

# BS 8632 Natural Capital Accounting for Organizations

Combining financial, environmental and social information  
to reveal impacts and dependencies on nature

15 June 2021



By Royal Charter

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- We will hold a Q&A session at the conclusion of all the presentations,
  - Simply click on the Q&A button in the side panel and post your question,
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# Welcome & Introduction



Lesley Wilson  
Lead Standards Development Manager, BSI  
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# BS 8632 Natural Capital Accounting for Organizations

- 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

# Our expert panelists



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# BS 8632 overview



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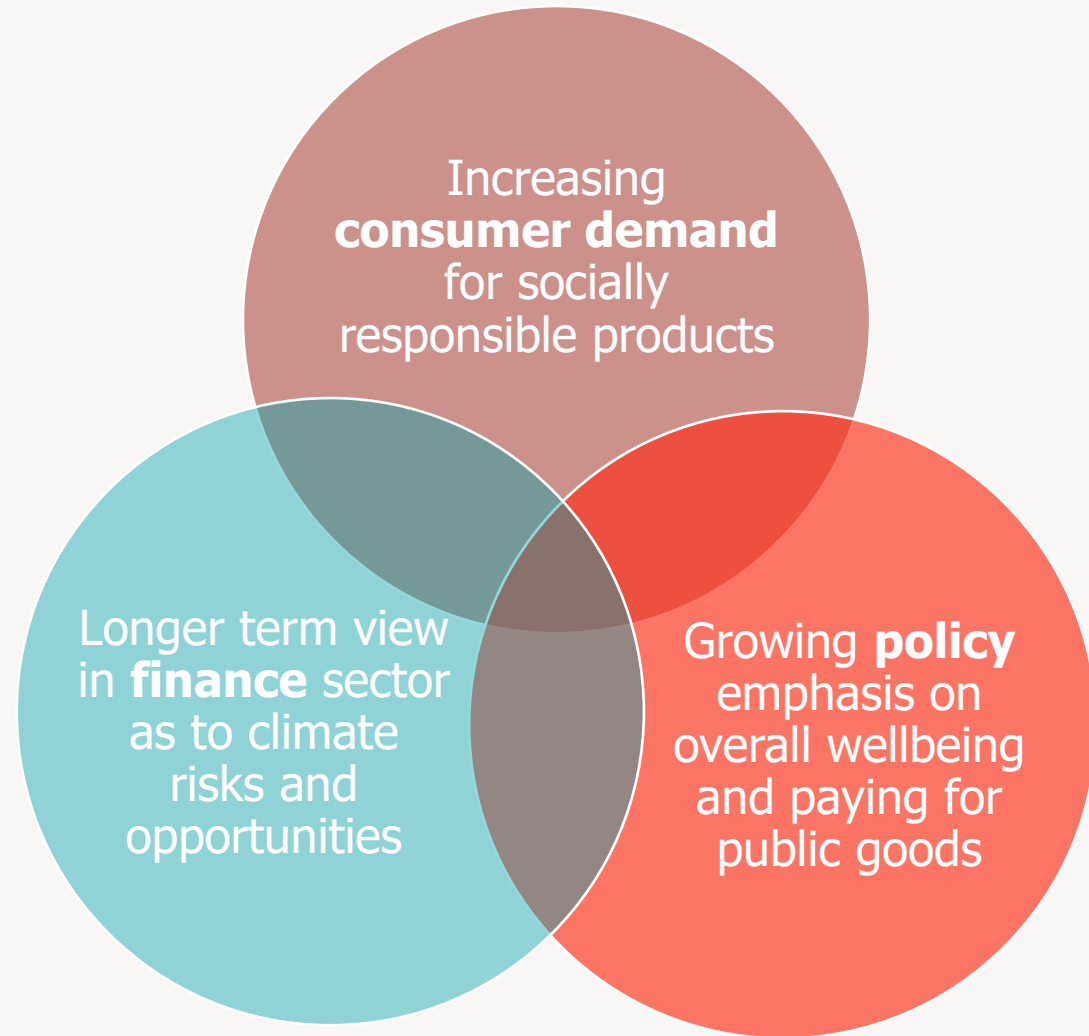


