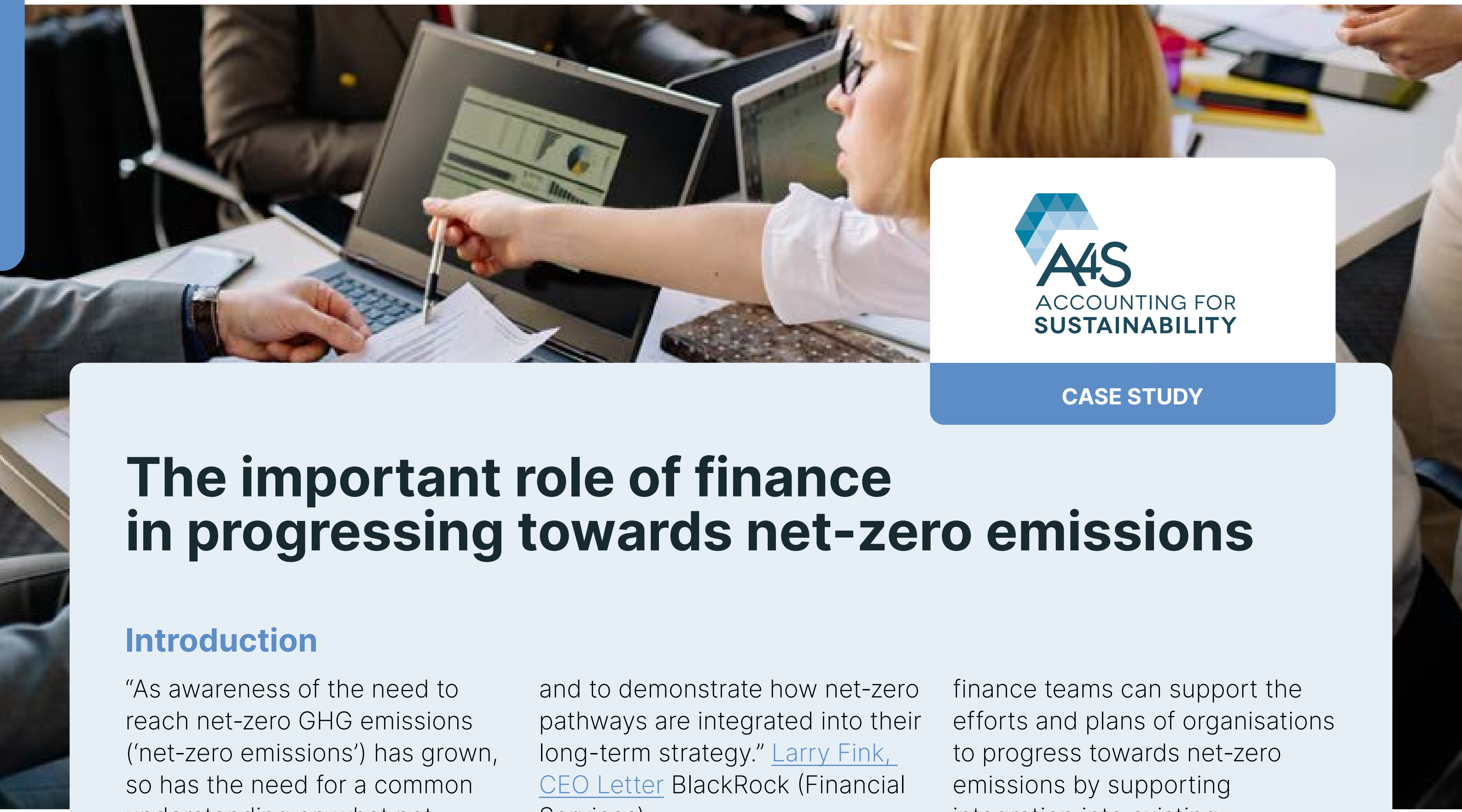

CASE STUDY

The important role of finance in progressing towards net-zero emissions

Introduction

"As awareness of the need to reach net-zero GHG emissions ('net-zero emissions') has grown, so has the need for a common understanding on what net-zero emissions means and how to achieve net-zero goals. Investors are putting pressure on companies to lay out their plans for reaching net-zero emissions and to demonstrate how net-zero pathways are integrated into their long-term strategy." Larry Fink, CEO Letter BlackRock (Financial Services)

