas.
6. Develop and implement a comprehensive network of marine protected areas.
7. Designate new national parks to protect and enhance natural capital and cultural heritage.
8. Overhaul funding to the farming sector so government procures only the provision of public goods and high animal welfare standards (see Section 5).
9. Use available information and approaches (such as natural capital decision support tools and markets) to target and allocate public funding for the environment so that it delivers better value for money.
10. Provide funding to enable the effective functioning of Local Nature Partnerships and catchment partnerships as a means of facilitating local engagement and investment.
11. Enable a more strategic natural capital investment approach to be taken at an area level. Developer (housing, business and industry) contributions are pooled and invested in priority natural capital improvements.

In addition, we also advise government includes measures in the Plan to:

- Strengthen the nature conservation and land use management responsibilities of National Parks and Areas of Outstanding Natural Beauty.
- Develop a major programme to enhance the capacity of public, private and voluntary bodies to incentivise citizen action to protect and improve their local environment.
- Secure a natural capital net gain principle within:
  - The spatial planning regime for housing and infrastructure.
  - The environmental pollution prevention and control regulatory regimes.
  - Public procurement contracts, as applicable.



### 3. The Plan should incorporate milestones throughout its life

To translate the overall goals and investments into a credible plan that can protect and improve natural capital, the Plan should be broken down into ‘bite sized’ periods and programmes which are themselves governed, monitored, measured and learned from effectively. This is the main way for government to be held accountable on progress over the period.

The NCC recommends that the Plan sets out detailed milestones for 5 year periods. It should define what is expected to be achieved by the end of the first period in 2022, and put in place a process for the setting of subsequent 5 year objectives. Investments should be resourced through 5 year programmes, providing the planning certainty needed for strategic, proactive and joined up action.

In order to ensure these milestones are robust and comprehensive the NCC recommends, building upon its earlier advice, a clear and consistent approach to monitoring, evaluation and iterative learning across all of the activities encompassed by the Plan. This monitoring and evaluation approach should as a minimum include:

- Development and utilisation of natural capital **risk registers** to identify threatened and priority assets.
- Appropriate **accounting** including proportionate understanding of the natural capital asset base through the development of detailed institutional **natural capital accounts**, in both the public and private sectors.
- Clear **appraisal of the benefits and costs of alternative investments** in natural capital.
- Natural capital **balance sheets**, in the context of the move to national natural capital accounts, and identification of capital maintenance costs entailed by assets.

For such initiatives to succeed, government guidance on investment appraisal (the Green Book) and impact assessments must fully incorporate the assessment of natural capital.

The Office for National Statistics (ONS) is leading the development of national natural capital accounts which are vital to help measure overall progress on natural capital improvement. In addition to meeting its commitment to produce a comprehensive set of national accounts by 2020, the ONS should review how it can further contribute to natural capital reporting and specifically helping to measure progress against the outcomes set out in the Plan.

The private sector owns and manages much of Britain’s natural capital, and the Plan cannot be delivered without sustained private efforts. To this end, the Plan should set out measures to

develop and implement natural capital accounting as part of the overall corporate accounting and reporting, and in line with the NCC's earlier advice<sup>4</sup>.

In establishing the Plan milestones, government should include an early assessment of the **four Pioneer projects** and, building on what they have achieved to date, develop proposals to enhance and improve them, and to generalise them across the economy. The Pioneer projects potentially have a key role to play in developing and sharing best practice in these and other areas. This should be one milestone for the first 5 year period. The NCC has previously recommended that the Pioneers require clear leadership, strong governance, clear reporting requirements and a valuation and accounting framework to help determine priorities, monitor progress and ensure performance<sup>5</sup>.

The NCC has previously advised that the Plan needs rigorous scientific and economic assessment of the status of our natural capital assets: the key risks they face; the investment needed to maintain or enhance them; and the prioritisation of those investments<sup>6</sup>. Building this baseline understanding of our natural assets and putting in place the mechanisms to revise and update it, throughout the full life of the Plan, is also a key milestone for the first 5 year period.

