TRANSITION PLANNING FOR SMEs

IEMA

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to sustainability

Contents

Executive summary

More and more companies are being drawn into climate reporting to meet demands for disclosure from key stakeholders. For some this is mandatory; for others it is voluntary.

Until now, climate reporting has largely been limited to cataloguing and publishing an organisation's greenhouse gas (GHG) emissions. More recently, requirements have grown for organisations to also provide a transition plan alongside the carbon accounting report.

Put very simply, a transition plan is a plan of action to improve an organisation's ongoing relationship with the environment. It describes how the organisation is going to play its part in the transition to a low carbon economy, in which emissions and other environmental impacts are reduced to a minimal level and the remainder are offset. It also describes how the organisation will survive and thrive under potential future climate scenarios.

If the GHG emissions report informs stakeholders of an organisation's GHG emissions, then the transition plan tells stakeholders how the organisation will reduce them. Together, these reports sit within the wider environmental, social and governance (ESG) aspects of running an organisation.

None of the transition planning requirements currently published were intended to impact on anything other than the largest organisations. However, transition planning includes understanding your supply chain, and most large organisations have small and medium-sized enterprises (SMEs) somewhere in their supply chain.

What is increasingly becoming clear is that as more large organisations are drawn into mandatory reporting on their supply chain, they will call on their supply chain and clients to provide them with their own data. This domino effect means SMEs are in effect gradually being drawn into reporting in some form or another.

There is currently little guidance available that is appropriate to the scale of SMEs. Many SMEs are keen to get started, but a lot of them do not know how, and many who have made a start are anxious to know whether their efforts are going in the right direction and whether they're 'good enough'.

This guidance is designed to provide inspiration to those SMEs that aren't sure where

"SMEs are in effect gradually being drawn into reporting in some form or another"

A positive aspect was nonetheless noted alongside this barrier: smaller organisations are often faster to act than larger organisations. Once an SME decides to act, it can do so without significant delay.

Setting the right targets is often an area for concern for an SME and knowing what 'good' looks like isn't always immediately obvious. The guidance provides an SME-centric set of reasons why targets should be set, an overview of different target-setting initiatives and advice on choosing the right one for your organisation.

Engaging with supply chains to understand scope 3 emissions is a huge issue for SMEs, as is the responsibility for reporting. The guidance sets out advice on boundaries and signposts to further reading for creating a GHG inventory. It then refers to a number of case studies that demonstrate how organisations are addressing their GHG emissions and their scope 3 supply chain relationships. Finally, and as with other sections in this guidance, it collates core themes that are scalable and transferable to SMEs for the planning and action stages.

Good practice reporting formats and whether or not to have reports verified and validated were the final most commonly reported unknowns for SMEs. For reporting, the guidance provides a number of examples that can be emulated. On the question of validation and verification, it is clear that all reports can be verified but some do not need to be, while others definitely should.

This guidance draws on case studies from organisations around the world and from UK-based organisations with international supply chains. It is primarily designed for SMEs in the UK, but will provide insights that will be useful to small organisations around the world.

We hope that this guidance provides SMEs and their advisers with a reassuringly approachable set of actions to begin their transition plans, and the confidence to publish them.

to begin, and some reassurance and fresh ideas to those already on the transition planning journey.

We began the project by speaking to SMEs to understand where the greatest difficulties and barriers lay, and then set about creating a practical guide to overcoming them, using case studies from organisations large and small from around the world. We distilled from these some transferable and scalable advice that can be used by SMEs.

Understanding the reporting requirements came out as a top concern. This guidance provides an overview of transition planning requirements, from the most complex frameworks of the International Sustainability Standards Board to the simple carbon reduction plan required by the UK public sector. It presents a hybrid approach for use by SMEs that can be used as the foundation of an effective transition plan. As the organisation grows, or reporting requirements increase, this foundation can later be built upon rather than needing a complete rethink.

Engaging senior management and securing resources to plan for the transition was frequently mentioned as a barrier. A number of case studies were gathered showing how other organisations have achieved this. Five themes were extracted, which if expanded on in an organisation-specific context would make a compelling business case for senior management to understand the reasons why transition planning is important.

