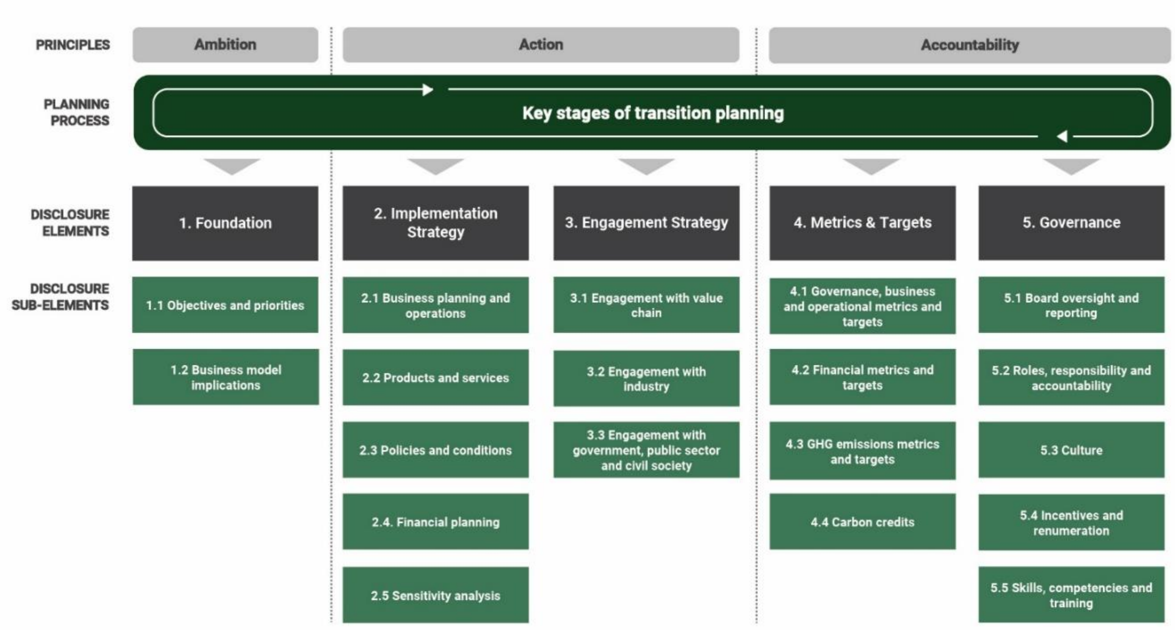
Global Compact
Network UK

Creating Impactful Climate Transition Plans – Webinar Series Key Takeaways

Transition plans are the next step for companies to address climate-related risks and opportunities and outline how they will practically achieve their net zero goals. It is important for businesses to start preparing these plans now for integration into long-term strategy. To explore this topic and help companies get started, the UN Global Compact Network UK hosted a series of webinars in May 2023.

In 2022, the UK Government established the Transition Plan Taskforce (TPT) to develop the gold standard for transition plans and support its goal to be the world's first net zero financial centre. Following this, more and more companies are expected to set out their transition plan as part of mandatory TCFD-aligned disclosures and in response to pressure from stakeholders.

Last November, the TPT released its draft framework and guidance outlining the key components of a transition plan and how net zero should be incorporated into overarching business strategy. The framework follows a three-part structure focused on Ambition, Action, and Accountability, outlined below. The final draft of the TPT's framework and guidance will be released in Autumn 2023, when work on sector-based guidance will begin.



The TPT recommends that companies utilise a 'Strategic and Rounded Approach' to consider the full range of levers at their disposal to contribute to and prepare for an economy-wide transition to net zero. Aspects of this approach include:

1. **Decarbonisation**: actions to reduce GHG gas emissions, reduce impact on the climate, and align with net zero.
2. **Responding to climate-related risks and opportunities**: actions to respond to physical and transition risks and opportunities.
3. **Contributing to economy-wide transition**: help embed and accelerate the transition, and, in doing so, minimise future risks and protect and enhance long-term value.

The below sections will explore how businesses can develop a robust plan in line with the three pillars.