In particular, there are significant gaps in current knowledge and a lack of joined up approaches to data collection, measurement and monitoring of the UK's natural assets. There is no single method or date for collection of baseline data and some assets (e.g. soils) have yet to be assessed in detail across the whole country. Also, many different agencies are responsible for the collection of data (e.g. the Forestry Commission, Environment Agency, Met Office, Natural England, and Joint Nature Conservation Commission). This leads to both gaps and duplication in the data collected and inconsistencies in approaches to analysis. This impedes the effective decision making necessary to deliver the Plan.

To address this, **the NCC recommends that the Plan takes forward a comprehensive and encompassing state of the environment report**, and opportunities for its improvement, to be completed by end 2019. This should be updated frequently, possibly on an annual basis to link with the ONS work to develop national natural capital accounts, with a more substantive review every 5 years.

To further progress the development of a more robust evidence base, the Committee also advises that the Plan adopts major changes to existing practices and protocols in the first 5 year period, including but not limited to:

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<sup>4</sup> The NCC's Valuation Paper, (2017):

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/608850/ncc-natural-capital-valuation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/608850/ncc-natural-capital-valuation.pdf)

<sup>5</sup> The NCC's 4<sup>th</sup> State of Natural Capital Report, (2017): <https://www.gov.uk/government/publications/natural-capital-committees-fourth-state-of-natural-capital-report>

<sup>6</sup> The NCC's 3<sup>rd</sup> State of Natural Capital Report, (2016): <https://www.gov.uk/government/publications/natural-capital-committees-third-state-of-natural-capital-report>

- Building in **responsiveness to change**. With a 25 year time horizon, there is a risk that actions to achieve long-term objectives are overtaken by developments and other factors. To avoid this, the Plan should ensure that decisions are continuously re-assessed, informed by new findings and the best local, national, academic and stakeholder knowledge.
- **The development of natural capital decision support tools**. The Plan must both develop and take advantage of a step change in our ability to take superior decisions which seek to make much better use of available resources (both environmental and economic). These tools must be able to capture both the economic and environmental consequences of investments, assess the best ways in which to make those investments (for example through superior location of spending, or its allocation between periods) and compare across multiple alternative investments.
- **Ensuring decision makers can understand the consequences of alternative investments in terms they are familiar with and which are compatible with other alternative economic investments**. Our inability to convey the value of investing in environmental improvements and the benefits of preventing degradation has been a major factor in the loss of natural capital that has been seen over the past half century or more. Decision making support tools have to be developed to bring the economic value of most of the benefits and costs of change in the environment into the everyday economic decisions which determine the vast majority of public and private sector decisions in the economy. Where valuation methods are currently under-developed this needs to be addressed or alternatives implemented to ensure a level playing field across all the effects of investments in natural capital.
- Using **emerging tools and technologies**, ensuring transparency, flexibility and the ability to make use of 'big data' developments to further improve decision. Examples of the types of data and approaches that can and should be used to assess natural assets were provided in the NCC's recent *'How To Do It Workbook'*. These should be drawn on as a starting point to develop a list of agreed methodologies. The potential for collaborations with leading data and software providers should be explored.
- **These tools should be designed to allow for future data availability rather than being constrained by the present**. For example planning to exploit the ongoing and massive expansion in earth observation, crowdsourced and monitoring data (including that arising from rapidly reducing costs of monitoring technology) is crucial. These plans should also build in and utilise the rapid growth of very high quality open-source code and freeware as a means of improving decision support.
- **Openness and transparency** of data and models. Building on Defra's strong track record in recent times, we recommend that all national data sets be made open access along with provision of a fit for purpose suite of open source tools and models. That said, the

availability of data is likely to outstrip our ability to analyse and use it unless an urgent start is made on improving decision making tools. There is a real opportunity for the UK to exploit the substantial technical advances that are in progress and take a global lead in terms of the measurement and valuation of the state of natural capital and the services it provides. Such technology and decisions systems would, of themselves, be of significant value to the economy.