"This guidance provides an overview of transition planning requirements"

Introduction

What is transition planning?
Put simply, a transition plan describes how an organisation is going to improve its ongoing relationship with the environment and how it intends to play its part in the transition to a low carbon economy in which emissions and other environmental impacts are reduced to a minimal level and the remainder are offset. It also describes how the organisation will survive and thrive under potential future climate scenarios.

Transition plans are currently focused on GHG emissions, but future frameworks and guidance will include the impacts on nature and the need to adapt to climate change. This guidance focuses on emissions.

The Transition Plan Taskforce (TPT) breaks the transition planning process down into five stages:

- Foundation stage (in which an organisation sets out its baseline and targets)
- Implementation strategy (in which the organisation decides what it will do internally to achieve its targets)
- Engagement strategy (in which the

organisation engages with the external stakeholders that are critical to the success of the implementation strategy)
- Metrics and targets (set to measure performance)
- Governance (to both set out the targets and strategies, and to monitor their delivery).

The foundation stage is something that will be familiar to many organisations. It covers the concept of measuring an impact baseline and setting a target. The subsequent stages of the transition plan require the organisation to deliver on the target.

In other words, the foundation stage tells stakeholders where an organisation is and where it would like to be. The subsequent stages tell stakeholders what the organisation needs to do to achieve its goals.

This process is not one-off and linear: continual reviews and improvements are required.

Who reads a transition plan?
Transition plans provide different audiences with the information they need to make decisions.

Who should make a transition plan?

An increasing number of companies are being drawn into climate reporting. This may be mandatory, in the case of large companies, or it may be voluntary to meet key stakeholder demands for disclosure.

None of the transition planning requirements currently mandated were intended to impact on anything other than the largest organisations. However, what is increasingly clear is that as more large organisations are drawn into mandatory reporting on their supply chains, they will call on their supply chain and clients to provide them with their own data.

This domino effect means that SMEs are in effect gradually being drawn into reporting in some form or another.

SMEs should think about starting a transition plan, however simple it may be in the early stages.

Understanding the challenges for SMEs

In order to understand the issues that face organisations making a start on transition planning, IEMA held a workshop and interviews with 40 SMEs, including some signatories to the Pledge to Net Zero. They were chosen because they were part of particularly long supply chains and many have products and services that are subject to particularly stringent health and safety standards that cannot be compromised in efforts to decarbonise their operations. Effectively, we sought out SMEs that would face the toughest challenges in transition planning.

The overall findings were that the same issues and barriers came up again and again. This package of guidance is not intended to provide a comprehensive set of instructions on transition planning – that would be beyond the scope of a single publication. Rather, it is put together with the aim of answering SMEs' questions and helping these organisations overcome the most common barriers to beginning their own transition to a low carbon economy.

The areas where SMEs reported the need for the greatest level of support were:

- Understanding the voluntary and mandatory reporting rules landscape (covered in section 1)
- Securing good governance arrangements at senior level (covered in section 2)
- Target setting (covered in section 3)
- Engaging with their own supply chains and scope 3 (covered in section 4)
- Good practice reporting formats (covered in section 5)
- Verification and validation requirements (covered in section 6).

Financial markets provide the financial mechanisms for businesses to invest and grow. Written transition plans provide the information needed for better financial decision-making in the light of material climate-related risks to organisations.

Procurement teams decide which types of organisations they want to have in their supply chains since their supply chain reflects on their own organisation's transition plan.

Current and prospective employees are increasingly showing a preference for wanting to work for responsible organisations whose ethics match their own, and that have a plan for mitigating and adapting to climate change.

Consumers are increasingly interested in responsible consumption, and a well-developed and articulated transition plan should communicate useful information to inform purchases.

"Effectively, we sought out SMEs that would face the toughest challenges in transition planning"

1. Reporting requirements, voluntary and mandatory

In this Q&A, we ask IEMA member **Tilly Shaw FIEMA, associate director at Verco,** about the reporting requirements for large organisations and their knock-on impacts on smaller organisations within the UK.

Q It's hard to keep up with all the reporting requirements and even the experts refer to the 'alphabet soup' of disclosure programmes. Could you summarise what large organisations are currently reporting on?

A The complexity arises because of the international frameworks and national requirements.