Ambition

The Ambition pillar is where organisations should outline how they will contribute to and prepare for a rapid and orderly economy-wide net zero transition. This includes detailing their objectives and priorities, as well as the implications the net zero transition raises for the business. For example, net zero targets validated by the Science Based Targets initiative (SBTi), commitments around nature and biodiversity, goals for resource efficiency/energy usage, and more.

Case study: Lloyds Banking Group

Lloyds Bank is committed to supporting the net zero transition, both in its own operations and in its financed activities. To do this, Lloyds has aligned its climate objectives to its overarching business strategy:

1. Grow – capitalise on climate opportunities
2. Focus – manage risk, supply chain, and operations
3. Change – embed sustainability in everything they do

Described in their Net Zero Activity Update, this is supported by ambitious interim targets for achieving Lloyds' long-term goal of net zero by 2050, including:

- Reduce financed emissions by **>50% by 2030**
- **Halve** carbon footprint of Scottish Widows investments **by 2030**
- Reduce supply chain emissions by **50% by 2030**
- **Net zero** in own operations **by 2030**

To meet these targets, Lloyds Bank is focusing on areas with high impact, materiality, or are hardest-to-abate. This includes sector-specific financing and investment targets, such as £15 billion invested in sustainable finance in Commercial Banking by 2024, and 2030 emissions intensity reduction targets in UK residential mortgages, retail motor, automotive original equipment manufacturers, aviation, thermal coal, oil and gas, and power generation.

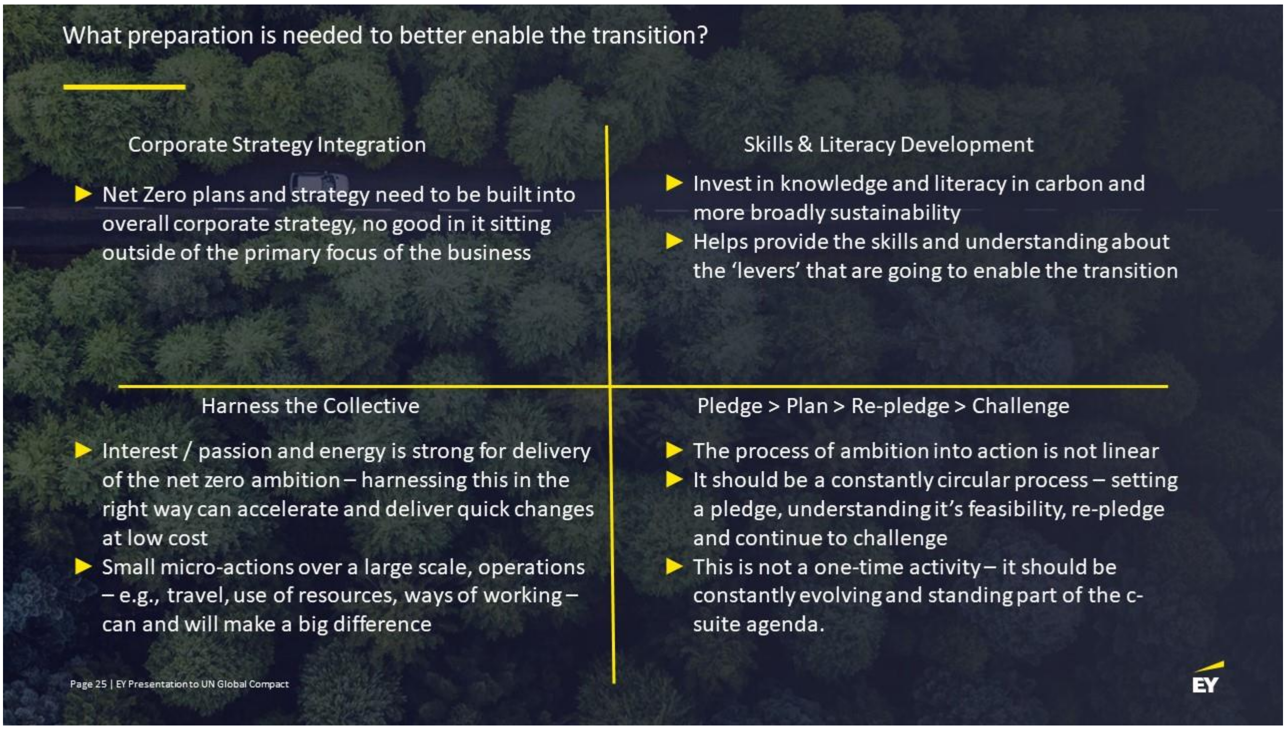
Lloyds' strategy and targets are supported by Board level oversight across three different committees, as well as two committees at the executive level – Group Net Zero Committee and Group Risk Committee. Additionally, remuneration structures include climate performance measures to drive continued progress and ensure leadership involvement.