- Methods for assessing the **social and distributional consequences of environmental investments** should be employed and where necessary improved.

## 4. Governance, accountability and implementation

The Plan will only succeed if its delivery is supported by appropriate governance, accountability and implementation structures. Past and current efforts to improve the quality of our natural capital have been undermined by fragmented oversight, competing objectives from different parts of Government and bureaucratic silos. We recommend the Plan be bold in cutting through legacy arrangements where these are holding back progress, accompanied by a clear, joined up steer from Government.

The NCC recommended in January 2017 that the Plan should be placed on a **statutory footing**. Such legal status will enable greater traction across government and its agencies. The initial version of the Plan should lay the groundwork for necessary legislation. Given pressures on the legislative pipeline, the government should consider the opportunity of the forthcoming Agriculture Bill to put this in place.

The Plan would benefit strongly from there being **a single authority** with statutory responsibility for its delivery, with line of sight down to specific accountabilities. The accountability of that body to Parliament must be robust and transparent, supported by an independent statutory scrutiny body to assess progress in delivery of the Plan (see below). Such arrangements would constitute a radical departure from the current situation which suffers from layers of sometimes competing bureaucracy. Without a single authority taking responsibility, the Plan will struggle to succeed.

Initial lessons from the Pioneer Projects about the sort of governance arrangements for integrated decision making should be taken on board. The NCC will give separate advice on how these issues should be addressed in the case of the Pioneers. The challenge for the Plan is to support local creativity and commitment in the context of coherent governance and responsibility for the overall delivery of the Plan.

**Delivery must be coordinated** across spatial and administrative boundaries both national and local, and over time. The detailed delivery of the Plan cannot be achieved centrally; there are a great many agencies, councils, landowners, charities, community groups and individuals who will have their part to play in changing our environment for the better. Recognising this, the Plan needs to consider carefully how the efforts of these groups will be coordinated and joined up to best effect. This is not a new observation; the 1990 White Paper *This Common Inheritance* set this out in its case for integrated pollution control. The Plan needs to set out how it will deliver on this going forward. In part this will be about requirements – ensuring that relevant authorities are clearly tasked with working together towards shared goals - but this will also require support from government; empowering and enabling those who care about our environment to work together without hindrance. We would strongly encourage government to consider a range of models and options, including the idea of a ‘system operator’ for (aspects of) natural capital in different areas.

**A separate body should be given a statutory responsibility to report on progress.** This body should be tasked with reporting annually to Parliament on progress in delivering the Plan, and it should have the expertise and resources to do so effectively. Considerations should be given to its powers and duties and these might include public reporting (data gathering, monitoring and analysis); independent scrutiny of governance and decision making; and providing necessary information to government and Parliament to ensure that the Plan can be effectively managed. The Committee on Climate Change is one model for such a body, and other models (such as the National Audit Office and, historically, the Audit Commission).

## 5. Agriculture and forestry policy

### 5.1 A sustainable model of agriculture

The UK's exit from the EU is likely to entail withdrawal from both the Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP), in which case the myriad connections between farming, fisheries and the natural environment mean that Brexit could provide a once in a lifetime opportunity to provide a coherent approach to farming, fisheries and environmental policy. In drawing up the Plan, the government should draw upon Defra's expertise in these areas, and in particular the Government's 2005 paper 'A Vision for the Common Agricultural Policy'<sup>7</sup>.

At present EU policy provides very substantial levels of public funding for agriculture and fisheries with typically over 50% of UK farm incomes coming from public sources<sup>8</sup>; while the EU contains the most heavily subsidised fisheries in the world. Government's task through the Plan is to design a new framework which leaves UK agriculture and fisheries in a better state for the next generation.

### 5.2 Limitations of the current support system

Within agriculture the majority of public subsidies are in the form of direct income payments to farmers. Much of this support is allocated on an area basis, so bigger farms get more support; indeed 25% of farms capture nearly three-quarters of public subsidy<sup>9</sup>. This in turn means that a large proportion of public funding goes to some of the richest farms in the country, whilst many smaller farms (including many that are vital elements of our environmental, landscape and rural community heritage) receive relatively little in income support. Support for larger, often high input/high output farms mean that the taxpaying consumer pays for food production twice, both via subsidies and through the shopping basket.

