Making your reporting more accessible and effective

Sustainability Reporting tips

www.pwc.co.uk/CSRtips
# Sustainability Reporting tips 2014–2015

## Contents

- Developments in sustainability reporting 4
- Sector trends 5
- Mandatory reporting on sustainability matters 6
- Driving factors behind sustainability reporting 8
- Integrated reporting <IR> 10
- Subsustainability reporting tips 14
- Key elements of subsustainability reporting 15
  - Set the scene 16
  - Live it, breathe it 17
  - What gets measured, gets done 18
  - The good, the bad and the ugly 19
  - Snakes and ladders 20
  - It's a material world 22
  - Cash is still king 23
  - The great beyond 24
  - Pay as you go 25
  - Ask around 26
  - Reach out 27
  - Big brother 28
  - Prove it 29
  - Future proofing 30
- Contacts 31
Developments in sustainability reporting

This is the 6th year we have completed in-depth reviews of sustainability reporting by FTSE 100, FTSE 250 and public sector organisations for the Building Public Trust Awards (BPTA). This process has served to underline that open, accessible and integrated reporting on sustainability performance is continuing to rise up the communications agenda for the UK’s more forward-thinking organisations.

I’m delighted to report that the profile of sustainability reporting has continued to increase; the new UK mandatory reporting requirements being a key influencing factor. The leaders in reporting are also articulating broader understanding of their impacts, and demonstrating how they are seeking ‘good growth’ that blends societal and environmental value with solid returns for investors in the case of FTSE companies, or good value for public money in the case of public sector entities.

The use of technology – specifically various social media platforms – has increased and is enabling companies to provide more context and information on their performance, as well as interact in real-time with their stakeholders.

Against this background, our assessment process this year highlights three particularly positive developments in the best sustainability reporting.

The first – reflected in our criteria for this year’s awards – is an increasing focus on sustainability impacts along the value chain, looking both upstream and downstream and a consideration of the future viability of the company in terms of availability of natural capitals for example.

The second is the rising use of independent assurance to lend greater credibility to sustainability KPIs and performance reporting.

And the third is a greater emphasis on outcomes rather than input metrics.

In both the private and public sectors, the organisations exhibiting these qualities in their sustainability reporting are setting a lead for others to follow. Interestingly, this year we found that some new players came to the fore in all categories, while a number of the previous pace-setters have been affected by other companies catching them up and the leading pack now being much larger. This underlines the need for all organisations to keep innovating and breaking new ground in their sustainability reporting, and its link to core business.

‘There is a need for all organisations to keep innovating and breaking new ground.’

Alan McGill
Partner, PwC

1 The EU public real estate association (EPRA) has created Best Practice in reporting and accounting through wide-scale industry engagement – including sustainability reporting and Sustainability Performance Measures: (http://www.epra.com/media/EPRA_BPR_2011_Sustainability.pdf
2 ICMM (International Council on Mining & Metals) – All ICMM members are required to implement the ICMM Sustainable Development Framework. This includes integrating a set of 10 principles and six supporting position statements into corporate policy, as well as setting up transparent and accountable reporting practices.
This year we have seen certain sectors dominating the BPTA for sustainability reporting shortlists:

- Real estate and construction companies made up a significant proportion of the leading companies in the BPTA sustainability process this year (4 out of the 6 companies shortlisted and 8 of the top 30 FTSE 350 companies). Over the last few years FTSE 100 companies such as British Land, Hammerson and Land Securities and FTSE 250 companies like Balfour Beatty, The Berkeley Group, Carillion and Taylor Wimpey have all demonstrated high standards in sustainability reporting. Some of the key factors likely to have prompted this improved reporting include ‘licence to operate’, engagement with stakeholders in planning processes and evidencing the positive impact of developments at a local level. Additionally, we have seen sector specific industry guidance on reporting emerge (EPRA).1

- The travel and leisure sector also demonstrated high standards with 6 companies in the top 30 FTSE 350 companies. Despite good quality disclosures none of the leading companies made it onto the shortlists, which demonstrates there are still improvements to be made. Possible driving factors for high quality disclosures include customer demand for more responsible travel, EU policy changes in relation to airline emissions and destination countries demanding that their local economies, people and environment are better managed.

Other sectors remaining in the leading pack of those companies delivering high quality sustainability reports include companies in the retail and consumer, mining and industrial products sectors:

- In the past 5 years we have seen companies in the retail and consumer (R&C) sector come to the forefront of sustainability reporting. Marks & Spencer, Unilever and Kingfisher have all either won or been shortlisted for a BPT sustainability reporting award, and 3 of the top 15 FTSE 100 companies were R&C companies. Influencing factors driving this include concern for resilience in supply chains and brand protection and differentiation.