Significant business model transformation is required to meet ambitious net zero goals, and while companies have set targets, many have not yet considered the 'how' of achieving them.

Based on conversations with clients, EY notes that the following areas may be useful for companies in prompting the internal mindset shift towards business transformation for net zero:

- **Advocacy & leadership** – from the top and throughout the organisation, sustainability is embedded in the core purpose of the organisation.
- **Skills shift** – Develop transformational leadership and technical skills, particularly in the sustainability function (Chief Sustainability Officers (CSOs)).
- **Invest time and effort in exploring the 'levers' to reach net zero** – this will be different for every sector/industry and will require creativity and innovation to realise all possibilities.
- **Learn from others** – what are competitors doing well or less well, what are sector leaders spending time on, what and how can businesses share to go faster?
- **Financing** – the transition will require substantial funding for business transformation, so aligning a company's investment plan with this is critical.

EY recommends looking at the following areas to support preparation for the net zero transition:



Action

Action is where the heart of the climate transition lies. This pillar should focus on concrete actions towards net zero which emphasise the short-term and strive for business resilience. Under this pillar lies the Implementation and Engagement Strategies, where businesses should outline how they will practically put their plans into place and collaborate with stakeholders to make them a reality.

Key considerations:

Implementation Strategy:	**Engagement Strategy:**
• What are the short-, medium-, and long-term actions that you will take to deliver on your ambition in your business operations? • What actions are you taking to mitigate significant risks to nature or communities that result from your plan? • What changes are you making to your portfolio of products & services (i.e., will you be offering climate solutions to customers)? • What internal policies are you putting in place to help you deliver on your ambition (e.g., internal carbon price, zero deforestation policy, etc.)? • What are the financial implications of these planned changes? • What are your assumptions & dependencies (e.g., government policies, technology/innovation, Scope 3 reduction)?	• What steps are you taking to work with your value chain or portfolio to support your objectives (e.g., engagement with suppliers to help them decarbonise, exercising shareholder voting rights)? • How are you working with industry peers to share expertise, experiences, and address common challenges? • How are you engaging with policymakers to support your objectives (both directly, and indirectly via industry alliances)? Especially if this is communicated as a dependency within the plan.

Case study: Diageo

Diageo has an SBTi-validated 2050 net zero target, as well as shorter-term 2030 goals to support its 'Society 2030' strategy:

- Net zero direct carbon emissions (Scopes 1 and 2)
- 50% reduction in supply chain carbon emissions (Scope 3)
- 100% renewable energy for own operations

Action on Diageo's net zero target is separated into four areas:

1. **Operations** – focusing on energy efficiency and renewable electricity, fuel, and heat. Energy-reduction initiatives include improving insulation, optimising compressed air and steam systems, recovering hot vapour, and re-using heat from cooling water. They also invest in onsite solar and biomass fuel sources to replace fossil fuels.
2. **Supply Chain** – working with suppliers to ensure responsible sourcing and identify new business models, alternative formats, and reduction initiatives for raw materials, packaging, waste, etc. This includes a partnership with Encirc to develop a hydrogen-powered furnace which would enable the production of the first net zero glass bottle.
   Diageo recommends the CDP Supply Chain Programme to engage suppliers.
3. **Community** – actively engaging with the communities where it operates and source materials to drive climate action. This includes working with growers and smallholder farmers to pilot regenerative agriculture programmes and promote these practices more widely to ensure climate resilience.
4. **Advocacy** – supporting initiatives such as the Race to Zero and Race to Resilience, CEO Water Mandate & Water Resilience Coalition, and the UN Global Compact.