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# Natural capital assets have traditionally been seen as freely available, substitutable, self-maintaining or somebody else's responsibility

- **This view is changing**
- **Maintaining natural capital becomes a business and investment sustainability issue**
- **Needs bespoke approaches & frameworks for measuring, valuing impacts, choices and trade-offs**
  - **Bespoke but comparable**
- **This standards meets this need for preparing natural capital accounts**

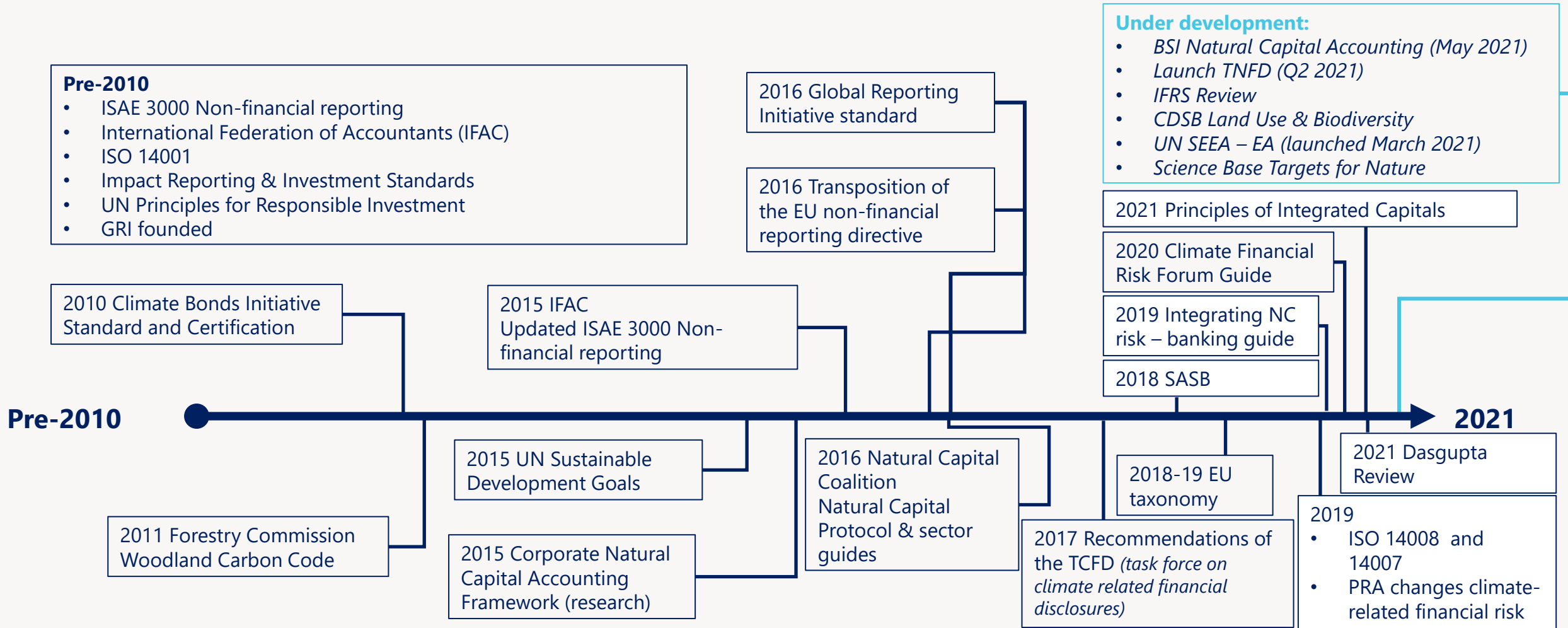


# Natural Capital

- **(3.17)** stocks of the elements of nature that provide benefits to society, such as forests, fisheries, rivers, biodiversity, soils, minerals, the atmosphere and oceans, as well as natural processes and functions. Natural capital includes both the living and non-living aspects of ecosystems
- *Stocks* of natural capital assets providing *flows* of benefits (inc. ecosystem services)
- Benefits to the organization and the rest of the society
- Financial (market) returns and public goods