The whole finance system has a crucial role to play in achieving global net-zero emissions. Chief Financial Officers (CFOs) and finance teams can support the efforts and plans of organisations to progress towards net-zero emissions by supporting integration into existing processes and structures, providing information needed to drive decisions, allocating funds and leading interaction with the capital markets.

Key messages

The board and executive management (EM) are responsible for ensuring the organisation's long-term viability and that the interests of its shareholders and key stakeholders are being met.

The culture of the finance team needs to be aligned with the organisation's net-zero ambition such that it embraces the strategic vision and business case for change and can support the organisation to meet its goals.

Finance has a key role to play when embedding net-zero targets into the decision-making processes. This includes budgeting and capital investment, with projects being included within the regular strategic planning and budgeting cycle, ensuring that adequate funding is available.

Making a public commitment to achieve net-zero shifts the discussion on net-zero from 'whether' to 'how' and kick-starts essential conversations.

Investors can hold directors accountable by: ENGAGING – driving the dialogue with the board to press for change; VOTING – opposing resolutions or reappointments where progress is too slow or efforts and plans seems ineffective to achieve the net-zero goals; DIVESTING – a public display of diminishing confidence in the organization's future.

01 The role of the board, executive management, CFO and finance team

The board and executive management (EM) are responsible for ensuring the organisation's long-term viability and that the interests of its shareholders and key stakeholders are being met. In response to the risks and opportunities arising from climate change, the board and EM should set the tone and define a clear strategy for implementation. Finance is a trusted business partner and adviser to the board and EM. As custodians of value, the CFO and finance team have a decisive influence over strategic, financial, risk management and other business decisions. By understanding the business case for change, finance can actively support and challenge the board and EM, to adopt a business model that is aligned with a net-zero commitment. They can help integrate net-zero targets into the organisation's strategy and operations and report progress to the board and EM on a regular basis. They can also support the board and EM in responding to questions from investors on the organisation's net-zero strategy and targets.

A net-zero strategy needs to align with and support the overall business strategy. Delivering a successful net-zero strategy requires a shift in mindset and operations for the entire organisation. The finance team can support this by integrating net-zero considerations into financial processes and decisions, ensuring alignment with overall business strategy.

By demonstrating a strong business case for more sustainable buildings and close alignment with our corporate strategy, our Board has been engaged and supportive from an early stage...Our then CFO, now CEO, played a key role in demonstrating the business case for sustainability and its relevance to a range of business areas.

The British Land Company plc (Construction & Real Estate)

02 Aligning the culture of the finance team with net zero ambitions

The culture of the finance team needs to be aligned with the organisation's net-zero ambition such that it embraces the strategic vision and business case for change and can support the organisation to meet its goals. Finance teams should start to think and operate in an integrated way, which will require a significant shift not just in their processes but also in their culture. A useful starting point for many finance teams is to update or develop induction and training syllabi to incorporate the knowledge and tools that will be needed to support a net-zero strategy over the long-term.

Our finance team has established a Climate Technical Forum, which brings together staff from multiple areas involved in the carbon emissions calculation process to understand the methodologies and assumptions involved in developing their climate impact, providing also a platform to discuss the practical actions needed. We have also created local climate champions across multiple business areas.

NatWest Group (Financial Services)

03 Embedding net-zero targets into decision-making processes, including budgeting and capital investment

As the organisation's understanding of the GHG emissions gap improves based on the transition pathway developed, new strategic initiatives and capital investment projects will start to emerge to support the pathway to net-zero. Finance has a key role to play in ensuring that these projects are included within the regular strategic planning and budgeting cycle and that adequate funding is available.