Case study: NatWest Group

NatWest has a 2050 net zero target, with an interim goal to halve financed emissions by 2030. Due to its position as one of the UK's largest banks, its carbon emissions are largely attributed to its lending activities. For this reason, NatWest's transition plan primarily focuses on its value chain and how it can support its customers to decarbonise. This is backed by a target to provide £100 billion of climate and sustainable funding and financing by 2025, as well as a new Carbon Planner tool to help business cut emissions.

NatWest has taken a sector-based approach to the actions within its transition plan, such as:

- **Residential mortgages** – providing educational materials to homeowners on sustainability, launching a suite of green lending products and the Sustainable Homes and Buildings Coalition.
- **Mobility** – financing lower carbon vehicles (£1.3 billion in 2022), implementing internal policy restrictions on lending for older and high-emitting vehicles and transaction acceptance standards (TAS).
- **Energy** – conducting credible transition plan (CTP) assessments for oil and gas majors and in-scope coal customers, prohibiting reserve-based lending for the purpose of financing oil and gas exploration, extraction and production, and providing green and transition finance as part of its overarching target.
- **Food** – supporting agricultural customers with the rising cost of living to ensure sustainable farming practices are maintained, partnering with the Sustainable Food Trust to digitise the Global Farm Metric (GFM), and working with food manufacturers and retailers to co-develop financial solutions that will allow farmers in its supply chain to have access to NatWest's climate financing.

A **systems-thinking approach** can be useful for businesses in planning action as it considers how carbon flows between sectors in the economy, and the factors that determine the magnitude of those flows. Factors can include: government policy, the carbon intensity of materials, technologies, and infrastructure, configurations of existing value chains, and consumer preferences and behaviours. This approach can also help organisations determine how they will **address the protection of nature, biodiversity, and local and indigenous communities** within their transition plans.

Takeaways for action:

- It's important (and possible) to **start early** (even if you don't have all the answers).
- This process will be **iterative –** you can expect your plan to change as the market changes, and there will be a cyclical learning curve as the transition progresses.
- Early **cross-functional** team collaboration is key, e.g., including finance, R&D, etc.
- Transparency about **assumptions, uncertainties, and dependencies** matters. There may be an element of discomfort in communicating assumptions about how you will reach your targets, especially if there is an existing innovation or funding gap. This is okay!
- A good plan clearly links long-term ambitions to **short** & **medium-term** actions.

Accountability

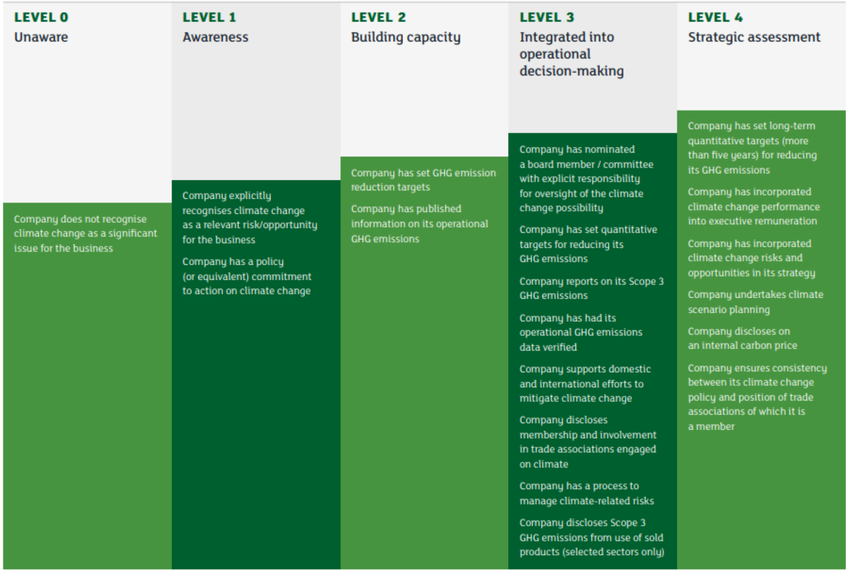
The final pillar of the TPT's framework outlines how organisations will enable delivery of the plan through clear governance mechanisms along with consistent, comparable, and decision-useful reporting and verification. It contains the Metrics & Targets and Governance components.