# Re-cap on standards, guidance and reporting



*List is not exhaustive – focus on natural capital*



# Why natural capital accounting?

- Understand your impacts & dependencies on natural capital – for the organization and attributable to it through its value chain
- Better manage the related risks & opportunities
- Integrate natural capital considerations into business planning, operations and financial sustainability

Systematic way of compiling data, responding to drivers, inputting to decisions

- Measure returns to investing in natural capital (“impact”) – to the organization and the rest of the society

Creates accounts that are comparable to financial accounts



# Natural Capital Accounts

Impacts of the operations of the organization\*

Natural Capital Income Statement

## Natural Capital Income Statement

Reporting date: 31/12/2021

Sources of enhancement to natural capital		£'million
A	Source 1	5
B	Source 2	
C	Source 3	
Total enhancement		
Sources of deterioration to natural capital		
D	Source 4	
E	Source 5	
F	Source 6	
Total deterioration		
Total Net Natural Capital		

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Dependencies of the organization\* on natural capital

Natural Capital Balance Sheet

## Natural Capital Balance Sheet

Reporting date: 31/12/2021

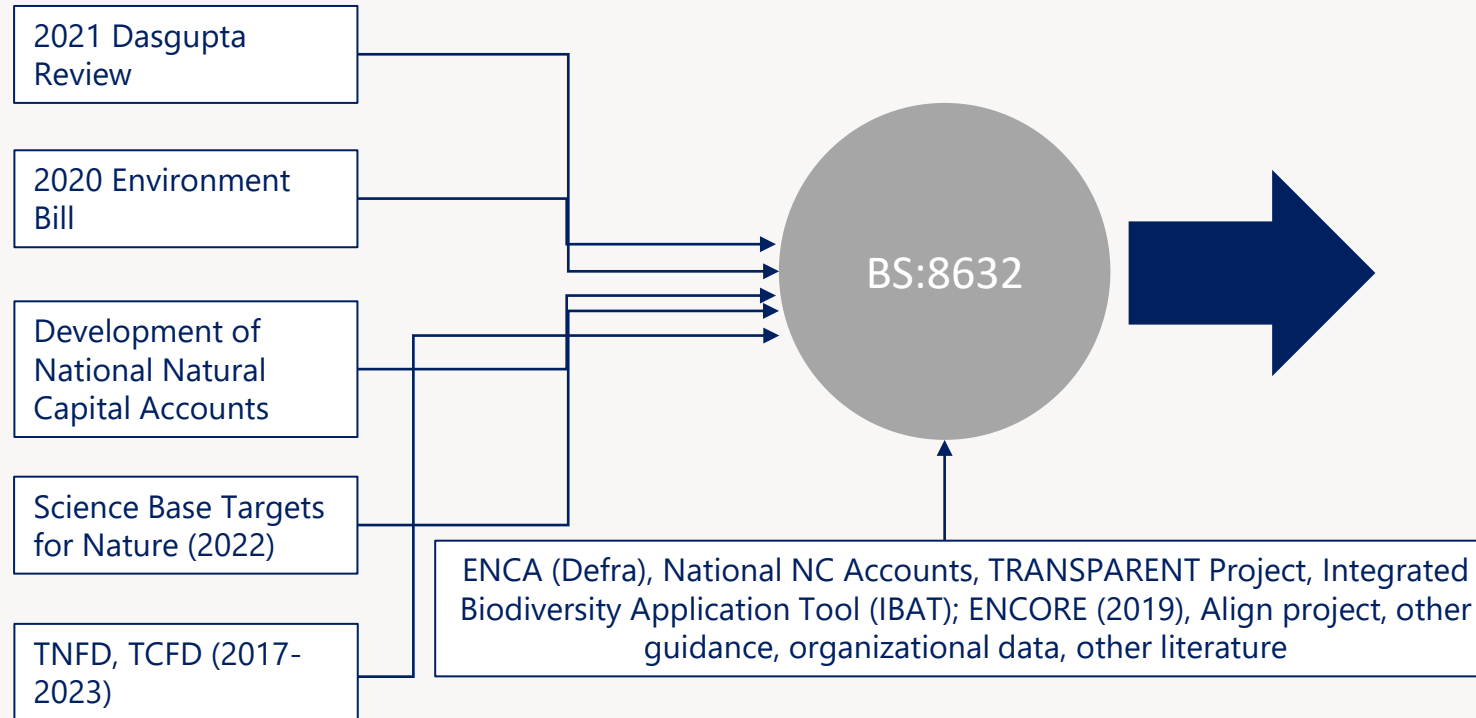
	Value to organization	Value to society	Total value	Of which reported in financial accounts
	£'billion	£'billion	£'billion	£'billion
<b>Assets</b>				
1	Benefit 1			
2	Benefit 2			
3	Benefit 3			
4	Benefit 4			
Gross asset value				
<b>Liabilities</b>				
7	Maintenance costs			
8	Production costs			
Total liabilities				
9	Retained earnings to stakeholders			
Total Net Natural Capital				

