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BS:8632 Natural Capital Accounting for Organizations

**Presenters: Dr. Stephanie Hime &
Ece Özdemiroğlu**

18 March 2021



Presenters and support team



Dr Stephanie Hime



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Ece Özdemiroğlu



Sabina Gordon

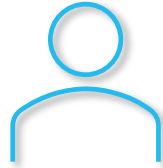


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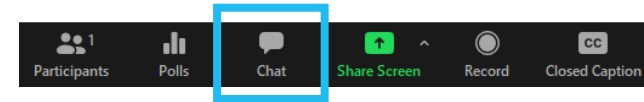
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e.g. John Doe (Little Blue
Research)



Please submit comments
or questions in the chat
function



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Slides, poll outputs, summary of
registration and chat questions &
recording will be shared afterwards.

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and share** your experiences
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Session overview

- Overview of the BSI and current timeline
- Overview of the draft standard on Natural Capital Accounting
- Overview of the Natural Capital Accounting outputs
- Case study
- The links between this standard and other initiatives
- Q&A

Steph 5'

Ece 10'

Steph 10'

Ece 10'

Steph 5' - poll

Ece & Steph

Overview of BSI

- UK's National Standards Body
- Standards are:
 - ✓ an agreed way of doing something
 - ✓ create a benchmark
 - ✓ voluntary
- Used across sectors/supply chain, stimulating innovation
- Written by national experts



Process and timeline

- The panel of experts drafted the standard – environmental economists, accountants, environmental scientists
- The panel is currently finalising the standard following the 2 month long public consultation
- Feedback was generally highly technical in nature
- Responses and action taken will be feedback to those who submitted comments
- The next step is for a final standard to be published in May 2021

Who has taken part



Little Blue Research Ltd.



UK Centre for Ecology & Hydrology



Scottish Forestry
Coilltearachd na h-Alba





BS:8632 Natural Capital Account Overview

Presenters: Ece Özdemiroğlu



Natural capital assets have traditionally been seen as freely available, substitutable, self-maintaining or somebody else's responsibility

- This view is changing
- Maintaining natural capital becomes a business sustainability issue
- New markets – green, sustainable finance, carbon credits, biodiversity offsets, public money for public goods
- Need bespoke approaches, tools, metrics, frameworks & standards that bring them together



Re-cap on the capitals

- **Natural capital:** The stock of renewable and non-renewable natural resources that combine to yield a flow of benefits to people.
- **Social capital:** The networks together with shared norms, values and understanding that facilitate cooperation within and among groups
- **Human capital:** The knowledge, skills, competencies and attributes embodied in individuals that contribute to improved performance and well-being
- **Produced capital:** The man-made goods as well as all financial assets that are used to produce goods and services consumed by society.



[Adapted from](#)
[Capitals Approach – Capitals Coalition](#)

BS 8632 Natural Capital Accounting for Organizations

- Multidisciplinary effort to write and to use
- Delicate balance to:
 - ✓ Ensure comparability of accounts (across organizations and over time)
 - ✓ Encourage uptake of natural capital accounting
 - ✓ Discourage misrepresentation
- Focus on process as well as results
- Requirements for documentation to be flexible **and** transparent
- Be useful for auditing as well as preparation but this is not a reporting or disclosure standard

What's in the standard?

1. Scope
2. Normative references
3. Terms and definitions
4. Principles
5. Natural capital accounting outputs and scopes
6. The process of preparing a natural capital account
7. Documentation and interpretation

Bibliography

Informative Annexes:

- A. Putting natural capital accounts into context: financial accounts and natural capital assessments or appraisals
- B. Materiality assessment
- C. Illustrating the choice of natural capital account and scope

Scope – for whom?

