



April 14, 2026

From: Peter van Dijk
To: Canadians Concerned about Recognizing and Valuing Natural Assets
Re: MAKING NATURAL CAPITAL DECISION-RELEVANT, LESSONS FROM THE UK

Governments are increasingly confronting the practical reality regarding the value of natural capital: Flooding, water scarcity, heat stress, biodiversity loss, and ecosystem degradation are driving infrastructure costs, insurance pressures, and long-term liabilities.

Canada's natural capital – its renewable and non-renewable natural resources as well as its ecosystem services – underpins much economic activity, serving as essential inputs across numerous industries and mitigating the risks of environmental degradation. As a key asset, it acts as a major source of long-term wealth, and the loss of natural capital is increasingly recognized as a risk to economic growth, productivity, and fiscal sustainability.

Yet natural capital still appears only as a contextual component of public decisions – unlike economic statistics, financial statements, and risk assessments, which produce quantifiable metrics. A major challenge is how governments begin to address the issue in a disciplined, economically credible, way.

Three recent frameworks – the UN System of Environmental-Economic Accounting – Ecosystem Accounting (SEEA-EA), the public-sector accounting standard IPSAS 51, and the Taskforce on Nature-related Financial Disclosures (TNFD) – offer a pathway to making natural capital more visible and decision-relevant. Governments need not adopt all three at once; sequencing and partial adoption can improve decision quality.

The United Kingdom incorporated the SEEA-EA and offers a useful example of how these frameworks can be applied.

Start with measurement

The UK's first step was SEEA-EA-consistent measurement. The Office for National Statistics has institutionalized natural capital accounts, covering ecosystem extent, condition, and service flows. These accounts are produced as official statistics rather than pilot studies, establishing credible evidence within the UK's core statistical system.

Crucially, this information sits outside core financial statements. Governments have been understandably cautious about incorporating natural capital into balance sheets due to concerns about valuation uncertainty, including reliance on incomplete or subjective data.

By separating ecosystem measurement from balance-sheet recognition, the United Kingdom side-stepped these concerns while improving transparency and supporting better decisions – without introducing accounting risk. For example, these accounts can inform flood-defence investments, land-use change, and infrastructure planning without requiring recognition in government financial statements.

From data to informing decisions

Measurement alone does not change outcomes unless it informs decisions. In the UK, ecosystem information has increasingly entered public decision-making through the Treasury's Green Book.

The Green Book, supported by the UK's Enabling a Natural Capital Approach (ENCA) guidance, embeds environmental and natural capital considerations within a broader framework of economic and social value. In practice, this ensures that ecosystem degradation is reflected as future cost and risk rather than treated as an externality. Natural capital, therefore, enters fiscal decision-making through appraisal and risk analysis in a practical and modest way.

Sequencing matters. Governments can begin managing nature-related risk without forcing uncertain and early-stage valuations onto the balance sheet.

Accounting and risk: maintaining discipline while improving decisions

The other two frameworks – IPSAS 51, which reinforces the need to establish clear criteria and reliable evidence to include tangible natural resources held for conservation in financial reporting, and the Taskforce on Nature-related Financial Disclosures (TNFD), a global initiative to help organizations identify, assess, and disclose nature-related risks – have not yet been adopted by the United Kingdom, but offer insight into the future.

The UK moves highlight an important insight: Governments need not fully integrate measurement, accounting, and risk frameworks all at once. Progress can begin with improved measurement and decision-making, while accounting and disclosure frameworks evolve over time. Governments can act without full balance-sheet recognition, but attracting private capital at scale ultimately requires consistent, auditable information, making accounting a key enabler of investment.

Implications for Canada

Recent federal developments, including the release this month “A Force of Nature: Canada's Strategy to Protect Nature” and the commitment to launch an expert task force on natural capital accounting, signal growing policy recognition of this agenda.

We don't need to immediately replicate every element of the three frameworks. Rather, the UK experience suggests a disciplined path forward: Measure consistently and apply that information to fiscal decision-making.

Two steps would make Canada's natural capital decision-relevant in a fiscally conservative way:

1. **Mandate consistent natural capital and ecosystem accounts.**
Building on current voluntary efforts, Statistics Canada, in collaboration with the provinces and territories, should formalize the development of comprehensive, SEEA-EA-aligned ecosystem accounts to track Canada's natural capital.
2. **Embed natural capital in fiscal appraisal and risk management.**
Incorporate ecosystem services and nature-related risks into cost-benefit analysis, project appraisal, and long-term fiscal risk assessments.

Over time, governments could strengthen financial reporting. This would recognize well-evidenced conservation assets while maintaining a conservative approach to valuation and disclosure.

Making natural capital decision-relevant is not about assigning an inflated price, but about reducing fiscal blind spots and improving long-term decision making. The UK experience shows that clarity can come before capitalization, and that disciplined sequencing may deliver real economic value.

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