Written evidence from the Institute of Environmental Management and Assessment (IEMA)

About IEMA

IEMA is the professional body for those people working in environmental management and in corporate sustainability roles. IEMA's growing membership of over 18,000 professionals work at the interface between organisations, the environment and society in a range of critical roles (for example from Sustainability Directors through to Climate Change leads and in consultancy and advisory roles). We also work with a range of corporate partners (over 200). Our professional members are active across all sectors in the UK, for example from construction and manufacturing through to logistics, facilities, and across financial, retail, food, consultancy and the wider service and public sector.

Executive summary

This response draws on the expertise and insights of a number of IEMA members. The UK Business and Biodiversity Forum (UKBBF)[1] was also consulted for its views. The UKBBF is a new business-to-business hub that supports companies in understanding the value of biodiversity and integrating nature into their value chains and decision-making (IEMA is the organisational home to UKBBF).

The emphasis of this response is on natural capital more than social capital. The response recognises that the questions are broad and that solutions to the questions asked are both complex and multi-faceted.

The submission recommends that:

- The Government create and supports the development of a methodology or a framework of reporting on natural and social capital, in order that the value of investment in these areas is better understood across the economy and opportunities for doing so are unlocked.

- Steps are taken to ensure that the value of nature is integrated into macro-economic policy thinking, capital allocations and budgetary decisions.

- The Government consults and takes learnings from international benchmarks on indicators (social, environmental and economic) to help define what constitutes natural capital accounting within a UK economic context.

- Reforms of the UN System of National Accounts are welcomed and needed to make sure that natural capital accounting is properly mainstreamed (and systematic) into national accounts and policy development.

Questions and responses

[1] UK Business and Biodiversity Forum

1. *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?*

GDP is a measure of economic activity rather than wealth/prosperity, social well-being or nature (it also doesn't include voluntary work). GDP partly values some aspects of nature and others not at all. GDP does not account for losses of nature (i.e. reductions in natural capital), assuming natural capital to be 'free' and 'infinite', and therefore does not reveal the risks associated with a decline in nature.

(An example would be if all manufactured capital was destroyed then GDP would be very high as rebuilding the capital would generate a lot of economic activity. So from a GDP-perspective – destroying, rebuilding, destroying, rebuilding would maximise this indicator. But such an activity would not add wealth or prosperity to the nation and would not include impacts on nature (including resource use) or society.)

Further, interlinkages between GDP, macro-economic policies and environmental policies are absolutely critical for sustainable development and growth. At present these linkages are not that transparent and improvements on the impacts and dependencies between these three areas needs to be made clearer. Related to this, it is important that nature is valued not just in the policies of, but in the actions of, all government departments in order to show commitment to, and the importance of, valuing nature. The development of cross-departmental environmental principles is key in this respect and something that IEMA is actively engaged in.[2]

2. *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?*

How

Ideally human, natural and finance capitals should be integrated, but this is technically challenging and comparability between the three capitals is difficult due to the way each capital is valued.

The use of non-market valuation, alongside market valuation, will help to show the costs and benefits to society of specific environmental policies and action. Connection to current government-based natural capital accounts could help with this. There are a number of options in terms of either looking at life-cycle based approaches or environmental extended input output models that may be of use.

The notion of "capital stocks" – particularly when defined as the "six capitals[3]" of financial capital, manufacturing capital, intellectual capital, human capital, social capital, and natural capital – could be a useful framework for accounting of human/economic progress. This requires understanding where capital stocks have (and haven't) been effectively measured.

[2] IEMA response to consultation on environmental policy statement
[3] Get to grips with the six capitals | Integrated Reporting

A potential solution could be to assess changes in capital stocks rather than economic activity. However, this is also an imperfect indicator as we can't quantify the whole natural/human capital in monetary terms. It is not an ideal solution but would be an improvement on simple GDP.

Rather than trying to incorporate nature and social aspects into GDP, it may be more useful to create additional indicators that might be part of a framework similar to a balanced scorecard. There remains the risk that if all three areas are valued, the finance capital will always significantly outweigh the human and natural capitals due to the way these are calculated. Financial capital is, of course, underpinned by the other capitals and part of the value of integrated reporting is identifying these relationships.

Challenges

There is a major challenge in putting a financial/economic value on natural capital – some aspects of natural capital can be valuated, such as waste, pollution, GHG emissions but valuation on biodiversity is inherently challenging, as highlighted in the recent draft 'Transparent' project[4] draft guidance. (Noting that there are national and international standards available such as BS 8632[5] on natural capital accounting, ISO 14007[6] on determining environmental costs and benefits and ISO 14008[7] on monetary evaluation created for organisations.)

Other challenges include:

- The complexity in defining indicators and collecting data
- Laws and legislation to support collection and use of indicators
- Roles and responsibilities of supporting agencies
- Mapping to existing certification standards and identifying standards that could be required
- Governing policies and operational standards

Because measurement is complex, this should not prevent action on creating indicators for natural (and social) capital to sit alongside GDP.

Opportunities

Investments in natural capital are significantly under-valued and poorly considered when assessing macro-economic activity. There is an opportunity here to highlight the longer-term value of investing in natural capital and sustainable growth and green markets, versus shorter-term economic gains.