- All organizations
 - public, third sector and listed and unlisted private
 - all sector and sizes
 - collaborations
- Who will use it when they prepare accounts
 - consultants, academics, accountants, environmental & sustainability professionals
- Who will benefit from the analysis and insight accounts provide
 - decision makers at strategic and operational positions, and external stakeholders including investors

Principles

- Rigour
- Completeness
- Consistency
- Relevance
- Transparency

Natural capital accounts

Natural capital balance sheet

- Value of the benefits provided by natural capital assets and the organization's liabilities for managing those assets
- Dependencies
- Accounting –
 - unit: natural capital assets
 - period: over time into the future

Natural capital income statement (aka env P&L)

- Positive and negative impacts on the natural capital
- Impacts
- Accounting –
 - unit: the organization
 - period: the previous accounting year

Natural capital accounts – 2 Scopes

- A “scope” approach to achieve transparency and comparability and allow for flexibility
- **Scope 1** is what the organization has immediate responsibility for:
 - NCBS: natural capital assets they own, or have legal or voluntary responsibility to manage or has influence over and assets not owned by anyone
 - NCIS: impacts from the organization’s own operations
- **Scope 2** is the rest:
 - NCBS: natural capital assets not owned or managed by the organization but on which they depend through its operation or value chain
 - NCIS: impacts from the organization’s value chain

How to select which account to produce in what scope?

For example...

- Which natural capital assets do we have / depend on?
- What benefits do they provide?
- Are we spending enough, and on the right actions, to maintain those assets?
 - Natural capital balance sheet Scope 1
- What impacts do our operations / investment have on the natural environment?
 - Natural capital income statement Scope 1
- How do our impacts & dependencies change over time and through value chain?
 - Repeat NCIS Scopes 1 and 2
 - Repeat NCBS Scoped 1 and 2

Practical applications

- Structured and transparent way to collate, analyse and interpret variety of data
- Shows what is known and gaps & focus on what's material for nature and for the organization
- Helps identify priorities for investment in reducing impacts and securing dependencies – for operations and strategic plans
- Enables monitoring of the effects of management decisions on the natural capital value – and other benefits

Preparing natural capital accounts

• 6.2 Purpose of an account

“The organization shall agree the purpose that the natural capital account will serve for the organization” e.g.

- understand impacts & dependencies on natural capital
- help make operational decisions
- demonstrate which benefits are provided by the organization for society
- provide evidence to internal and external stakeholders
- monitor progress
- assess impacts & dependencies under different scenarios
- explore new markets and sources of finance

• 6.3 Involving stakeholders

“The organization shall engage internal stakeholders when preparing a natural capital account.”

Identify appropriate stakeholders:

- who can provide inputs e.g., data, models and scenarios
- who may use the natural capital account when making decisions
- who should know about the organization’s impacts & dependencies on natural capital assets
- may need to include external consultation where necessary



BS:8632 What does an account look like?

Presenters: Dr. Stephanie Hime



What do you need to produce natural capital accounts?

Natural capital balance sheet

- Natural capital asset register
- Natural capital risk register
- Physical flow account
- Monetary flow account
- Liabilities or maintenance cost schedule
- Natural capital balance sheet

Natural capital income statement

- Enhancements
- Deteriorations
- Natural capital income statement

Covered in clause 6

What does the output look like?

The values of assets and liabilities relate to both the organization and values for the rest of society

Example of a Natural Capital Balance Sheet – shown in clause 6

Base year: X	Value to the organization	Value to the rest of the society
Asset Values		
Benefit 1 / Asset 1?	Information on the monetary value of each natural capital asset and the benefits they provide	
Benefit 2 / Asset 2?		
...		
Total Asset Values		
Liabilities		
Legal maintenance provisions	The assets included in the balance sheet will depend on the scope of it	
Other maintenance provisions		
Costs related to production	Information on the cost associated with maintaining natural capital assets so that the benefits can continue to be supplied	
Total Liabilities		
Net Asset Value (Asset Value minus Liabilities)		Provides a view over the long-term, acknowledges potential future changes in the provision of services Dependency focused

The balance sheet shall report monetary values. Where this is not possible or results in a partial coverage of benefits, quantitative metrics and qualitative descriptions shall be used.

What does the output look like?