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# Where does BS:8632 fit in?

## Drivers for the standard



Methods and tools help with valuations and quantification of impacts and dependencies

*Not exhaustive*

## Inputs into or supports

To help make decisions, e.g. Natural Capital Protocol

Supporting reporting frameworks, e.g., GRI, CDSB, SASB, IIRC, CDP, etc.

- *Sustainability reports*
- *Integrated reports*

To help understand dependencies/risk assessment, e.g., TNFD, TCFD

As inputs into ESG indicators

To show how impacts are managed



# 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



# Clause 4: Principles

- Rigour
- Completeness
- Consistency
- Credibility
- Relevance
- Transparency

Broadly consistent with the Natural Capital Protocol the three highlighted expand on the principle of replicability in more detail; & align with ISO14008.

The principles allow for the use of different methods & bespoke applications but ensure the outputs are comparable.



# BS 8632 preparing a natural capital account



Dr Stephanie Hime  
Founder & Director at  
Little Blue Research Ltd



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# What is the standard

## The standard...

- Builds on existing tools, guides, methods and techniques
- Provides a standardized principles-based process that is also flexible and allows bespoke application
- Provides a process for natural capital accounting at an organizational level that is transparently documented
- Provides a description of natural capital accounting outputs
- Produces results that are comparable within or between different organisations or applications
- Can be used as an input to other process/reports relating to natural capital
- Can be followed for auditing or verification

## The standard is not/does not...

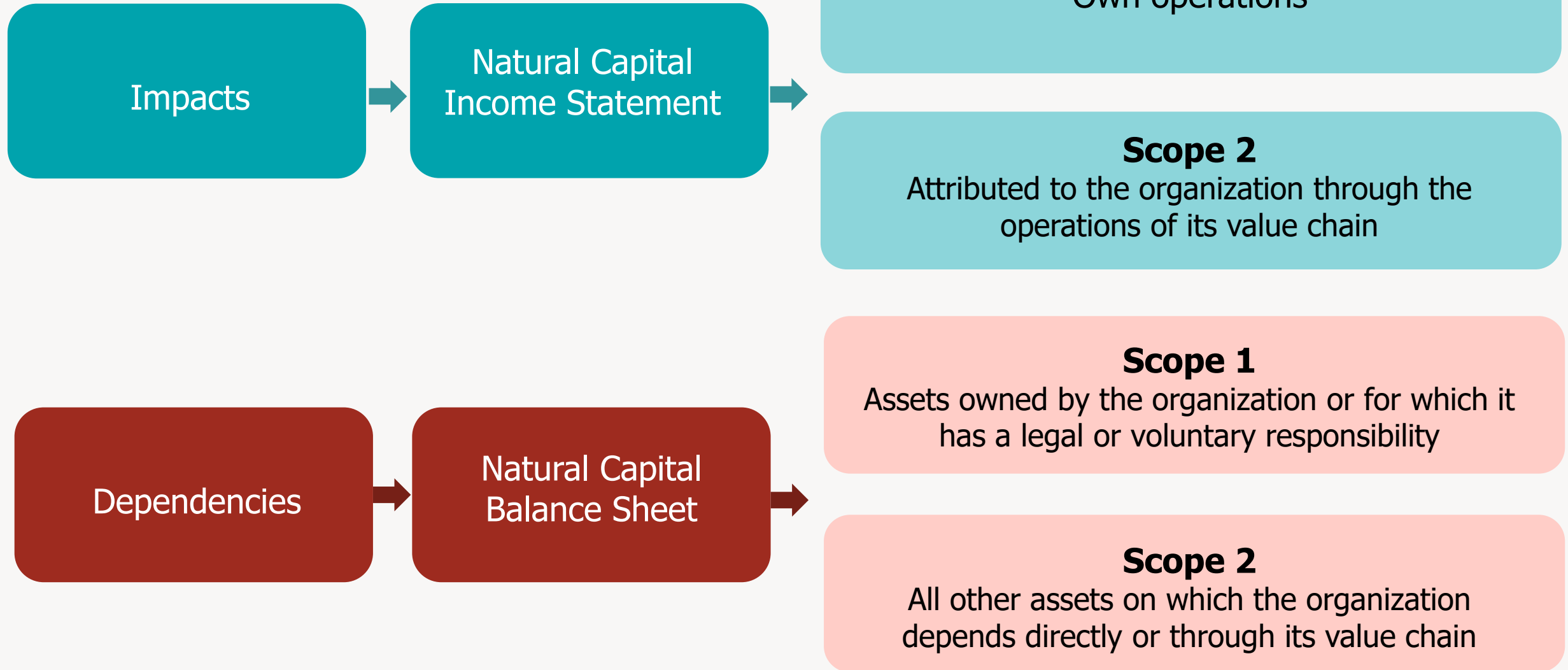
- A guidance document or new methodology
- A calculator for natural capital values
- An external reporting framework
- Explicitly promote specific tools, methodologies or approaches
- For producing a national natural capital account(s)