- Some of the first companies to disclose comprehensive sustainability reports were mining companies; potential driving factors include the use of public reporting as a mechanism to engage with stakeholders and maintain their license to operate and increasing regulations. Reporting standards have remained high; Anglo American, Xstrata and New World Resources have all either won or been shortlisted for a BPT sustainability reporting award in the last five years and three of the top 15 FTSE 100 companies this year were mining companies. The introduction of sector specific reporting guidelines has also influenced how these companies have prepared their reporting (International Council on Mining & Metals).2

- Industrial products companies also featured highly in the assessments this year (three of the top FTSE 250 companies). Resilience, their positioning in the supply chain of many other leading organisations, and a desire to demonstrate efficiency are seen as some of the primary influencing factors on reporting.

The factors that appear to have driven high quality sustainability reporting in these sectors can apply to industries in varying ways; it is likely that a combination of a wide variety of factors have influenced company reporting. Another key driver seems to be ‘first movers’ that are pushing the agenda in their sector with peers then following. What we have observed is that first movers have learnt from leaders in other sectors.
Globally, a significant proportion of sustainability reporting is still completed on a voluntary basis. Increasingly though countries are introducing regulatory reporting measures on sustainability matters and there is a gradual trend for companies to provide more information on their sustainability impacts within their mainstream annual filings. This is fuelling investment in tighter controls, more robust data systems and independent assurance.

The table opposite shows some of the reporting initiatives driven by regulatory bodies and stock exchanges in a number of countries. This is fuelling investment within organisations on innovative ways to better inform their stakeholders, as well as investing in more robust management information preparation, reporting and assurance to build trust and confidence.

**UK reporting regulations**

Alongside the requirement for UK listed companies to produce a strategic report, the Modern Slavery Bill which is planned to come into force in 2015 will require certain companies to disclose what they have done to ensure their supply chains are free from slavery. It is also anticipated that the European Directive on disclosure of non-financial information will be transposed into legislation in member states in 2016. The directive differs from existing UK regulations in a number of ways:

- The scope will be extended beyond quoted companies.
- It will require disclosures on non-financial KPIs relevant to the business as well as anti-corruption and bribery matters.
- For each area more specific information is required including a description of the policies, outcome of those policies, and the principal risks related to those matters.

Disclosure on sustainability matters by the vast majority of UK listed companies is currently far beyond that required by regulations. As reporting regulations become more prescriptive companies performing well will have an opportunity to differentiate themselves from their peers. For those at the leading edge of sustainability reporting new regulations will be a trigger to revisit the quality of their reporting. For those companies who find themselves behind the curve, there will be more work to do to bring themselves closer to the standard set by the best reporters.
Northern Hemisphere

• **UK**: Quoted companies are required to produce a strategic report which includes information on annual greenhouse gas (GHG) emissions, diversity and human rights under the Companies Act 2006 (Strategic and Directors’ Reports) Regulations 2013.

• **EU**: The EU has recently introduced new reporting requirements for large companies and listed companies operating in the extractive industries under the EU Transparency Directive. Specifically, the Directive requires companies to report the payments they make to governments in relation to their extraction activities.

• **EU**: The EC Directive on Disclosure of Non-Financial and Diversity Information (2013) aims to increase EU companies’ transparency and performance on environmental and social matters. These will require disclosure of material environmental, social and employee-related matters, including human rights and anti-bribery and corruption. This will impact certain large and public-interest companies (approximately 6,000 companies in the EU).

• **France**: Under Article 225 of French Law Grenelle II (July 2010), listed companies on the French stock exchanges are required to publish a range of social, environmental and governance information listed in the decree and have this data verified by an independent third party.

• **USA**: In 2010, the US Securities and Exchange Commission (SEC) issued Interpretive Guidance on Disclosure Related to Business or Legal Developments Regarding Climate Change. This provides guidance on disclosure rules that may require a company to disclose the impact that business or legal developments related to climate change may have on its business.

• **Sweden**: Companies administered (i.e. wholly or partly owned) by the Swedish Government have been required to present a GRI-compliant sustainability report annually since 2009.

• **Denmark**: In 2008, Denmark introduced regulation requiring all large businesses to report on their CSR activities i.e. existence and implementation of policies, evaluation of the impact of initiatives and future initiatives. Two topics – human rights and climate change – must be included in reporting regardless of whether they are included in disclosed policies.

• **Norway**: Since 1998, Norwegian-registered companies have been required to disclose their environmental impacts and mitigation activities. Since April 2013, all large companies are required to report on how they integrate sustainability into their business strategies. Companies that issue reports that comply with UN Global Compact or GRI standards are exempt from this requirement.

Southern Hemisphere

• **Australia**: The National Greenhouse and Energy Reporting Act 2007 (the NGER Act) introduced a national framework for reporting on greenhouse gas emissions. In 2014 the Australian Securities Exchange (ASX) updated requirements for companies to disclose if they have material exposure to ‘environmental and social sustainability risks’ and if so, identify how they plan to manage and mitigate this risk.