Hypothetical example of a Natural Capital Balance Sheet 6

This shows a few values to illustrate the structure of the balance sheet

You may not have all of the values for each asset

Base year: 2019 Net Present Values over 20yrs	Value to the organization	Value to the Society
Asset Values an estate		
Farmland small (owned)		
- Food produced	• £650,000	
- [.....]		
Forest small (owned)		
- Carbon sequestration	• £220,000	• £400,000
- Timber		• £950,000
- Other benefits (existence value)		• [other benefits]
- Other benefits qualitative		• 15 bee species supported
		• 100 butterflies
Retained/lost value	• £XXXX	• £XXXX
Total Asset Values (partial)	£770,000	£1,350,000 (with 15 bee & 100 butterflies)
Liabilities		
Legal maintenance provisions	• £300,000 (for the farm)	
Other maintenance provisions	• £180,000 (for the forest)	
Costs related to production	• [other costs]	
Total Liabilities	£480,000	
Net Asset Value (Asset Value minus Liabilities)	£290,000	£1,350,000 (with 15 bee & 100 butterflies)

Current example doesn't include a consideration of the value chain

What does the output look like?

Provides a one-year snapshot of impact
Impact focused

Example of a Natural Capital Income Statement – shown in clause 6

BASE YEAR: XXXX	Value to the organization	Value to the rest of the society
Enhancements	Information on the enhancement of ecosystem services/abiotic services are included here	
Source 1		
Source 2		
...		
Total enhancements		
Deteriorations	Information on the use/deterioration of ecosystem services/abiotic services are included here	
Source 1		
Source 2		
...		
Total deteriorations		
Net Contribution to Natural Capital		

The table shall report monetary values. Where this is not possible or results in a partial coverage of benefits, quantitative metrics and qualitative descriptions shall be used.

What does the output look like?

Impacts (both positive and negative) associated with the actions that are attributable to the organization in the reporting year

Example of a Natural Capital Income Statement – shown in clause 6

Reporting Year:2019	Value to the organization	Value to the rest of the society
Enhancements		
Farmland area (small owned)	<ul style="list-style-type: none"> • None 	
Forest area (small owned)		
<ul style="list-style-type: none"> • Net carbon sequestration 		<ul style="list-style-type: none"> • £XXXXXXX
Total enhancements		
Deteriorations		
Farm area (small owned)	<ul style="list-style-type: none"> • £ XXXXXXXX 	
<ul style="list-style-type: none"> • Fertiliser run-off • Carbon emissions ... 		<ul style="list-style-type: none"> • £XXXXXXXXX • £XXXXXXXXX
Total deteriorations		
Net Contribution to Natural Capital	Enhancement-Deteriorations	Enhancement-Deteriorations

Provides a snap-shot of impacts in the reporting year

Values link to the balance sheet (for the current year)

What steps are needed to produce the outputs?

- **Clause 6** sets out the steps that a practitioner will need to undertake to produce a Natural Capital Balance Sheet and/or Natural Capital Account
- The main underpinning elements in addition to the supporting schedules are
 - Undertaking a materiality assessment (clause 6.4)
 - Collecting data and conducting data quality assessments (clause 6.6)

Preparing natural capital accounts (continued)

• 6.4 Materiality Assessment

“A natural capital account shall contain information on all natural capital assets, flows of benefits, impacts and dependencies that are material to the organization and nature.”

- review relevant documents and combine these with input from internal and external stakeholders
- produce a longlist of potential issues, shortlist the most material impacts and dependencies that should be measured and valued;
- categorise the issues by type
- select those that are most material

• 6.5 Data collection & assessment

“Input, output, outcome and impact data are necessary to understand the full extent of impacts and dependencies on natural capital.”

- mix of different data is required
- understand what data is available and who has it, issues with it and limitations
- assess the quality of the data
- understand data gaps in the organization, plans to close it and use of proxies

7. Documentation

- Natural capital accounts can be used internally or published for public view
- Transparency & rigour in reporting is essential (see Section 4 - *Principles*)

*“The following **shall be** documented where appropriate:*

- *The process of preparing the accounts – especially the iterations between the key decisions such as boundary, materiality; and lessons learnt through data gathering and analysis and engagement with internal and external stakeholders*
- *The alternative scenarios showing different strategic and operational or external conditions and their implications for the natural capital accounts, and*
- *Interpretation of the natural capital account to distil key messages for management and financing of the organization.”*

7. Documentation

Proposed structure for natural capital account report, but the key is adherence to the principles and the requirements of this standard in order to build trust and consistency.