# What's in the standard?

- Scope (clause 1)
- Terms and definitions (clause 3)
- Principles (clause 4)
- Natural capital accounting outputs and scopes (clause 5)
- The process of preparing a natural capital account (clause 6)
- Documentation, interpretation and integration (clause 7)



# Natural Capital Accounts



# Clause 5: Natural Capital accounting outputs and scopes

## Scope depends on..

- The **impacts and dependencies of the organization** (and, if included, its value chain) on natural capital assets.
- The **organization's legal or voluntary responsibilities**.
- The **purpose** of preparing a natural capital account (6.2).
- The result of a **materiality assessment** (6.4).
- The **availability of data** (6.6).
- The **principles** given in Clause 4.



# Clause 6: Process of preparing an account

The organization shall carry out the following process:

- a) Identify the purpose of the natural capital account (6.2).
- b) Identify and plan involvement of stakeholders at the start and throughout the accounting process (6.3).
- c) Undertake a materiality assessment to decide the scope of the natural capital account (see 5.1 and 6.4).
- d) Select the natural capital accounting output that is appropriate to the purpose of natural capital accounting (6.5).
- e) Collect data from within and outside the organization and conduct a data quality assessment (6.6).
- f) Prepare the natural capital account(s) and **supporting schedules** (6.7).
- g) Document the whole process, interpret the natural capital account(s) produced and integrate into wider decision making (Clause 7).

Pat will cover the purpose, involvement of stakeholders, documentation, interpretation and integration of accounts in the next section