Public funding should be closely targeted to the delivery of public goods. These include, but are not limited to: environmental conservation and enhancement, animal welfare, biosecurity, and rural development programmes (such as poverty reduction and the transfer of knowledge). At present such schemes account for a small proportion of agricultural subsidies, yet these are important benefits to society which farms currently provide for relatively modest (and arguably inadequate) reward.

<sup>7</sup> A Vision for the Common Agricultural Policy, HM Treasury and Defra, 2005; <http://webarchive.nationalarchives.gov.uk/20060213212601/http://www.defra.gov.uk/farm/capreform/vision.htm>

<sup>8</sup> National Statistics (2017) Agriculture in the United Kingdom 2016, Defra, London, available at <https://www.gov.uk/government/statistics/agriculture-in-the-united-kingdom-2016>. Figures taken from Tables 4.1 and 10.2.

<sup>9</sup> Data taken from the UK Rural Payments Agency

Analysis by Defra<sup>10</sup> has shown that environmental improvements provide excellent value for money to the taxpayer (with benefits often three times larger than costs). This analysis has also demonstrated that schemes for improving natural capital can be incorporated into commercial farming systems without compromising their profitability<sup>11</sup>. Despite the good value for money demonstrated by environmental schemes, the majority of funding is still delivered through direct income supplements with little or no connection to natural capital improvements.

Government has already committed to maintaining the overall level of funding to agriculture through to 2022, and hence the first 5 years of the Plan. It is possible that analysis might show that a switch towards public funding of public goods justifies an increase rather than reduction in overall funding. If good value for money is demonstrated then further investment is justified.

### 5.3 An alternative structure of agriculture policy for the UK

Moving agricultural subsidies towards the provision of public benefits could help to resource the investments outlined earlier in the report. Supporting farmers and others to invest in a diversity of natural capital assets such as woodlands has the potential to deliver a wide array of benefits including many of the outcomes in section 1.

Modest investments in providing decision support tools (e.g. software programmes helping decision makers understand the consequences of different investments) should deliver large gains in terms of the value for money delivered by public spending. The major and ongoing expansion in the availability of environmental and related economic data needs to be exploited to provide opportunities within agriculture, forestry and fisheries. Payments for the public goods delivered by these sectors can deliver much higher value for money to the taxpayer if they are targeted at those areas which deliver higher social values. For example, policies to enhance access to the countryside or woodland can deliver substantially higher benefits if they are targeted at those areas where populations currently have little opportunities for recreation.

Technological advances also have a part to play here. Changes in our ability to monitor the contribution of landowners and managers in delivering environmental improvements (e.g. in reducing water pollution) are already improving and is likely to rapidly progress over the period of the Plan. While there are challenges to be overcome, the potential exists to shift from 'payments for action' (e.g. subsidies based on the area of an activity) towards 'payments by results' (e.g. the improvement delivered). This in turn could further improve the value for money and hence impact of environmental payments. Investments in these various forms of 'natural capital decision support' will allow government and other funders to target payments in ways which deliver the best outcomes.

<sup>10</sup> See Defra (2013); [https://consult.defra.gov.uk/agricultural-policy/cap-consultation/supporting\\_documents/131022%20CAP%20Evidence%20Paper%20%20Final.pdf](https://consult.defra.gov.uk/agricultural-policy/cap-consultation/supporting_documents/131022%20CAP%20Evidence%20Paper%20%20Final.pdf)

<sup>11</sup> Eftec, CEH, APBmer & Regeneris (2015) Report to the natural capital committee available at; <https://www.gov.uk/government/publications/natural-capital-committee-research-investing-in-natural-capital>



Encouraging rural businesses to generate profit through the delivery of environmental benefits is a further approach to ensuring long term natural capital restoration. Many water companies are now taking this approach<sup>12</sup>, paying farmers to improve water quality, thereby providing an enhanced and stable income flow for farms, lower water treatment costs and cleaner rivers for anglers, the public, local tourism, ports and fisheries. Changing regulations and providing public funding to kick start such schemes has the potential to lever substantial private sector co funding, further enhancing value for money to the taxpayer.