Natural Capital Account Report Structure

1. **Summary**

- a. organizational details*
- b. Purpose of the natural capital account(s)*
- c. The implications of the account and key messages for the organization and its stakeholders*

2. **Natural Capital Account** – *table(s) showing the natural capital balance sheet and/or natural capital income statement; definition of scope; notes explaining the calculations, data sources and assumptions, and a list of, what is not included in the account(s) and the implications of what is not included for the interpretation of the account*

3. **Annexes**

- a. Materiality assessment*
- b. Auditable data trail: data sources, quality assessment, assumptions*
- c. Supporting schedules*
- d. References*

As shown in the earlier section

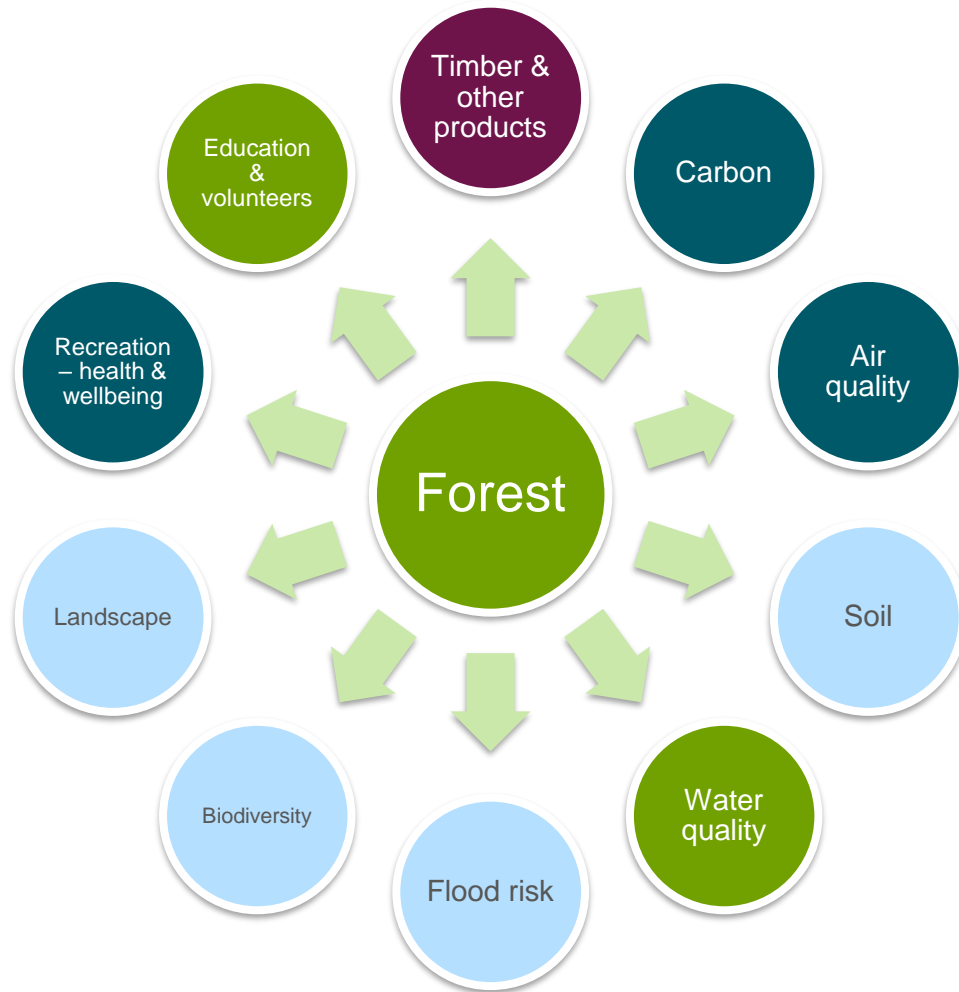


BS:8632 Natural Capital Account Case study

Presenters: Ece Özdemiroğlu

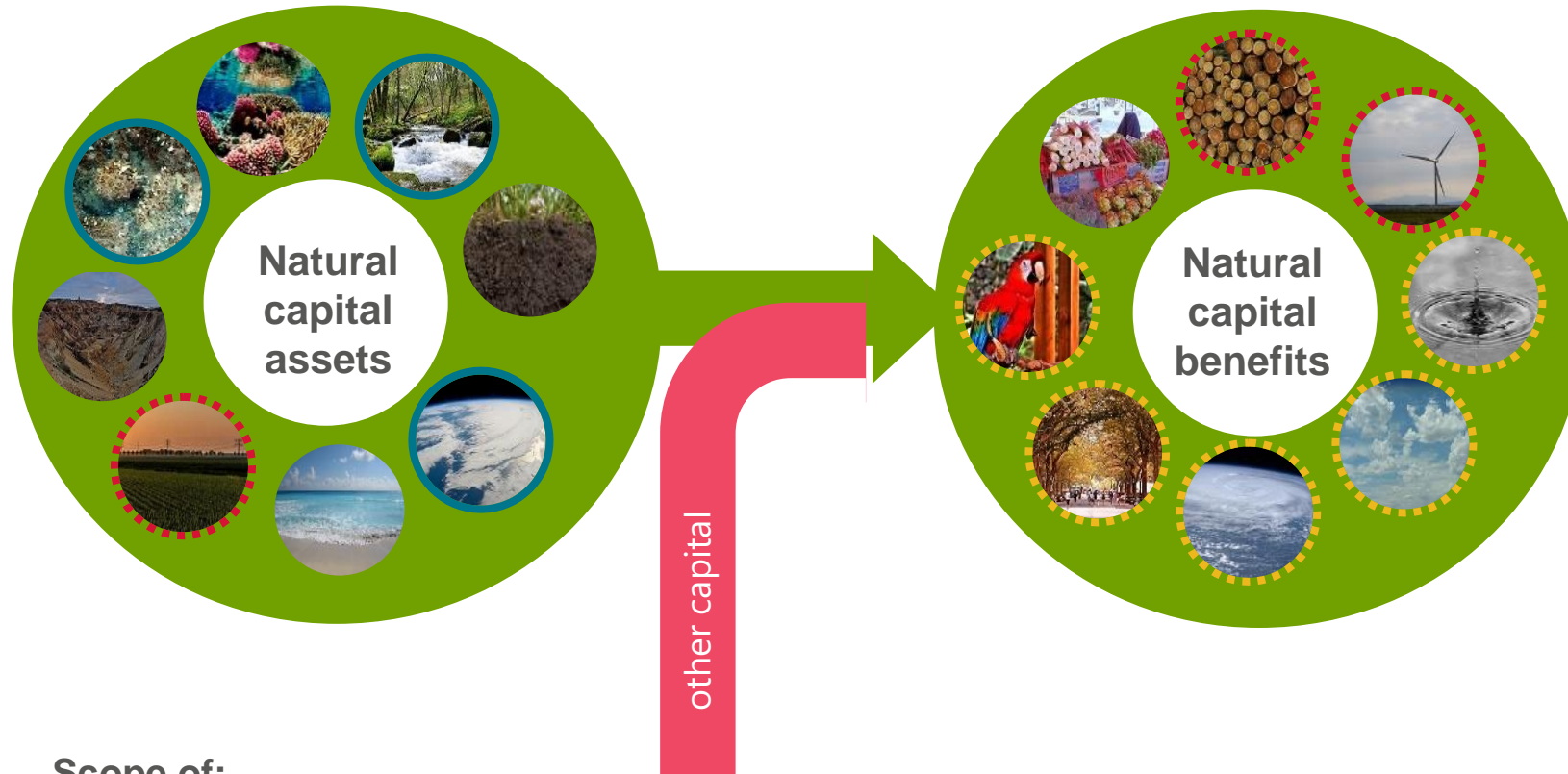


Forests are natural capital assets with many benefits



- Included in financial accounts
- Included in natural capital account case study
- Not included in the case study
- Possibly indirectly captured in the case study but more likely to be added value