# Clause 6 continued: What do you need to produce an account?

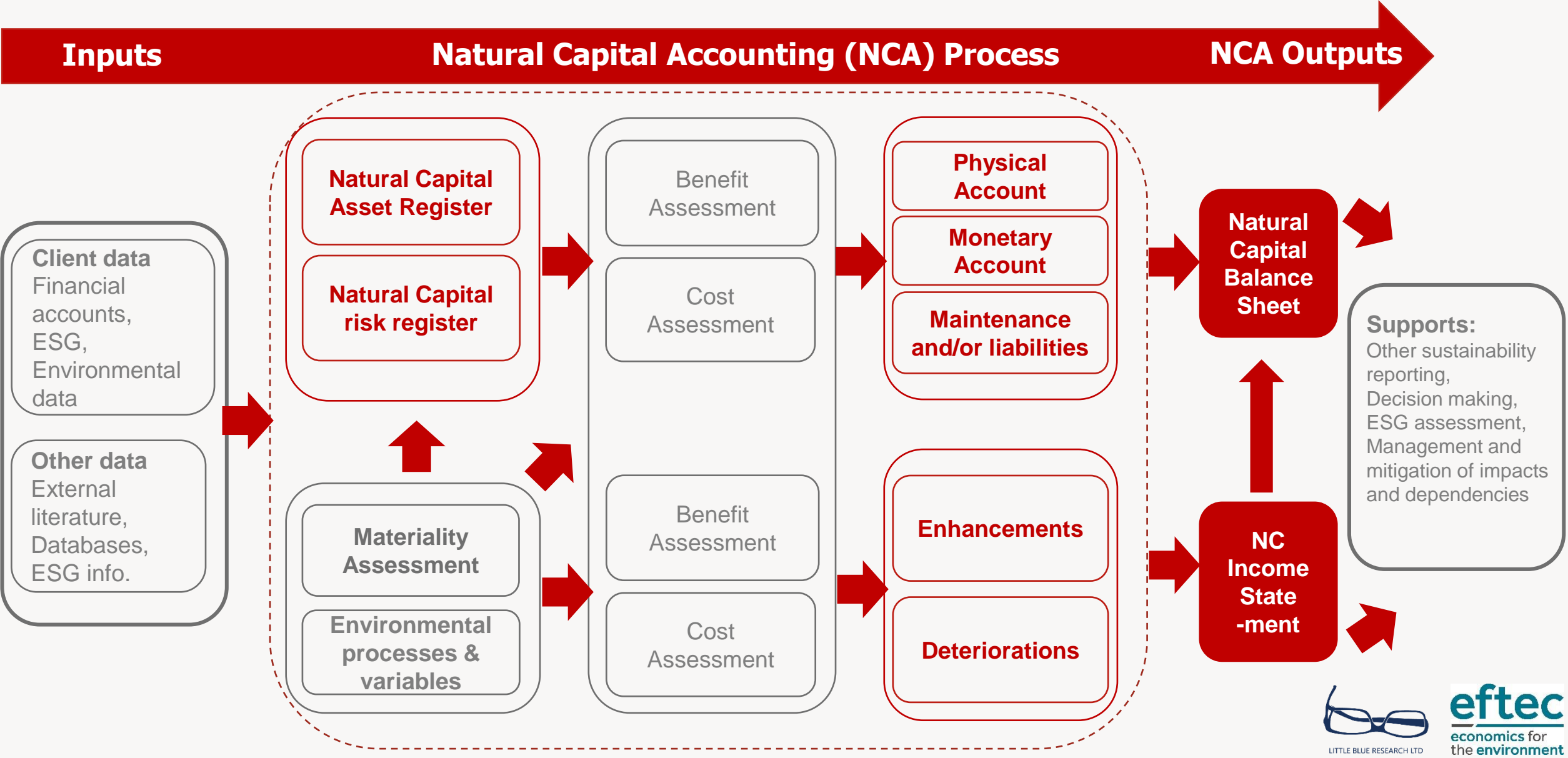
Natural Capital Balance Sheet is supported by:

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

Natural Capital Income Statement is supported by:

- Enhancements
- Deteriorations





# Appendix: What does the output look like? NCBS

## D.2 Example Natural Capital Balance Sheet

Table D.1 – Example Natural Capital Balance Sheet – Scope 1

Date: 31/12/2020 Net Present Values over 60 yrs	Value to the farm £ million	Value to the rest of society £ million
discount rate of 3.5% (1-30 years), declining to 2.5% (30-60 years) [3]		
<b>Asset Values</b>		
Food <sup>A</sup>	4.4	
Timber <sup>B</sup>	1.6	
Carbon sequestration <sup>C</sup>		1.5
Air quality regulation <sup>D</sup>		12.5
Recreation <sup>E</sup>		6
<i>Gross Asset Value</i>	6	20
<b>Liabilities</b>		
Production costs <sup>F</sup>	(6.0)	
Maintenance costs <sup>G</sup>	(0.2)	
<i>Gross Liabilities</i>	(6.2)	
Retained profit/loss	from NCIS	from NCIS
	(0.2)	20
<b>Net Asset Value</b>	19.8	
<b>Benefits from natural capital (non-monetised)<sup>H</sup></b>		
Insect species abundance	6 bee species 3 butterfly species	
Wild bird species	30 species	
Number of wild flowers	30+	