• **South Africa**: Under The King Code of Governance (King III), all companies listed in the Johannesburg stock exchange are required to produce a third-party assured integrated report addressing governance, strategy and sustainability.

• **India**: In 2012, the Securities and Exchange Board of India (SEBI) mandated that the top 100 listed companies submit Business Responsibility Reports as part of their annual reports. In 2014 SEBI also mandated that listed firms must have one female director on the board.

• **Brazil**: In 2012 BM&F Bovespa, the main Brazilian stock exchange, announced sustainability reporting recommendations for all listed companies. Electric utilities companies are required to publish an annual sustainability report under a regulation introduced in 2006. Since 2012, in the states of Rio de Janeiro and São Paulo, companies in selected industries are required to report Scope 1 and 2 GHG emissions annually.

• **Singapore**: Under the Singapore Code of Corporate Governance (2014), all listed companies are required to consider sustainability issues as part of strategic formulation. The Singapore Exchange also recommends that listed companies issue an annual sustainability report.

• **Malaysia**: In 2007, Malaysia’s main stock exchange introduced a regulation requiring listed companies to disclose their CSR policies and activities in their annual reports.

• **Hong Kong**: From 2013 all companies on the Hong Kong Stock Exchange are required to disclose their diversity policy on a ‘comply or explain’ basis.
Driving factors behind sustainability reporting

As discussed in the previous section, disclosures on sustainability matters made by the vast majority of listed companies in the UK are more advanced than what is currently required by regulations. This is driven by demand from a wide range of stakeholders, each with their own interests and agendas and by the internal benefits gained from reporting.

The benefits of sustainability reporting
The benefits can be both tangible and intangible. The key benefits can be categorised as:

• **Reducing costs**: Some relatively straightforward cost savings can be achieved from smarter and efficient consumption of natural resources. Some evidence suggests that employee morale and productivity increases where organisations demonstrate good corporate responsibility and company values.

• **Competitive advantage**: Companies that understand the implications of sustainability to their business models can use this information to both enhance and develop new products and services. For example (a) first mover advantage and (b) reputational position in new and/or growing markets.

• **Access to capital and markets**: There is growing evidence of investors assessing organisations’ sustainability performance in the context of good corporate governance and risk management. The transparency of how (well) an organisation is addressing sustainability builds trust with investors. Additionally many public funds and public development agencies have in place sustainability policies that need to be adequately satisfied in order to access their funding. Sustainability performance has been shown to improve brand and reputation, and therefore the ability to attract investment and enter new markets.

• **Managing risks**: Organisations face a variety of sustainability risks along their entire supply chain—for example some have regulatory implications leading to monetary fines, others have reputational impacts leading to loss of customers or even loss of investors. Integration of sustainability risks into the overall governance architecture of an organisation suggests that such organisations outperform those that do not (Harvard Business School review, November 2011).

Demand from stakeholders
Companies are responding to the demand for transparency by providing credible and reliable information on the economic, environmental, social and governance issues that matter most to them and their stakeholders.

The table on page 7 shows the broad range of typical stakeholders that are interested in an organisation’s performance and the specific aspects they characteristically focus upon in sustainability reporting.
‘How are companies managing risks and creating opportunities.’
Investors and analysts

‘Judging the impacts of the products and services they buy.’
Consumers

‘Scrutinize company activities and corporate behaviour.’
NGOs and activists

‘Understand how their suppliers are managing risk.’
Customers

‘Concerned about finding employers who share their values.’
Employees

‘Obtaining insight into the issues that their customers prioritise.’
Suppliers

‘Understand how the company is managing local impacts at a corporate level.’
Local communities

‘Ensuring compliance with regulations and good governance.’
Policy makers and regulators
**Integrated Reporting <IR>**

<IR> and the <IR> framework
<IR> is a concept that has been evolving for a number of years with the objective of presenting a more holistic view of a business – shifting from the current financial orientated reporting model. The International Integrated Reporting Council (IIRC) established a pilot programme to develop and test the principles, content and practical application of <IR>. A guiding <IR> Framework was released by the IIRC in December 2013, following extensive consultation and testing by businesses and investors, including the 140 businesses and investors from 26 countries that participated in the Pilot Programme. The <IR> Framework sets out at a high level the key content elements and principles for an integrated report, all of which are underpinned by the fundamental concepts of different ‘capitals’ and value creation.

There is a common misunderstanding about the true meaning of <IR> amongst those not familiar with the Framework; that it is about incorporating sustainability matters, such as environmental and social data into annual reports. This is not the case, the core components of good integrated reporting are: strategy, business model, long-term viability, financial performance and risk management – sustainability matters align with and should be considered in the context of these components.

