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NATURAL CAPITAL PRINCIPLES FOR THE WATER INDUSTRY

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CONTENTS

This publication describes the development of a common set of principles to better enable the application and use of Natural Capital approaches and assessment type tools by the UK water industry, its regulators and government policy makers.

1. INTRODUCTION
2. THE CHALLENGE
3. DEVELOPMENT OF THE PRINCIPLES
4. USING THE PRINCIPLES
5. THE PRINCIPLES



INTRODUCTION

The Natural Capital approach enables us to recognize that nature provides a wealth of benefits that support our society and economy.

Natural Capital refers to the 'stocks' of the living and non-living aspects of ecosystems that provide flows of benefits, or 'ecosystem services', that have value for businesses and society at large. Examples of ecosystem services include water purification, water flow regulation, carbon storage and sequestration, and opportunities for recreation and tourism.

The water industry not only depends on these benefits to meet regulatory requirements and deliver a reliable and sustainable water supply to customers, but also has the opportunity to generate a net gain in environmental quality, such as through investments in nature-based solutions and catchment management initiatives, which can deliver multiple additional benefits. The value of the benefits nature provides is not recognised in traditional cost benefit accounting or fully recognised through formal regulatory targets for all companies. This means decision processes such as long-term water resource and drainage planning

and options appraisals for catchment management interventions often underestimate the risks and opportunities that arise from the damage to, or protection of, our shared natural assets.

Natural Capital Accounting is one approach to incorporating the value of these natural assets into decision making processes. It usually involves making physical accounts that describe and measure natural assets, quantifying the flow of benefits they generate over time, and where practicable monetary values of the assets are calculated. Natural Capital approaches therefore support a more integrated approach to decision making by providing evidence and supporting the business case for both environmental protection and enhancement. Water companies who recognize the value of Natural Capital can make more cost-effective decisions to deliver net benefits for the natural environment, customers and regulators.





THE CHALLENGE

Ideally the application of a Natural Capital approach should create a net improvement in Natural Capital value, but a balanced approach is essential to ensure monetized value is not the sole driver of decisions, as even today many of the benefits of Natural Capital

cannot be valued in monetary terms. Natural Capital is a relatively new approach, and good practice is still evolving. Until now there has been a fragmented uptake across the UK water sector, with some water companies feeling that their ambitions are being

inhibited by the way Natural Capital is currently dealt with within the various regulatory and national policy frameworks. A key issue is that no one regulator has accountability for Natural Capital approaches despite it being supported by Government policy.

DEVELOPMENT OF THE PRINCIPLES

The Water Industry Forum working with Water UK Environment Policy Advisory Group members through Welsh Water and Ofwat, and supported by Atkins, developed and ran a workshop in October 2020 with a wide range of government, regulator and water company participants. The outcome of the workshop was an agreed set of principles to guide member organizations (industry, regulators, governments, customers, stakeholders and the supply chain) as to how they can set out how Natural Capital type approaches to investment decision making could work. The agreed principles are reproduced on page 7.

PARTICIPANT ORGANISATIONS

- > Affinity Water Limited
- > Anglian Water Services Limited
- > Atkins
- > Department for Environment, Food & Rural Affairs
- > Dwr Cymru Welsh Water
- > Environment Agency
- > Llywodraeth Cymru Welsh Government
- > Natural Resources Wales
- > Northern Ireland Environment Agency
- > Northern Ireland Water
- > Northumbrian Water
- > Ofwat
- > Scottish Environment Protection Agency
- > Scottish Water
- > Severn Trent Water
- > South East Water
- > South West Water
- > Southern Water
- > Thames Water Utilities
- > United Utilities
- > Water Industry Commission for Scotland
- > Water Industry Forum
- > Wessex Water
- > Yorkshire Water Services



USING THE PRINCIPLES

1. FOR GUIDANCE ONLY

In creating these principles, it was recognized that not all are necessarily practicable, or even appropriate in terms of applying such an approach to all investment decisions. They are there as a best practice guide for Companies and Regulators to help design and apply Natural Capital type tools - ultimately with the aim of making more sustainable investment decisions.

