

Rt Hon Philip Dunne MP  
Chair, Environmental Audit Committee  
House of Commons  
London  
SW1A 0AA

07 May 2021

Dear Mr Dunne,

I write in response to the Environmental Audit Committee's request for evidence for its inquiry into *Ecosystems and biodiversity*, specifically addressing the Committee's questions regarding the Office for National Statistics' (ONS) work towards incorporating the Natural Capital Accounts and the Environmental Accounts into the wider national accounts.

The ONS has been working with and actively involved in developing international approaches in this area, and the following provides both a summary of where we are and avenues for progress:

**(1) Have the Natural Capital accounts been incorporated into the wider UK Environmental Accounts as planned for 2020?**

The Natural Capital Accounts tables were published as part of the Environmental Satellite Account within the Blue Book for the first time in 2020<sup>1</sup>.

Our Natural Capital Accounts development work continues, improving the methods and range of services being estimated. Key development areas include improving the granularity (detail) of the accounts and how changes in environmental condition and their impact are incorporated.

We are also looking at expanding our ability to include natural and other 'missing capitals' – manufactured and social – within experimental 'Inclusive Wealth' measures as proposed in the Dasgupta Review of the economics of biodiversity, alongside figures from the traditional national accounts (as detailed below).

**(2) What steps need to be taken to integrate the Environmental Accounts into mainstream national accounting?**

The ONS recognises that user needs are evolving. There is increasing emphasis on stepping outside the traditional linear framework and exploring economic aggregates in a more cohesive manner by expanding into other domains, such as environment and social.

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<sup>1</sup> [www.ons.gov.uk/economy/grossdomesticproductgdp/compendium/unitedkingdomnationalaccountsthebluebook/2020](http://www.ons.gov.uk/economy/grossdomesticproductgdp/compendium/unitedkingdomnationalaccountsthebluebook/2020)

We compile the core UK national accounts in line with internationally agreed guidance in the European System of Accounts 2010 (ESA2010)<sup>2</sup>. This is in turn consistent with the UN's System of National Accounts 2008 (SNA2008)<sup>3</sup>. While these ensure international comparability and quality of national accounts, they do not currently allow for the direct incorporation of environmental accounts into core national accounts.

We are actively involved in discussions regarding revisions to the System of National Accounts but at present, to remain comparable, we are not able to integrate the environmental accounts elements into the core national accounts. As the national accounts are an integrated set of stock and flow accounts, any such integration would need to capture both the stocks of environmental assets, but also the flows (positive and negative) associated with these.

The current international guidance does allow for Environment Satellite Accounts to interact with the core accounts, under the System of Environmental–Economic Accounting<sup>4</sup> focussing on the environment, or other experimental outputs combining different elements and providing bespoke presentations as required. This enables us to use a similar framework and terminology to the core national accounts to bring economic and environmental data together for analysis and to better inform policy.

To reflect user needs, we are also developing our National Balance Sheet, which shows the wealth of the nation by non-financial and financial assets and the sectors that own them. Its many uses could include being a place for natural capital integration. These data are used to monitor economic performance, to inform monetary and fiscal policy, and for international comparisons. An annual publication and a National Statistic, this was developed to be broadly in line with SNA2008 and ESA2010.

We are also currently developing new and innovative frameworks for measuring the economy to meet the increased user demand for our statistics to move 'Beyond GDP'. This includes the Spectrum framework<sup>5</sup>, which seeks to extend the production and asset boundaries to include natural and human capital – as well as several other aspects of economic activity which currently fall outside of GDP, such as household production – to develop a measure of economic welfare that builds on the national accounts. Alongside this, the ONS is in the very early stages of exploring a possible workplan to respond to the Dasgupta Review's call for a national measure of 'Inclusive Wealth', incorporating the market price of produced, natural, and human capital and also externalities associated with these.

For example, we are considering how to present a more unified presentation of the different estimates of capital stocks which the ONS already produces (e.g. productive capital, human capital, natural capital) on a consistent basis to help inform the public and decision-making.

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<sup>2</sup> <https://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334>

<sup>3</sup> <https://unstats.un.org/unsd/nationalaccount/docs/sna2008.pdf>

<sup>4</sup> <https://seea.un.org>

<sup>5</sup> <https://www.escoe.ac.uk/publications/gdp-and-welfare-a-spectrum-of-opportunity>

### **(3) Is it possible to integrate natural capital accounting into the national accounts now?**

We are working to develop our innovative frameworks building on the national accounts and extending beyond them. This includes new research via the Economic Statistics Centre of Excellence, called the 'Spectrum' approach, as mentioned above. We are also developing 'Inclusive Wealth' measures in response to the Dasgupta Review. Some of this work will require further funding, which we are exploring, and timelines are likely to be funding dependent.

The guidance on Natural Capital and the System of Environmental Economic Accounting are separate from the international guidance on the central framework for National Accounting. This does not restrict us developing experimental alternatives separate to the more traditional accounts.

The UK has developed a world leading set of statistics to measure our Natural Capital Assets in a way that is compatible with central framework concepts. If the international guidance were to be revised to permit full integration, taking a national accounts stocks and flows approach would be a significant and complex endeavour.

It should also be noted that our Natural Capital Accounts development aims to produce measures that are of use in a wider set of policy contexts beyond the national accounts. Over the last year or so, our Environment and Natural Capital Team has been able to use their datasets to, for example:

- examine air pollution and mortality related to COVID-19<sup>6</sup>;
- assess outdoor recreation access through lockdown<sup>7</sup>; and
- produce the UK's first Marine Natural Capital account<sup>8</sup>, highlighting the potential scale of 'blue carbon sequestration' and comparing this with the value of fishing and fossil fuels.

I hope this submission is useful to the Committee, and please let me know if we can provide any further assistance to this inquiry or the Committee's other work.

Yours sincerely,



**Jonathan Athow**, Deputy National Statistician and Director General, Economic Statistics Office for National Statistics

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<sup>6</sup><https://www.ons.gov.uk/economy/environmentalaccounts/articles/doesexposuretoairpollutionincreasethe riskofdyingfromthecoronaviruscovid19/2020-08-13>

<sup>7</sup><https://www.ons.gov.uk/economy/environmentalaccounts/articles/oneineightbritishhouseholdshasnogarden/2020-05-14>

<sup>8</sup><https://www.ons.gov.uk/releases/uknaturalcapitalaccountsmarine2021>