

FOCUS ON

The Net Zero and ESG reporting journey 2022

considerations for industrial sectors

Industrial sectors such as construction, manufacturing, and engineering, with a heavy reliance on high carbon intensive materials and processes, face significant challenges in meeting the UK government target of reaching net zero by 2050.

The Journey to an integrated ESG and Net Zero UK economy will prove to be the greatest business challenge of the decade, with significant risks and opportunities brought not just by climate change, but all environmental, social and governance factors that investors, consumers, capital providers, supply chains, colleagues and competitors are increasingly focusing on in their decision making.

Industrial sectors such as construction, manufacturing, and engineering, with a heavy reliance on high carbon intensive materials and processes, all face multiple and significant challenges in meeting the UK government national target of reaching net zero by 2050. At COP26, global leaders agreed the Glasgow Climate Pact, securing a near-global net zero target, with over 90% of world GDP now subject to net zero commitments.

A number of these climate commitments (such as replacing diesel engines with batteries) are expected to create significant supply issues, where demand is likely to outstrip the availability of key components such as copper, lithium, nickel and other vital raw materials. Unless a significant new supply of copper becomes available in a timely manner, aligned with the timing of net zero commitments, climate goals are likely to create material business disruption for the industrial sectors to become net zero, creating a perception of "green-wishing".

The medium (2030) to long term (2050) carbon emissions reduction targets set by the UK government are in anticipation of future innovation and reliance on technologies not currently available, rather than on what is achievable today. While many businesses in these sectors have begun to invest in technologies and materials that are more sustainable, as well as opportunities for innovation, there is a lack of transparent funding, direction and education on the technological solutions available.

Another important issue to highlight; industrial sectors include heavy industries and transport known as "hard to abate" due to the immense challenge of electrification and the costs of transitions. The net zero transition plans for these hard to abate sectors, rely on undeveloped technologies which are untested, such as green hydrogen and/or carbon capture.

Currently, concerns over availability, cost, long-term performance, safety and future maintenance of new technologies, as well as the skill sets required to install or use them, mean tried and tested solutions still provide greater confidence and less risk at the moment. Today, investors and financial markets are increasingly

demanding a transparent and robust environmental, social, and governance (ESG) strategic plan and a credible transition plan to become net-zero. So, while the challenges are great, the commercial and societal importance of Net Zero and ESG mean that businesses do have to take action now to ensure future compliance.

Next steps

Whilst reporting requirements vary among businesses, there are a number of areas businesses in the industrial sectors need to consider in the journey to Net Zero. We have listed our top 5 considerations those business need to consider when developing and implementing their net zero and ESG strategy

- 1 Governance:** Climate change is a board level issue. Start discussions on the topic now. How are you expecting to allocate responsibilities between the board and management team in managing climate-related risks and opportunities? Is the board able to discuss and understand the meaning of Net Zero, the TCFD framework and scenario analysis to guide current reporting and assessment? Do you have the right set of skills and/or do you need external training on TCFD and scenario analysis?
- 2 Risk management:** Perform a risk assessment as to the impact of physical risks (such as changes in the frequency and magnitude of weather events) on your operations, employees, engineers and supply chain!
- 3 Identify your critical stakeholders:** There has been a significant number of companies who have and will disclose scope 3 emissions during the current reporting period, which will directly affect a significant number of industrial businesses net zero journey. Speak to your customers and understand their net zero journey.
- 4 Awareness:** Do your employees understand what is going to be your roadmap? What are going to be the short term, medium term and long-term targets to become a carbon neutral & Net Zero organisation?
- 5 Focus on the quick wins:** such as measuring scope 1 and 2 emissions!

We can support clients to:

- 1** Ensure financial reporting is compliant with existing and emerging legislation such as streamlined energy and carbon reporting and TCFD.
- 2** Keep you abreast of wider emerging legislation such as Future Home Standard, providing our view of the potential impact to tax and finances.
- 3** Support you to ensure that your governance, risk management processes and associated non-financial controls and data are robust enough to meet external reporting requirements including where applicable wider social and economic benefits.
- 4** Help you to assess and meet voluntary reporting standards that may aid stakeholder relationships and transparency on sustainability and climate change impacts.
- 5** Provide independent assurance across key non-financial metrics providing greater transparency and increased trust and confidence with key stakeholders.



If you would like further guidance on sustainability, please get in touch with your local office or email us at: info@mha-uk.com

or visit our website:

www.mha-uk.co.uk/services/sustainability-esg/

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