<IR> and the UK Strategic Report
There is a distinct overlap between the UK requirements to prepare a strategic report and the <IR> framework. The UK’s Financial Reporting Council (FRC) explicitly references the <IR> principles in its guidance on the strategic report and has commented that applying this guidance should result in reporting that is consistent with the IIRC Framework. Like the IIRC, the FRC is also encouraging ‘experimentation’, ‘innovation’ and future-oriented reporting.

The key content elements of both are focused on strategy, business model, risks and KPIs.

Our review of reporting practices of the entire FTSE 100 (see link) as well as the global Pilot Programme network illustrate that most of the companies reviewed included information on these critical elements. However our review also illustrates that companies are still struggling with the challenge of integration i.e. presenting a clear, coherent and connected picture of the business that links these elements. For example whilst 99% of the FTSE 100 (95% of pilot programme companies) report their strategic priorities, only 39% (35%) clearly align them to their KPIs.

There are some differences that set integrated reporting apart from the current UK regulatory model around the principles underpinning the <IR> framework, namely:

- Taking a medium to longer-term perspective to reporting;
- Consideration of dependencies on critical resources and relationships across the value chain;
- Appreciation of both financial and operational performance and a wider appreciation of what constitutes corporate success; and
- Connecting the interaction of operational performance and financial outcomes through a joined up process and team.

It is clear that the UK’s Strategic Report and Integrated Reporting share the same DNA but few companies in the UK have published an ‘Integrated Report’. This could be attributed to a focus on compliance with the regulatory changes or fear of external challenge from those looking for compliance with the more detailed <IR> framework.

Through a supportive regulatory environment there are more companies in the UK on the journey towards integrated reporting than is currently suggested. But the key for those continuing on this journey is to take a longer-term, broader, more operational perspective that will challenge how companies think, operate, monitor and report performance in a connected way.

---

1 IIRC http://www.theiirc.org/international-ir-framework/
2 PwC review of reporting practices: http://www.pwc.com/gx/en/audit-services/corporate-reporting/integrated-reporting/index.jhtml
Benefits of <IR>

Organisations participating in the IIRC’s pilot programme report a range of benefits from <IR> including the ability to obtain better information which can be used to make better decisions.

For external stakeholders such as investors and analysts, integrated, long-term thinking and the subsequent reporting help inform decisions on the long-term viability of companies. In the results from our latest global survey of investment professionals, 80% stated that reporting quality impacts their view of management quality, and 63% agreed that disclosures on risk, strategy and other value drivers can have a direct impact on a company’s cost of capital.3

Increasingly, individual stock exchanges are looking to integrated reporting as a way of enhancing transparent quality communications between business and investors. The Deutsche Boerse, Singapore Stock Exchange, Tokyo Stock Exchange and Johannesburg Stock Exchange are members of the council for the IIRC pilot programme themselves.
The number of companies trying to understand how they measure their wider impact and use of the ‘capitals’ has increased in the last few years. Significantly three of the four companies shortlisted for the BPT Award for Excellence in reporting in the FTSE 100 this year quantified their wider impact on society as a way of supporting their license to operate and the sustainability of their business model, compared to only one company in the 2013 shortlist. This new trend is moving quickly as companies recognise the value in more integrated thinking and reporting.

The focus areas of impact measurement assessments vary depending on the issues that are most material to the company (which depends on a number of factors including sector and geography). Typically this includes one or more of the following broader impacts: tax, economic, environmental and social. Focusing on material issues is key to identifying and understanding the issues which can have the greatest potential impacts.

**The benefits of impact measurement**

By measuring broader impacts, businesses can better understand the total impact they have and how their decisions deliver growth that reflects the needs of society and the environment, as well as the investor.

Business generates and destroys value beyond profits and shareholder dividends, value that often is missed, not taken into consideration in decision making or not reported on. For example, all businesses have impacts on society, whether it’s through their use of natural resources to generate products or provide services; the benefits they bring to the communities in which they operate; the employment opportunities they provide or their contribution to the public finances. Some of these impacts are positive and some negative.

Emerging impact measurement techniques go beyond understanding the relationship between a business’ inputs and activities, and its outputs, to explore and quantify its longer term outcomes and associated impacts.

The financial reporting model remains the bedrock for all company analysis. However, financial data isn’t the only information that stakeholders and companies need; it is understood that a broad information set is critical to understanding business performance. In our 17th Annual Global CEO survey, 74% of CEOs told us that measuring and reporting their total (non-financial) impact contributes to their long term success.¹

Integrating and understanding the broader impacts of an organisation in this way will make for a more progressive reporting model. Ultimately, a total impact approach will mean that decisions made by business are based firmly on a more complete picture of impact and performance. It’s likely that this additional management information, used to support decision making, will be valued in reporting too.