Such approaches can be further enhanced by the development of catchment based markets and auctions to improve the way in which policies are implemented and subsidies allocated. There are great opportunities to develop new markets bringing together and incentivising farmers, water companies, other businesses and communities to improve the natural environment. These enhancements should be defined against the high level targets and the overall objective of the plan.

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<sup>12</sup> For example, South West Water Upstream thinking: <http://www.upstreamthinking.org/>

## Annex – past recommendations of the Natural Capital Committee

### NCC Recommendations from the 4th State of Natural Capital Report

1. The government's 25 Year Environment Plan should be progressed rapidly, if there are to be demonstrable improvements in England's natural capital before 2020 and progress in delivering the government's objective "of being the first generation to leave the natural environment of England in a better state than that in which we found it". Currently many aspects of the natural environment are still deteriorating; Development of the Plan has been considerably slower than both expected and desired, in part due to the referendum and BREXIT;
2. The 25 Year Environment Plan should be placed on a statutory footing to move from aspiration to practical implementation. Such legal status will enable greater traction across government and its agencies. There should be a White Paper in 2017 setting out the 25 Year Environment Plan and laying the groundwork for necessary legislation in due course;
3. Governance and accountability of the 25 Year Environment Plan should be assigned to a specific lead institution. This governance should be put on a statutory footing;
4. The government's 25 Year Environment Plan should contain ambitious, long-term outcomes from natural capital ('The Prize'), incorporating the Committee's advice on key policy areas. Outcomes should be quantifiable and measurable so that progress can be evaluated, corrective actions taken in a timely fashion, and benefits widely publicised and understood;
5. The government's Pioneer projects are key to the implementation of the 25 Year Environment Plan and need to be progressed rapidly. The Pioneers require clear leadership, strong governance, clear reporting requirements and a valuation and accounting framework to help determine priorities, monitor progress and measure performance. They should provide a test bed for aspects of the 25 Year Environment Plan, promote learning about best practice, and establish templates that can be adopted throughout the country;
6. A programme of investment in natural capital by the private and public sectors is required to deliver the government's 25 Year Environment Plan ambition. Resources and investment should be guided by valuations of the net benefits they generate. The government should actively promote corporate natural capital valuation, accounting and reporting. Such action is important because the private sector owns and controls much of England's natural capital. Government and other public sector bodies should account for and value natural capital assets, and use valuations to guide investments in improving those assets and the benefits they provide. Budgetary provisions should be made annually for maintenance and enhancements, as identified in the 25 Year Environment Plan;

7. The 25 Year Environment Plan should provide a key part of the overarching framework for the development of British agricultural policy from 2020, consistent with the objectives of protecting and improving natural capital. Agriculture is the major land use in England and should be one of the central features of any integrated environment plan. Similarly, natural capital should be a central element of the government's plans for food, farming and fishing, and so these plans should be developed in an integrated manner;
8. The new National Infrastructure Commission (NIC) should incorporate natural capital, including its maintenance, restoration and recovery, into long term infrastructure plans; ensuring consistency with the objectives of the 25 Year Environment Plan;
9. Local authorities and major infrastructure providers should ensure that natural capital is protected and improved, consistent with the overall objective of the 25 Year Environment Plan. The Plan should reinforce existing environmental duties of public authorities, including those enshrined in Section 40 of the Natural Environment and Rural Communities (NERC) Act 2006, to conserve biodiversity, including restoring or enhancing species populations or habitats;
10. England's National Parks contain very significant natural capital, and their powers and duties should be extended to support the objectives of the 25 Year Environment Plan. Where practical, each National Park should quantify and value the main natural capital assets in its area, using the accounting framework recommended by the Committee in its first term. Valuation should play a key part in the assessment of natural capital investment options. Consideration should be given to the creation of new National Parks;
11. Natural capital catchment based approaches should be encouraged by OFWAT in the Periodic Review in 2019. Water companies are key players in influencing natural capital within water catchments and the investments they are required to make as part of the Review process should help progress the overall objectives of the 25 Year Environment Plan;
12. The government's Green Book on project appraisal should be revised to include the Committee's recommendations regarding the enhanced incorporation of natural capital in identifying priorities and appraising investment proposals. These revisions should recognise that the natural environment is a highly connected 'system' where a single change can generate multiple costs and benefits;
13. A coherent and consistent set of assessment, analysis and decision support tools will need to be further developed and applied as part of the 25 Year Environment Plan with particular attention to supporting the development of Pioneer projects in the first instance. These tools will assist with the identification of priority investments, and provide information about how net benefits from those investments alter between locations and according to management practices. Government should ensure that such a suite of relevant and effective tools are documented, publically available and accessible to all;