We don't account for all the benefits of forests



- Asset register
- (risk register)
- Physical flow account
- Monetary flow account
- Maintenance costs

Scope of:

◉ Financial accounting

◉ ESG analysis & Sustainability Reporting

◉ Natural capital accounting

Natural capital balance sheet

Natural Capital Balance Sheet

Reporting year: 2020, Present Value, 60 years, HM Treasury discount rates

Values & costs to business

Values to society

Asset Values

	Value to organization	Value to society
Timber	2	
Carbon sequestration		3
Air quality regulation		3
Recreation		6
Gross asset value = 14	2	12
Liabilities		
Production costs	(1)	
Maintenance costs		(0.5)
Total liabilities = 1.5	(1)	(0.5)
Total Net Natural Capital = 12.5	1	11.5

- 200 hectares of new planting, 80% conifer, 10% broadleaf, 10% open space in lowland England
- Actual values will vary by location and forest management
- 8% of the estimated values from the forest would be included in the financial accounts
- And that with the following excluded:
 - Water quality
 - Flood risk reduction
 - Education and volunteering
 - Biodiversity (incl. soil quality)
- Significant additional benefit (or 'impact') is possible at minimal additional cost
- Comparisons across species & time



BS:8632 How does it link to other guidance?

Presenters: Dr. Stephanie Hime



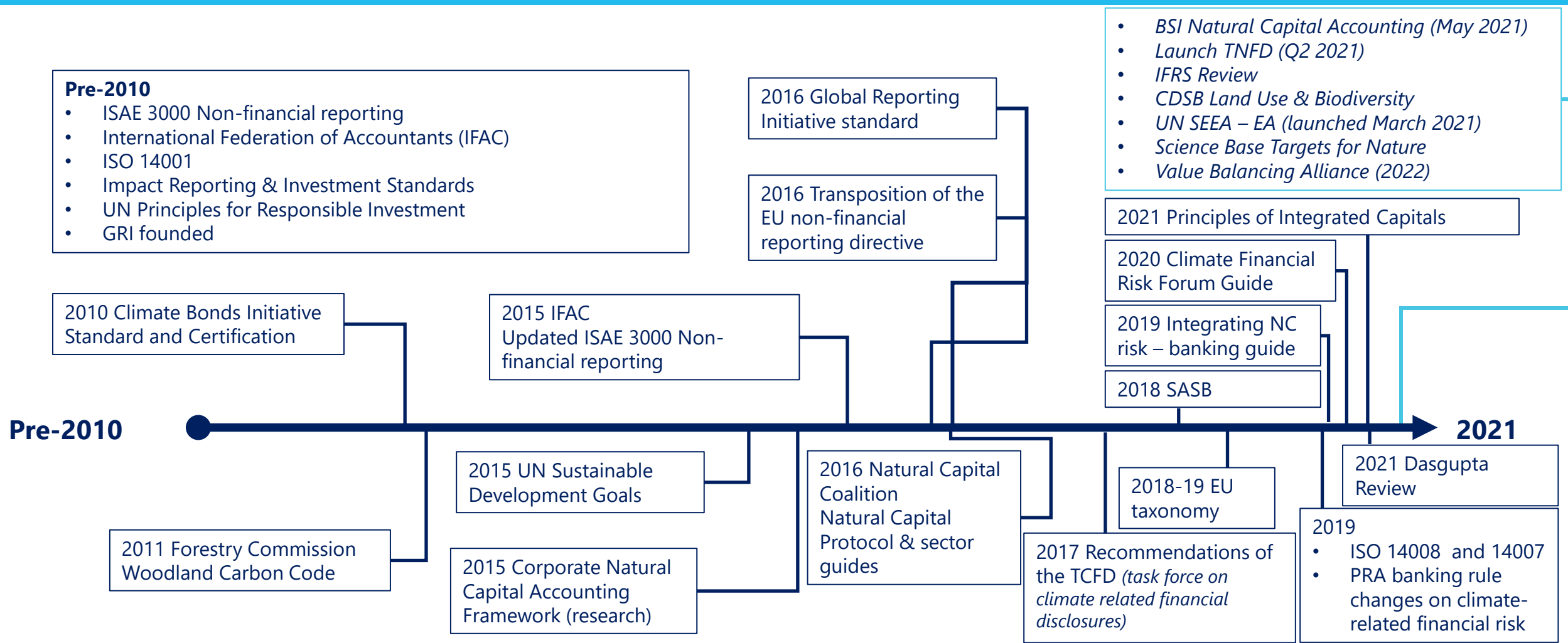
Menti poll: go to **www.menti.com** - use the code **2145 6798**