---

¹ PwC Global CEO Pulse Survey, June 2013 (187 respondents): http://www.pwc.com/gx/en/sustainability/ceo-views/sustainability-perspective.jhtml
Figure 2: Measuring value - building on the current model

The system underpinning today’s decision making

Individuals

Outputs

Growing demand for a broader set of information

Integrated reporting

Feed into integrated reporting

Management accounting

Total impact measurement and management

Outputs

Book keeping

Data collection

Impacts

Outcomes

Analysts’ decisions based on results and shareholders demand more accountability

Accountability

Run your business

Wide range of metrics covering environmental, social and economic impacts

Figure 3: Measuring what matters

Traditional financial reporting

Input

Output

Outcome

Impact

Value of impact

What resources have been used for business activities?

What activities have been done?

What has changed as a result of the business activities?

How much of that outcome is attributable to the business?

What is the value of impact?

£20,000 invested in delivering supplier employee training

100 supplier employees trained on health and safety policies and procedures

Improved practical knowledge of health and safety policies and procedures; safer working procedures; safer working practices implemented

Fewer injuries as a result of training

Cost savings associated with fewer injuries e.g. reduced medical costs and production losses

Example
Sustainability reporting tips
Key elements of sustainability reporting

The diagram outlines our framework for accessible and effective sustainability reporting.

Sustainability reporting – key elements

Elements

- Strategy – ‘Live it breathe it’
  Describe sustainability strategy over the short, medium and long term. Demonstrate how this is integrated in your core corporate strategy.

- Materiality – ‘It’s a material world’
  Demonstrate an understanding of the material sustainability issues relevant to you and your key stakeholders.

- KPIs and targets – ‘What gets measured, gets done’
  Identify KPIs which are directly relevant to your sustainability strategy. Set and review your performance against challenging but realistic targets.

- Risks and opportunities – ‘Snakes and ladders’
  Explain the key strategic risks and opportunities arising from the sustainability agenda. Explain the relevance and implications of each and how they are managed.
Set the scene

Of the reports we reviewed:

Describe the company’s key business activities (FTSE 250: 100%)

83%

Key findings:

• The most effective reports provide an introduction to their business activities in their Sustainability Report in order to give the reader an understanding of their activities and operations.

• In this introduction, these companies link sustainability to their core business activities.

Tips to make your reporting more effective:

• Provide an overview of your business and the market environment in which you operate to contextualise your reporting for the reader.

• Present your operations and your value chain in a concise 1-2 page overview, introducing the reader to your company.

• Think carefully about where sustainability sits within your business and highlight these areas.

Example

Taylor Wimpey plc
Corporate Responsibility Report 2013
Page 2: Business overview

Business overview

Taylor Wimpey is a national developer operating at a local level from 24 regional businesses across the UK. We also have operations in Spain.

Example

Royal Mail plc
Corporate Responsibility Report 2012–2013
Page 4–5: At a glance

Live it, breathe it

Of the reports we reviewed:

- **91%**
  - Have a separate sustainability strategy. (FTSE 250: 87%)

- **43%**
  - Disclose their sustainability strategy over the short, medium and long term. (FTSE 250: 49%)

### Clearly describe your sustainability strategy over the short, medium and long term. Demonstrate how this is integrated into your core corporate strategy and permeates throughout your business.

### Tips to make your reporting more effective:

- Clearly describe your sustainability strategy over the short, medium and long term. Demonstrate how this is integrated into your core corporate strategy.

- Demonstrate how your sustainability strategy is aligned with your core objectives. Develop a long-term sustainability vision including an action plan and milestones.

- Report on the systems or structures within your business which allow sustainability to permeate throughout, e.g. by setting department-specific targets or linking sustainability to remuneration.

What gets measured, gets done

Of the reports we reviewed:

- The most effective reports disclose a range of sustainability KPIs that are relevant to the company’s business and directly link to its material issues and sustainability strategy.

- These reports set short and medium-term targets for material KPIs and disclose their progress against these.

Tips to make your reporting more effective:

- Identify and report on KPIs which are directly relevant to your sustainability strategy. Explain why they are relevant and how they are defined. Set and review your performance against challenging but realistic targets.

- Ensure all targets are specific and measurable.

- Disclose reasoning behind targets and steps as to how these targets will be achieved.

Example

Aviva plc
Our Wider Impact Report 2013
Page 3: Key Performance Indicators

<table>
<thead>
<tr>
<th>Community performance</th>
<th>2013</th>
<th>2012</th>
<th>Change over year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount of community investment</td>
<td>£11.4m</td>
<td>£12.4m</td>
<td>£11m</td>
</tr>
<tr>
<td>% of investment in Good to Great</td>
<td>16%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>% of employees who feel that Aviva does a good job of contributing to the community in which it operates</td>
<td>76%</td>
<td>78%</td>
<td>78%</td>
</tr>
<tr>
<td>% of employees participating in volunteering</td>
<td>17%</td>
<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>Number of employees who spent volunteering</td>
<td>17,190</td>
<td>18,051</td>
<td>18,051</td>
</tr>
</tbody>
</table>

Example

The British Land Company plc
Corporate Responsibility Full Data Report 2014
Page 4: Performance Data – Environmental – Overview

1. ENVIRONMENTAL SUMMARY (PART 1)

<table>
<thead>
<tr>
<th>SUSTAINABILITY BARS</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental and social benefits</td>
<td>50%</td>
<td>55%</td>
<td>52%</td>
</tr>
<tr>
<td>Environmental and social benefits as a percentage of profit</td>
<td>15%</td>
<td>14%</td>
<td>14%</td>
</tr>
</tbody>
</table>

The good, the bad, and the ugly

Of the reports we reviewed:

• Top reporters reveal positive and negative performance and progress against targets.