14. The Office for National Statistics (ONS) has committed to developing a full set of national natural capital accounts by 2020. Their latest estimates point to a decline in the value of some natural capital assets. The ONS should further develop national natural capital accounts and, in particular: extend their coverage to cover more renewable natural assets; include estimates of the capital maintenance and restoration costs as well as the valuations of renewable natural assets; and incorporate cost based approaches that complement existing valuation methods;

15. There needs to be consistency between Climate Change Committee recommendations and the 25 Year Environment Plan. The 25 Year Environment Plan should incorporate the Climate Change Committee's relevant carbon budget, and should be consistent with the recent advice of the Adaptation Sub-Committee on natural capital. Conversely, decarbonisation policies should take account of their impacts on other environmental objectives;

16. The 25 Year Environment Plan should consider the creation and enhancement of new wildlife areas and corridors, including in collaboration with National Parks, landowners, local authorities, developers and infrastructure providers. This should include a commitment by the government to enhance England's wildlife in line with the recommendations of the Lawton Report (2010).

### **Recommendations from the 3rd State of Natural Capital report**

In order to be the first generation to leave the natural environment in a better state than that in which it was inherited, the NCC specifically recommends that:

1. Government, working with the private sector and non-governmental organisations (NGOs), should develop a strategy to protect and improve natural capital and the benefits it provides. It should contain: a) clear evidence-based targets for natural capital; b) a way of prioritising actions to meet those targets which seeks to maximise their net benefits; and c) milestones against which to monitor progress. The strategy should be given effect in legislation, with regular reports on progress made to Parliament.
2. Government should assign institutional responsibility for monitoring the state of natural capital. This should build on the NCC's work to develop a risk register that systematically assesses the benefits from natural capital.
3. Organisations should create a register of natural capital for which they are responsible and use this to maintain its quality and quantity. The Government should incentivise wider adoption and uptake of the corporate natural capital accounting framework outlined in this report and consider requiring provisions to be made for the maintenance of natural capital.
4. The Government should urgently step up action to ensure that the Office for National Statistics (ONS) and the Department for Environment, Food and Rural Affairs (Defra) meet the

target of incorporating natural capital into the national accounts by 2020. This should include a national balance sheet of the value of our natural assets, estimates of the depreciation of those assets (where this occurs) and a corresponding redefinition of the way in which income and savings are measured in national accounts.

5. The National Infrastructure Plan should incorporate natural capital into each of the main infrastructure sectors, following the mitigation hierarchy for managing impacts (avoid, minimise, restore, offset). An investment programme for natural capital should also explicitly feature in the National Infrastructure Plan.

6. The Government should revise its economic appraisal guidance (Green Book), implementing our advice, and as a matter of urgency, apply the revised guidance to new projects.

7. The Government should drive a substantial, long term interdisciplinary research programme on natural capital to inform future iterations of the strategy. This should be led by the Research Councils and build on existing initiatives.