Share all the
standards and/or
guidance
developments
that you are
aware of and/or
use in your
current role?



Re-cap on standards, guidance and reporting

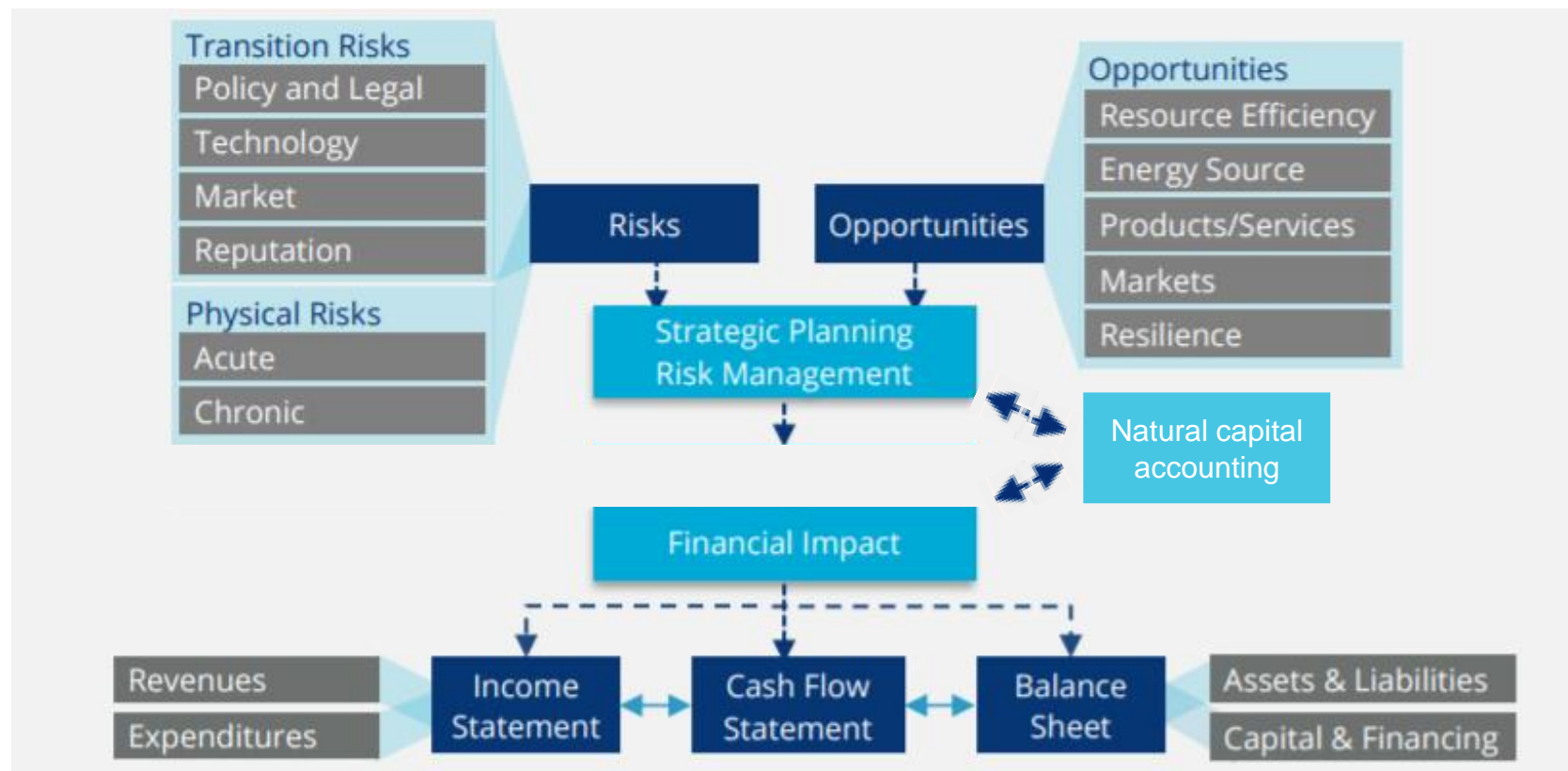
Under development:



Some more detail about the links between BS:8632 and other market developments

- TCFD and TNFD –help business to **manage** and **report** on their dependencies and impacts on nature, aiding in the appraisal of climate and nature-related risk. The TNFD will build on the TCFD identifying further risks and opportunities for businesses.
- *The BSI standard is complementary and can be used to help companies with inputs into strategic planning and financial impacts.*

Example link between BSI and recommendations from the TCFD



Some more detail about the links between BS:8632 and other market developments

- UN SEEA - EA – System of Environmental-Economic Accounting (SEEA) is an international statistical standard that uses a systems approach to bring together economic and environmental information to measure the contribution of the environment to the economy and the impact of the economy on the environment.
- *BSI is complementary to this work focusing on an organisation perspective. Much of the national data and dataset identified as part of the SEEA can be used by organisations undertaking a Natural Capital Account.*
- IFRS – International Financial Reporting Standards
- Have identified the demand from stakeholders in the area of sustainability reporting (e.g., investors, corporate sector, central banks etc.) and understand what the foundation could do in response
 - **Main demand:** more consistency and comparability in sustainability reporting
- *BSI is complementary to this work potentially using some of the quantitative data used for sustainability reporting as inputs to the NCA process.*

Some more detail about the links between BS:8632 and other market developments

- Dasgupta Review – the review makes the case for putting an economic value on nature and making nature visible within decision making – those who are interested should watch the recording of the **WVN session held on the 11th March**
- *BSI NCA standard is complementary to this work building on previous frameworks to help structure the outputs of including nature in ‘business decision making’. BSI aims to support by providing (one) practical way of supporting the concepts developed in the review.*
- Integrated capitals – Integrated capitals assessment aims to provide guidance and consistency in how to assess more than one capital through applying ‘integrated thinking – those who are interested should register for the **WVN session on the 24th March**
- *The BSI work is complementary to this work and can help to support it; it focuses specifically on NC assets however the valuation of benefits undertaken by the assessment can overlap into other areas such as social value, health and wellbeing.*



Q&A

**Presenters: Dr. Stephanie Hime &
Ece Özdemiroğlu**



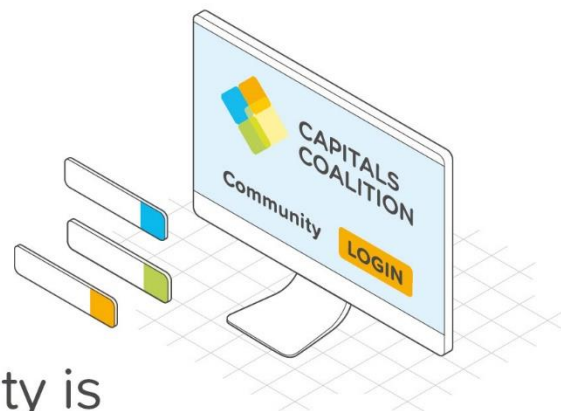
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Applied Environmental Economics Conference

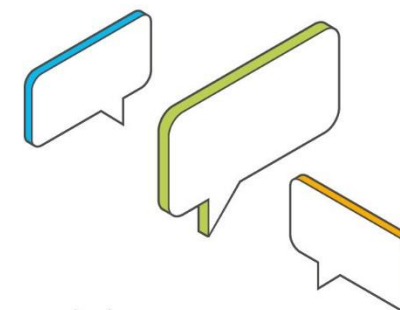
Friday 19th March 2021



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Sign up and join the We Value Nature group to take part in the conversations:

<https://community.capitalscoalition.org>



We want your feedback!

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