• They explain the reasons behind poor performance and how they intend to address shortfalls, and set more challenging targets when their performance exceeds expectations.

Tips to make your reporting more effective:

• Present information in a balanced and transparent fashion.

• Celebrate success, but also avoid glossing over negative sustainability impacts or poor performance against targets. Explain where and how improvements will be made.

Example

FirstGroup plc
2014 Corporate Responsibility
Page 20: Valuing our people – Progress against targets

Sustainability Reporting tips 2014–2015

Example

The Royal Bank of Scotland Group plc
Our financing of the energy sector in 2013
Page 10: Mapping lending exposures with carbon intensity

9. Mapping lending exposures with carbon intensity

Energy clients who have high CO₂ emissions relative to their sector are deemed to be carbon inefficient and pose enhanced environmental, social and ethical risks. The charts below show our lending exposures to our top 25 Power and Oil & Gas clients, compared to their carbon intensity, and the industry average.

Carbon intensity vs. lending exposure: RBS Top 25 Power clients

The data for both sectors shows that there is a correlation between high lending exposures and lower than average carbon intensity. By tracking this data over time we are able to analyze the carbon risks in our lending and move to our clients approach to managing their emissions.
**Snakes and ladders**

Of the reports we reviewed:

- The ‘best in class’ reports have clearly laid out their sustainability risks and opportunities.
- They clearly show how risks will be mitigated and opportunities maximised and how this aligns to the sustainability strategy.
- These reports highlight risks and opportunities which are specific to their industry or sector and highlight how opportunities help them on their sustainability journey.

Tips to make your reporting more effective:

- Draw out and explain in detail the key strategic risks and opportunities arising from the sustainability agenda.
- Explain the relevance and implications of each risk and opportunity as it relates to your organisation and the actions put in place to mitigate risks and maximise opportunities.

<table>
<thead>
<tr>
<th>92%</th>
<th>81%</th>
<th>91%</th>
<th>91%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclose a narrative section on sustainability risks. (FTSE 250: 93%)</td>
<td>Describe their approach to risk mitigation. (FTSE 250: 78%)</td>
<td>Disclose a narrative section on sustainability opportunities. (FTSE 250: 69%)</td>
<td>Describe their strategy to maximise key sustainability opportunities. (FTSE 250: 53%)</td>
</tr>
</tbody>
</table>
Risk and opportunity management

Carillion plc
Sustainability Report 2013

Example

Risk and opportunity

Planning risk as policy changes with the introduction of the Localism Act and the National Planning Policy Framework (NPPF).

Progress in 2013

Integrated sustainability and NPPF requirements into new planning guidance documents and provided training for relevant employees.

Opportunities

Continued to develop our set-piece community engagement programme and introduced community pages on our Taylor Wimpey website for our proposed developments.


Taylor Wimpey plc
Corporate Responsibility Report 2013

Page 10: Risk and opportunity management

Example

Key sustainability and climate change risks and opportunities that we focused on during 2013 include:

- Undertook a review of supply chain resource efficiency which will be completed in 2014. Developed new energy-efficient specifications for show homes and sales areas, and guidelines for new offices. Launched our NURSE soil sharing programme across all regional business units and continued to maintain effective waste management processes.
- Continued to undertake ongoing research and development, including analysis of upcoming legislation, completed a detailed investigation into using solar farms and started to review feasibility as possible Allowable Solutions, which allow homes to offset a proportion of carbon emissions of sites.
- Maintained HBF’s five-star ranking for customer service and provided improved customer information on our website. In 2013 we started a wide scale review of our customer service in all regional business units. Increasing customer satisfaction will be a clear priority for us in 2014. Continued to deliver our Sales Academy training programme.
- Focused on training and development as a key area in 2013. Continued with existing and introduced new training initiatives, including a new site management apprenticeship programme and a Production Academy. Started to develop a Technical Academy and provided an average of 2.7 days training per monthly salaried employee.
- Continued to frequently review and update our comprehensive Health, Safety and Environmental Management System to reflect changes in legislation, controls and best practice. Maintained our focus on training, delivering an average of 4.7 days of formal HSE training per person to site operational staff. Engaged with and provided training to subcontractors with regard to safety.
- Continued to develop our extensive community engagement process and introduced community pages on our Taylor Wimpey website for our proposed developments.