8. Government should determine how the plan to protect and improve natural capital is to be funded, drawing on a combination of public and private funding as proposed by the Committee. Specifically, we recommend that Government:

a. Commits to capital maintenance expenditures to ensure that the real value of natural capital, as a minimum, does not decline overtime;

b. Ensures that damage to renewable natural capital is, where possible, avoided and minimised, but where it does occur, it is fully compensated by investment in renewable natural capital of equivalent or higher priority or value;

c. Establishes a 'wealth fund' derived from the depletion of non-renewable natural assets, part of which should be used to support the delivery plan.

9. Government, working with business, NGOs and other parts of society, should fully develop a 25 year plan. This plan needs to incorporate all the Committee's recommendations, detailing specific actions for all parties to deliver the strategy to protect and improve natural capital. This will need to set out who does what, when and where and how actions are to be resourced and incentivised.

## Key messages from the Second State of Natural Capital Report

The Natural Capital Committee's second State of Natural Capital report has three key messages for Government and other interested parties. These are:

1. Some assets are currently not being used sustainably. The benefits we derive from them are at risk, which has significant economic implications;
2. There are substantial economic benefits to be gained from maintaining and improving natural assets. The benefits will be maximised if their full value is incorporated into decision-making; and
3. A long-term plan is necessary to maintain and improve natural capital, thereby delivering wellbeing and economic growth.

## Recommendations from the 1st State of Natural Capital Report

The NCC Recommends:

1. The development of a framework within which to define and measure natural capital. Once designed, the use of the framework for regular reports and advice would need to draw on data and monitoring systems from across government departments, non-governmental and research organisations.
2. The development of a “risk register” for natural capital assets to identify the implications of further depletion or lack of restoration. Changes in natural capital should be properly included in national and corporate accounts.
3. The work led by the Office for National Statistics (ONS) to include natural capital fully in the UK’s Environmental Accounts should be given the greatest possible support by Government. The development of the accounts should be informed by short and long-term policy needs as well as international work to maximise their usefulness. The UK has the opportunity to demonstrate leadership in this field.
4. Business groups, leading companies, accounting bodies, land owners and managers, as well as Government should collaborate to develop and test guidance on best practice in corporate natural capital accounting.
5. A cross government group of senior analysts, led by the ONS, should review and develop approaches to “Inclusive Wealth” accounting in the UK (that is, measures of our total capital stock), including a comprehensive assessment of the wealth represented by natural capital. Changes in natural capital should be properly valued and those values more effectively included in decision-making processes.
6. Government undertakes a critical look at how cost-benefit analysis is being implemented with respect to natural capital to identify priority areas for improvements. While H.M. Treasury's Green Book provides a good starting point for cost-benefit analysis, options to improve the treatment of natural capital within this guidance should be explored. This should

include consideration of the appropriateness of physical (in-kind) compensation for certain forms of natural capital loss.

7. An urgent programme is initiated to provide high quality evidence on the economic value of changes in natural capital to feed into cost-benefit analyses. The NCC will bring forward detailed proposals on this shortly.

8. Government, working with the NCC, explores the development of new “decision-support tools” aimed at incorporating economic valuations of changes in natural capital within wider decision appraisals.

9. In addition to conventional indicators, the Government develops measures of economic growth, net of the depreciation of natural and other forms of capital as well as more comprehensive metrics of saving and inclusive wealth.

10. Offsetting and other forms of compensation are explored after a clear set of principles and a policy framework have been developed.

11. Opportunities are explored to increase the direct contribution natural capital can make to growth, such as the recommendations identified by the Ecosystem Markets Task Force (EMTF) report (published on 5th March 2013) and the Independent Panel on Forestry.

12. The Government reviews the extent to which natural capital is being effectively priced, in particular examining the scope for reducing perverse subsidies. Where practical, the costs of polluting activities that impact on natural capital should be internalised.

13. The NCC recommends that the Government's efforts to reform the Common Agricultural Policy be intensified, with a long-term view to phasing out Pillar one support and moving subsidies towards Pillar two and the provision of public goods. In the short-term, securing as much flexibility as possible in how funding can be allocated for the period 2014-2020 and taking full advantage of this when shaping domestic schemes, is essential.