It is hoped that by adopting a Natural Capitals assessment type approach, the industry will be able to have much more informed dialogue with all its regulators and policy makers in Government on resilience and investment priorities in particular. Similarly, it is hoped that it can also have a more engaged customer base who are both better informed and supportive of such investment decision making.

2. NEED FOR EVIDENCE

Any Natural Capital Assessment approach should be well evidenced, highlighting the social, economic, and environmental wellbeing of communities as well as aligned with national policy. Such an approach can then be used to engage with customers and stakeholders, so that they understand and can support the broader value the industry's investment will provide.

3. SOME TRADE-OFFS REQUIRED

It is accepted that any such systems based decision-making approach will result in some difficult trade-offs being required by the sector.

THE PRINCIPLES

NATURAL CAPITAL APPROACHES SHOULD AIM TO:

1. Facilitate balanced decisions that will meet the needs of the present without compromising the ability of future generations to meet their own needs
2. Create benefits across a broad range of outcomes beyond individual targets, for environment and society
3. Offer best value options for environment, and stakeholders
4. Promote, engage and enable the co design and production of solutions with communities, regulators and stakeholders through public participation and local engagement
5. Protect and improve biodiversity including connectivity
6. Prevent significant damage to ecosystems downstream or elsewhere
7. Respect the 'Polluter Pays', 'Producer Responsibility', and 'Control at Source' principle enshrined in relevant Legislation
8. Enable the transparent sharing of information between stakeholders and joint management of risks and opportunities between different parties.
9. Support...
 - > robustly with evidence the economic and social wellbeing of communities
 - > greater resilience of ecosystems
 - > nature-based solutions and a transition to low carbon society
 - > the circular economy - by reducing or recycling/ reusing materials - and where not possible use materials from sustainable sources
 - > broader sustainable solutions which takes a systems approach, whether rural or urban e.g. at catchment level
10. Be...
 - > measurable and reportable against relevant regulatory frameworks, guidance and standards supporting Natural Capital approaches, not precluding trialling novel, modified or innovative applications of an NCA
 - > resilient and robust particularly in climate change terms - i.e. take account of the short, medium and longer term
 - > simple to understand and operate, be replicable, and engaging for stakeholders
 - > well evidenced including that to understand any uncertainties and risks



KEY RESOURCES

A guide to Natural Capital terminology from the Natural Capital Committee (2019)
<https://www.gov.uk/government/publications/natural-capital-committee-natural-capital-terminology>

A Natural Capital glossary of terms
<https://www.naturalcapitalinitiative.org.uk/glossary/>

Defra's (2020) Enabling a Natural Capital Approach (ENCA) guidance
<https://www.gov.uk/guidance/enabling-a-natural-capital-approach-enca>

A forthcoming webinar and consultation exercise due to commence in November by BSI on BS 8632 'Natural capital accounting for organizations'.
<https://www.bsigroup.com/en-GB/our-services/events/webinars/bs-8632/>

A global consultation on a 'System of Environmental Economic Accounting' being undertaken by the UN Statistics Division
<https://seea.un.org/content/global-consultation-complete-draft>.

KEY ORGANISATIONS

Natural Capital Committee
<https://www.gov.uk/government/groups/natural-capital-committee>

Natural Capital Coalition
<https://naturalcapitalcoalition.org/>

Ecosystems Knowledge Network
<https://ecosystemsknowledge.net/>

The Water Industry Forum launched in 2012 to meet the need for an independent, not-for-profit stakeholder forum for the whole of the UK water sector. Our membership comprises around 600 organisations including government, regulators, regional water companies, contractors, consultants, manufacturers, research organisations, third sector organisations and investors. Our primary aim is to tackle the many challenges facing the UK water sector through facilitated collaborative working. We do this by providing a forum that is both neutral and independent. This allows us to bring together and engage a wide range of stakeholders to focus on the specific challenges identified by our partners.