Where a new data set is required or where greater reliance is being placed on existing data sets, it is especially important to provide robust and meaningful information to decision makers. This discipline is core to the finance team, and finance's role in capturing and subsequently reporting this information is critical.

Finance plays a major role in appraising investments and developing business cases. We have developed a sustainability investment appraisal tool that applies both financial and nonfinancial measures, including the carbon saved per pound of investment. Finance had developed the tool with technical input from the sustainability team and external experts.

Heathrow Airport Limited (Transportation & Mobility)

04 Making a commitment and measuring and reporting progress

Making a public commitment to achieve net-zero shifts the discussion on net-zero from 'whether' to 'how' and kick-starts essential conversations. Many organisations setting the goal of reaching net-zero emissions are making commitments to address climate and nature crises, and the corresponding social challenges. For example, there are nature-based solutions such as preserving and restoring forests, and the just transition that considers environmentally and socially sustainable jobs and sectors in the face of the climate crisis. The finance team can help to evaluate the natural, social, and human capitals through a financial lens.

The pathway to net-zero for different organisations may include a range of activities and initiatives. New metrics and targets need to be developed to drive action along the pathway, and finance plays a key role in the measurement and reporting to facilitate informed decision making. These may include:

- Financial information including climate-related risks, opportunities and investments targeting net-zero, and the impact on income
- Reporting to management, the board and external stakeholders
- Technical information, such as emissions reduction data across scope 1, 2 and 3
- Non-technical information such as resource levels or cultural and behavioural metrics

All of this information should be integrated into business as usual processes over time, such as:

- Reporting to management, the board and external stakeholders
- Informing the strategic planning process
- Incentivising management via remuneration schemes

Measuring and reporting our financed emissions involves a multidisciplinary approach. The finance team collaborates with the sustainability, risk and strategy teams as well as commercial business lines. We take a three-step approach to accounting for and managing financed emissions: measuring, reporting and steering.

ABN AMRO Bank (Financial services)

05 Engaging with and responding to investors

Investors play a pivotal role in driving the future direction of most organisations. Increasingly, they require a broader base of information to inform capital allocation and other decisions. There is an expectation that reported information, is reliable. In respect of achieving net-zero emissions, investors can hold directors accountable by:

- ENGAGING – driving the dialogue with the board to press for change.
- VOTING – opposing resolutions or reappointments where progress is too slow, or efforts and plans seems ineffective to achieve the net zero goals.
- DIVESTING – a public display of diminishing confidence in the organisation's future.

Mitigating climate-related transition risks and putting an organisation on a pathway to net-zero requires investment. Investment can be provided either internally or externally. The choice of route might depend on the nature of the initiative. Often described interchangeably as 'green', 'climate' or 'sustainability' funding, several options for external funding are available. For lenders, the growth in this kind of finance reflects the clear link between sustainability performance and credit risk, and the realisation that their reputation, and those of their borrowers, are linked. For borrowers, a more engaged relationship with lenders enhances their ESG credentials and may lead to a potentially lower cost of debt due to a more transparent risk profile and greater access to capital.

The impact of climate change is an increasingly important consideration when making investment underwriting decisions and determining the value of businesses. Climate change and business valuations are inextricably linked. When determining the value of a business, one must consider all the risks and opportunities, of which climate change is one.

We announced that it would be giving shareholders a non-binding advisory vote on its climate transition action plan. By putting the action plan to a vote at the annual general meeting, we aim to strengthen the nature and the quality of the investor engagement and demonstrate our commitment to follow through on the plan and a willingness to be held accountable for delivery against the plan. The vote received over 99% shareholder support.

Unilever plc (Consumer Goods)

A4S
ACCOUNTING FOR
SUSTAINABILITY

HRH The Prince of Wales established A4S in 2004 to work with the finance and accounting community to: inspire finance leaders to adopt sustainable and resilient business models; transform financial decision making to reflect the opportunities and risks posed by the climate crisis and other environmental and social issues; and scale up action to transition to a sustainable economy.