There is an opportunity for the government to support a methodology or a framework of reporting on natural and social capitals for organisations to use that allows for benchmarking, demonstrating that they are doing the right thing, and managing risk by understanding the financial impacts on the organisation as a result of its impacts on nature across the value chain. Accurate information is important for good decision making.

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[4] Transparent Project Launches Public Consultation for Standardized Natural Capital Accounting Methodology for Business - Capitals Coalition

[5] BS 8632:2021 (bsigroup.com)

[6] bsi.shop (bsigroup.com)

[7] bsi.shop (bsigroup.com)

3. *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's Dasgupta Review of the Economics of Biodiversity (2021) been to date?*

The immediate response to the Dasgupta review has been clear and welcomed. The challenge and opportunity is understanding how the key outcomes from the Dasgupta review can be mainstreamed into more strategic thinking and across all UK government departments.

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

The value of nature needs to be integrated into macro-economic policy thinking, capital allocations and budgetary decisions. A step towards this is the above - that nature should be valued in metrics such as GDP, and accounted for in decision-making frameworks (e.g. natural capital accounting).

5. *How is the Office for National Statistics' work on the measurement of national well-being and on the development of natural capital accounts contributing to the development of the Government's macro-economic policy?*

Currently this is not clear and at present UK's natural capital accounting (which is very welcome) appears to be a stand-alone exercise and the mainstreaming of natural capital accounting into macro-economic policy is needed and/or needs to be more transparent. It is not clear that current ONS well-being estimates are having much influence in policy either even though trends on indicators are periodically published. That the ONS accounts are in line with the United Nations (UN) System of Environmental-Economic Accounting Central Framework and System of Environmental-Economic Accounting Experimental Ecosystem Accounting principles is welcomed.

There is a wealth of information from international benchmarks on indicators (social, environmental and economic) to help define what constitutes natural capital accounting, for example:

• System of Environmental Economic Accounting (SEEA[8])

• e.g. New Zealand's Living Standards Framework

• Social Progress Index

• Adjusted Net Savings

• Genuine Progress Indicator

• Happy Planet Index

• OECD's Better Life Index

• The Thriving Places Index

There are trade-offs in using these frameworks in isolation and their use/value should be understood and explained to aid interpretation. The degree to which natural capital is captured in

[8] System of Environmental Economic Accounting |

these frameworks varies and they cannot replace NCA/cannot inform detailed policy/investment decisions on NC.

Upon reviewing best practices for natural capital accounting frameworks, one can identify trends and innovation, and conclude recommendations for the foundations of a framework that could be adopted by the UK. A key focus should be the balance between two factors: 1) methodology, selection of indicators; and 2) use in policy making and uptake in society.

6. *To what extent is the preparation of the UK's national accounts governed by international standards for national government accounting? In the light of the Kunming Declaration of October 2021, what prospects are there for reform of the United Nations System of National Accounts (SNA) to assign greater importance to natural capital?*

Reforms of the SNA are needed and welcomed to make sure that natural capital accounting is properly mainstreamed (and systematic) into national accounts and policy development. It is unlikely there will be the necessary transformative changes which are needed for climate and nature action (as highlighted by IPCC and IPBES) unless these are aligned.

Businesses will also welcome this mainstreaming and integration as it will help support and catalyse business opportunities and incentives for investment and growth on greening and new green innovation.

The increase in new ways to value and measure nature is helping to change political discourse, making it possible to legitimise environmental and social issues. Beyond-GDP, indicators can offer political actors the possibility of constructing an innovative narrative: faced with limitations of our current growth model, indicators can help to open up a new space for public action and support wellbeing..

Developing new indicators is not enough in itself. The indicators also need to put to use, and effectively integrate, the many initiatives underway into policy making although this faces obstacles. While academic research has often focused on fine-tuning indicator methodology, the prerequisites for their effective use in policy making have received lesser attention in the literature. These two aspects of the question are nonetheless complementary and mutually necessary: what sense would there be in having "good" (methodologically robust) indicators if they do not have an uptake in society? Conversely, how can indicators be mobilised – even if they have a high media profile – if they are not underpinned by a sound methodology? (This is also relevant to points above.)

7. 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?

GDP remains a critical indicator of prosperity, and for consistency GDP needs to remain, but the opportunity is for other new indicators to be developed and used in conjunction with GDP to then provide a more balanced indicators of sustainability, such as the Gross Ecosystem Product[9] which can be used alongside GDP.

[9] Gross Ecosystem Product (GEP） | IUCN

The limitations (and benefits) of GDP must be clearly communicated along with the benefits of additional indicators. As businesses and the public tend to look for simple indicators, an indicator mix may be challenging to communicate. Similar to natural capital accounts, new indicators only really matter if they are integrated and communicated properly.

The idea of the valuation of natural and social capital assets can help with this, understanding that GDP on one side comes at the price of the erosion of future GDP could be a way of showing this. This is something that is being done in the private sector through the application of the BS 8632 standard. Specifically, the generation of future-looking Natural Capital Balance Sheets that show the potential natural capital dependencies that business values rely on. We are already seeing companies use this information to drive decision making in terms of their investments in actions to mitigate environmental damage and to maintain their natural capital asset base.

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