The Berkeley Group plc
Sustainability

Example

Risks and opportunities

Health and safety at Taylor Wimpey is the non-negotiable top priority. We will not compromise in ensuring that everyone leaves our sites safe and well.


Sustainability Reporting tips 2014–2015
It’s a material world

Of the reports we reviewed:

- The top reports clearly identify their material issues, usually through a materiality matrix.
- They disclose the process which they went through to determine material issues and which stakeholders were involved in this process.

Tips to make your reporting more effective:

- Report which issues your business has deemed to be material and the process that was undertaken to define these issues. Disclose the frequency by which this process is revisited.
- Illustrate which stakeholders were involved in your materiality process.
- Focus your reporting on issues deemed material.

Demonstrate an understanding of the sustainability issues relevant to you and your key stakeholders; report only those of material importance.

Example

United Utilities Group plc
Corporate Responsibility Report 2013
Materiality Matrix

Example

Centrica plc
Corporate Responsibility Review 2013
Page 41: Managing corporate responsibility

Financial incentives

Cash is still king

Of the reports we reviewed:

- 53% Disclose the financial significance of key sustainability opportunities. (FTSE 250: 40%)
- 17% Disclose the financial significance of key sustainability risks. (FTSE 250: 27%)

Of the reports we reviewed:

- The top reports disclose specific financial figures related to sustainability risks and opportunities.
- They discuss how the company plans to maximise economic benefits, and minimise risk, related to sustainability.

Tips to make your reporting more effective:

- Provide specific figures tied to savings or income for sustainability-related activities.
- Disclose costs or losses, including potential costs or losses, related to sustainability performance.

Example

Johnson Matthey plc
Annual Report and Accounts 2014

Page 10: Our business

Illustrate how your sustainability strategy has had an impact on the bottom line. Identify and define potential means of maximising economic benefits going forward.

Example

WPP plc
Sustainability Report 2013/2014

Page 16: The impact of our work

- Clients looking to WPP companies for advice and insights on sustainability.
- Specialist sustainability offers developed across WPP companies.
- Clients who engaged with us on sustainability worth £1.26 billion.
- Webinars, events and briefings used to build sustainability knowledge in our companies.

£1.26bn
Revenue from clients who engaged with us on sustainability

Example

Spirax-Sarco Engineering plc
Annual Report and Accounts 2013

Page 50: Our business

Financial performance

Sales from energy management products £m

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>£1.26bn</td>
</tr>
<tr>
<td>2012</td>
<td>£1.03bn</td>
</tr>
<tr>
<td>2011</td>
<td>£0.96bn</td>
</tr>
<tr>
<td>2010</td>
<td>£0.87bn</td>
</tr>
<tr>
<td>2009</td>
<td>£0.76bn</td>
</tr>
</tbody>
</table>

While many of our products and services aid effective energy management, we have identified a specific range as falling within the energy management sector of our marketplace (see page 8). These include our metering products, boilerhouse products, heat transfer packages and energy services. We recognise a direct link between the sales of energy management products and these of our strategic objectives: deliver solutions to reduce energy usage; grow market share and achieve sustainability. As a result of our strategic focus and investments, during the last five years sales of our energy management products have increased by more than 30% at constant currency.

Our energy management products form a core component of many of our engineered solutions. During the last five years we have invested in R&D to enhance existing energy management products and to develop new, unique energy recovery packages, ensuring that we deliver effective solutions to our customers.

We have been able to grow our market share through widening our range of products, including energy metering and heat recovery packages, which have contributed meaningfully to our sales growth.

The great beyond

Of the reports we reviewed:

- The top reports consider both upstream and downstream impacts in their materiality assessments.
- They disclose both negative and positive impacts across the value chain.

Tips to make your reporting more effective:

- Consider the entire value chain when assessing and reporting on your materiality issues, e.g., the downstream impacts of your products (e.g., water use by consumers related to your products) and services and the upstream impacts of your supply chain (e.g., pollution from mining activities).
- Report on the material impacts across your value chain, both positive (e.g., employment) and negative (e.g., resource use or pollution) and strategies in place to minimise or maximise these.
- Include impacts in relation to all relevant non-financial capitals, e.g., intellectual, human, social, and natural capital.

Consider relevant extended upstream and downstream value chain aspects of your business in order to take account of all its environmental, social and economic impacts, both positive and negative.

Example

Tullow Oil plc

2013 Corporate Responsibility Report

Page 36: Our social & economic payments

Example

InterContinental Hotels Group plc

Corporate Responsibility Report

CR approach

Example

SABMiller plc

Sustainable Development Summary Report 2014

Page 7: Our approach to taxation

Of the reports we reviewed:

- The best reports disclose a clear link between the company’s sustainability performance and the remuneration of senior management and directors.
- They also report on how staff other than senior management and directors are incentivised to deliver on the sustainability strategy, including through non-financial rewards.