### Points of note:

- Natural Capital Balance Sheet NPV over 60 years
- Statement on discount rate use
- Values to both the organization (farm) and society
- Negative values in brackets, non-monetary' values
- Link to NCIS – retained profit/loss
- Qualitative data

- Links with financial accounts
- Materiality
- Illustrations relating to the choice of scope
- A hypothetical example



# BS 8632

## Using natural capital accounts



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Carbon Code at Scottish Forestry



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# Clause 7: Documentation, interpretation and integration

*All information for decision-making: incl. sources, data quality, assumptions, caveats etc*

- A statement about the purpose of the account.
- The responsibilities of the organization (legal or voluntary).
- The scope of the account and a justification of the selection.
- The materiality assessment undertaken
- The accounting period used.
- The discount rate used and rationale for projections
- All relevant supporting schedules
- If accounts are repeated, changes between the different versions of the accounts
- Any alternative scenarios for which different natural capital accounting outputs are prepared.
- All exclusions, and their implications

*Relate the accounts:* story, context, implications, future

*Trust in the accounts:* rigour, transparency, comparability

# 7.1 Documentation - purpose and process

- **Statement of purpose**

- understand impacts & dependencies on natural capital
- help make decisions: strategic, operational, promotional
- demonstrate benefits for society
- provide evidence to internal and external stakeholders
- monitor progress
- assess impacts & dependencies under different scenarios

**Value for**

- the organisation
- stakeholders
- society

- **Involve staff and stakeholders**

- who can provide inputs e.g. data, models and scenarios?
- who may use the accounts when making decisions?
- who should know about organization's impacts & dependencies?
- external consultation where necessary

- Shared understanding
- Open comms/engagement
- Easier process

## 7.2 Interpretation

Organisations claiming a positive net contribution to natural capital shall document:

- (i) consistency with baseline & projected trends, enhancements are greater in value than deteriorations
- (ii) maintained quantity/quality of assets, no irreversible damage thro' deteriorations
- (iii) all the reporting schedules, physical and monetary

Otherwise, a positive net contribution to natural capital shall be considered uncertain

Interpretation shall consider scope, materiality assessment, extent of monetisation...



A positive bottom line alone is not sufficient to demonstrate good practice



## 7.3 Integration

NCBS and NCIS (where same assets and scope) – shows how operations affect quality and quantity of assets

NCA and financial accounting – some overlap through market transactions, production & maintenance costs

NCA into decision-making and reporting – e.g harmonised terminology (where possible), use scenario analysis, risks and opportunities, external reporting & disclosure

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Integration enables NCA to add value to wider reporting and management processes of the organisation

# 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**

- Summary
  - Organizational details
  - Purpose of the natural capital account(s)
  - The implications of the account and key messages
- Natural Capital Account – the Natural Capital Balance Sheet and/or Natural Capital Income Statement; key decisions and justifications in terms of scope, exclusions and the implications of exclusions on the accounts and their interpretation
- Annexes on preparatory material including:
  - Materiality assessment
  - Auditable data trail: data sources, quality assessment, assumptions
  - Supporting schedules
  - References

# Case study: Forestry England Natural Capital Accounts

- Communications and strategic overview
  - structured & transparent way to show the full value of the organization & the costs of maintaining its natural assets
  - monitoring year-on-year change in natural assets
  - aid strategic decision making and long-term planning
- Operations
  - monitor the effects of management on the natural capital assets
  - all staff - understanding of natural capital, its implications & their role
  - local implications and use ongoing (individual investment & business decisions)
- Connection between financial & natural capital performance

*Note: yet to be assessed for conformance to BS 8632*





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Technical Director,  
Capitals Coalition



**Colin Smith**  
Economic Advisor,  
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# Thank you for attending

The standard is available on the [BSI Shop](#)

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