Key considerations:

Metrics & Targets:	**Governance:**
• Which metrics and targets related to operations, products & services, engagement activities, and managing material interdependencies do you use to assess progress? • Which financial metrics and targets do you use to assess progress and delivery of your plan? • What are your emissions targets? Are these intensity or absolute reduction targets? • How are you intending to use carbon credits as part of your plan? What kind of credits are you using? What, if any, third-party verification have they been subject to? • What underlying definitions do you apply in your selection of metrics and targets?	• What are your arrangements for board-level governance and oversight of your plan? • How has the accountability for delivering the plan been embedded within the roles and responsibilities of your senior management team? • What steps are you taking to promote a whole organisation culture that's aligned with and supports your plan? • How does your remuneration programme align with the objectives in your transition plan? • How do you plan to upskill and educate your employees on the transition plan to ensure they are equipped to deliver it?

Climate and sustainability-related reporting is a huge concern for business, so the TPT has taken care to ensure that its framework and guidance is aligned with the requirements of existing mandatory frameworks such as the Task Force on Climate-Related Financial Disclosures (TCFD), the EU's Corporate Sustainability Reporting Directive (CSRD), and International Sustainability Standards Board (ISSB)'s exposure drafts, among others. The London Stock Exchange Group (LSEG) notes that the financial sector is increasingly building climate into its decision-making, so having high quality company data is crucial. The TPT's Technical Annex and TCFD Knowledge Hub provide useful guidance for companies on producing good metrics and targets aligned with TCFD & ISSB. However, it is important to avoid letting the focus on reporting take away from the spirit of progress and the overarching goal of climate action!

On governance, LSEG points to the work of the [Transition Pathway Initiative](#) in outlining the different stages of management integration that climate may have within an organisation. Companies demonstrating actions under level 3 and 4 of this staircase, are increasingly making progress on their net zero goals and leading on climate action in their sector or industry. For this reason, it is key climate has strategic oversight within a business.



Case study: SSE

As an electricity generation company, SSE plays a key role in the UK's transition to net zero. For this reason, it has long-term goals to **reach net zero Scope 1 and 2 emissions by 2040 and net zero Scope 3 emissions by 2050**, as well as various short-term and medium-term goals to support this. Details on its targets and the actions it is taking to get there are outlined in SSE's Net Zero Transition Plan. It has also released a Net Zero Transition Report which discusses progress and outstanding challenges.

SSE's decarbonisation journey has been underway for at least **the past 10 years**. Because of this, it has made substantial progress on integrating net zero into its operations, building robust governance systems, and producing thorough metrics & targets for reporting, all of which ensure accountability. In addition to its transition plan, SSE has a separate Just Transition Strategy and Progress Report, indicating just how important the net zero transition is to the company's operations.

SSE has been reporting in alignment with TCFD since its inception in 2017, so its methodologies have developed over time. Within its 2022 Annual Report, there are 16 pages of climate-related financial information, which highlights the work its done to identify climate-related risks and opportunities and quantify impacts. It has also received limited assurance on its greenhouse gas and water data.

SSE's climate work is supported by a core Sustainability team, as well as sustainability professionals across the entire business group. The implementation of SSE's plan is the responsibility of the Group Executive Committee (GEC), and ultimately, the CEO. In support of this, progress on the plan is tied to the Director's Remuneration Policy. The CSO also advises the Board, GEC, Group Risk Committee and Business Units on climate-related matters and the Net Zero Transition Plan.

Takeaways for accountability:

- A good plan is underpinned by **clear accountability mechanisms** to enable delivery.
- There needs to be a **clear connection** between the objectives, actions, and metrics and targets used to assess progress.
- Objectives should be converted into **defined metrics with robust methodologies**.
- It is important to recognise and openly address **data uncertainties**.
- Disclosures and the underlying plan will **deepen and mature** over time.
- Responsibility for the delivery of the plan should be assigned **across functions and across the executive suite to senior management**.
- **Upskilling** the Board and employees to deliver the transition plan is key. The Carbon Literacy Project and Chapter Zero provide useful resources to support this.