Tips to make your reporting more effective:

- Disclose any sustainability-related goals that have been included in metrics for variable pay for senior management and directors.
- Be specific in disclosing how sustainability performance impacts remuneration.
- Report on how staff are incentivised to deliver on the sustainability strategy throughout the company, and include non-financial incentives (e.g. employee awards).

Example

Rio Tinto plc
2013 Annual Report
Page 91: STIP measures, weightings and targets for 2014

Example

Royal Mail plc
Corporate Responsibility Report 2012–2013
Page 13: Corporate balanced scorecard

Ask around

Of the reports we reviewed:

- Top reports identify key internal and external stakeholder groups and describe issues that were identified as important by each group.
- They also disclose how stakeholder consultation informed the materiality process and what actions have been taken in response to stakeholder concerns.

Tips to make your reporting more effective:

- Identify and disclose key internal and external stakeholders.
- Describe issues that stakeholders identified as important and, where relevant, what actions have been taken in responses to specific issues.
- Show linkage between stakeholder consultations and the materiality process.

Example

The British Land Company plc
Stakeholder Engagement Report 2014
Page 3: Online CR Consultation

Example

The Royal Bank of Scotland Group plc
RBS Sustainability Review 2013
Page 9: Our approach to sustainability

Reach out

Of the reports we reviewed:

• Top reports are well-structured and readable, and key information is easy to find.
• The best reporting also uses multiple communication channels, e.g. videos, blogs, interactive graphics, to deliver content.

Tips to make your reporting more effective:

• Ensure that reports are logically structured and designed in a way that is easy to read.
• Make key information easy for readers to find, e.g. by using clear section headings and thematic colour coding.
• Consider using communications channels such as videos and interactive graphics to deliver information effectively.

Use alternative ways of communication to reach out to stakeholders. (FTSE 250: 67%)

Example
Unilever plc
Sustainable Living 2014
Explore our interactive performance summary

Example
The British Land Company plc
Responsibility Our Stories
Website: Our Stories

Use multiple communication channels thoughtfully. Ensure that the medium, content and style are tailored to both the audience and messages being delivered.

Big brother

**Governance**

**Of the reports we reviewed:**

- **92%**
  - Describe the company’s sustainability governance structure. (FTSE 250: 100%)
- **75%**
  - Identify the board member responsible for sustainability. (FTSE 250: 67%)

**Tips to make your reporting more effective:**

- Provide a narrative description and a graphic that explain the company’s sustainability governance system and how it fits into the overall governance structure.
- Describe sustainability policies that have been implemented and explain how management ensure that the policies are working.
- Clearly identify by name and position the board member responsible for sustainability, e.g. the chair of the sustainability committee.

**Example**

**WPP plc**

**Sustainability Report 2013/2014**

Page 65: How we manage sustainability issues

**Example**

**Croda International plc**

**Sustainability Report 2013**

Page 37: Delivering sustainability

---

Prove it

Of the reports we reviewed:

- The best reports ensure the credibility of reported content by reference to independent studies, external benchmarking, expert review panels or through conventional assurance.
- Where assurance has been provided, the best reports disclose the assurance opinion.

Tips to make your reporting more effective:

- Reference independent data, e.g. external benchmarking, to ensure the credibility of your reporting.
- Consider obtaining assurance over the sustainability data you report.
- If you obtain assurance, include the assurance opinion, which should clearly state the scope of the work, assurance standard and work completed, in the report.

Ensure the credibility of your reported content, for example, by reference to independent studies, external benchmarking, expert review panels or through conventional assurance. Where assurance is used the opinion should clearly state the scope of work.
Explain whether you have any significant use of natural capitals and the expectations of the future availability/constraints of these capitals. If you consider that the use of these capitals may become restricted in the future explain your strategy to manage this.

Example
Carillion Sustainability Report 2013
Water

Source: http://sustainability2013.carillionplc.com/environment/water.html

Example
Rio Tinto Sustainable Development 2013
Page 59–60: Water

Tips to make your reporting more effective:

- Disclose significant use of natural capitals, e.g. water, land.
- Explain whether you expect that the availability of any of these natural capitals might be restricted in the future.
- If you anticipate possible resource constraints, describe your strategy for managing this risk.

Of the reports we reviewed:

- The top reports disclose whether the company has significant use of natural capitals and its expectations of the future constraints on these capitals.
- Where constraints are anticipated, the best reports describe a strategy for managing scarcity.

Of the reports we reviewed:

- Discuss future constraints on natural capital availability.

Future proofing

Future viability

Source: http://sustainability2013.carillionplc.com/environment/water.html
PwC has long been at the forefront of thinking around sustainability. The UK sustainability practice has over 15 years of experience delivering insight and solutions to clients around the world.