Even if they have not committed to reduce their GHG emissions, large organisations may still be required to report them. The International Financial Reporting Standard (IFRS) accounting standards now require the reporting of scope 1, 2 and 3 emissions in directors' reports.

These standards are now augmented by IFRS Sustainability Disclosure Standards – also known as ISSB Standards, which in turn were built on Task Force on Climate-related Financial Disclosures (TCFD) principles. These require large organisations to go beyond just the reporting of scopes 1, 2 and 3, and additionally set out the short-, medium- and long-term climate and sustainability-related risks and opportunities to their businesses, and to explain their governance arrangements for dealing with these risks.

Overall, these measures are primarily aimed at enabling investors to make informed choices about the climate-related risks borne by the corporations in which they invest. Adoption of these requirements by IFRS represents the

Central and local governments are always referenced as bodies that can and should set leading standards for other organisations to follow, and for good reason. The sheer purchasing power wielded by government departments and non-departmental bodies puts them in a position to have a substantial degree of influence over the performance of supply chains. They are able to set the bar in a position that other entities can emulate.

PPN 06/21 has been designed to achieve two outcomes. The first is to nudge suppliers into thinking about, and delivering on, the measures that they will take to reach net zero. As a minimum, it will set a standard that other purchasing organisations will adopt.

The second is to do this in such a way as to make it possible for SMEs to comply and for compliance not to be a barrier to supplying the public sector.

It does not require verification or validation (although suppliers are free to have their plans approved by third parties). While it is not easy, it is designed to be simple. A template, technical guidance and a set of FAQs has been provided by the Government Commercial Function. PPN 06/21 is currently applied to higher-value procurements of £5m per annum and above.

Q how does this impact on the operations of smaller organisations?

A As more and more companies (and public bodies) set net-zero carbon targets, suppliers are coming under increasing pressure to disclose and/or reduce their GHG emissions. Organisations may require disclosure from their suppliers for a number of reasons, including:

- To accurately assess the carbon impacts in their value chain.
- To ensure their supply chain is on track to meet net-zero targets.
- To protect themselves from suppliers that are unwilling or unable to keep up with the increasing legislation, physical risks and market transformation associated with climate change.

SMEs that can help their customers to quantify and reduce their carbon emissions will be well placed to grow their customer base. Conversely, SMEs that are unable to assist their customers are likely to find themselves at a commercial disadvantage.

While the PPN 06/21 requirement currently applies only to organisations bidding for a procurement specifically within scope, similar requirements are likely to become commonplace as demand grows for visible action on procurement that will help mitigate climate change.

roll-out of mandatory carbon and climate-risk reporting to a broad global audience.

Of course, many companies already have a track record of reporting GHG emissions on a voluntary basis under frameworks such as the Carbon Disclosure Project (CDP), or in response to region-specific legislation such as the Streamlined Energy and Carbon Reporting rules in the UK.

Additionally, many national and sub-national governments are asking public-sector bodies to lead the way on climate action. For example, under the UK's Greening Government Commitments (GGC), government departments and their agencies must report annually on their carbon emissions and describe progress made towards creating sustainable supply chains.

Procurement Policy Note (PPN) 06/21 applies to UK central government departments, their executive agencies and non-departmental public bodies. It has also been adopted voluntarily by the Welsh government and is recommended for use the rest of the Welsh public sector[1], and the NHS started adopting the measure in April 2023.

Suppliers bidding for procurements that have applied PPN 06/21 will be required to submit a carbon reduction plan as part of their selection questionnaire. Carbon reduction plans include:

- A commitment to reach net zero on or before 2050 (2045 is encouraged by the NHS).
- GHG emissions data covering (as a minimum) scope 1, 2 and selected scope 3 (upstream transportation and distribution, waste generated in operations, business travel, employee commuting, downstream transportation and distribution).
- A list of the measures that the supplier is taking to reach net zero.

Suppliers to large enterprises and the public sector are under increasing pressure to commit to the net-zero transition, regularly report GHG emissions and publish a transition plan detailing action taken so far. These requirements are likely to become as normal as the need for annual reports and accounts.

Early action is recommended to build the systems and processes that will embed carbon reporting and reductions into everyday operational processes. By being prepared for the net-zero transition, SMEs can create competitive advantage and build closer relationships with large customers.

Existing toolkits for transition planning
At the most fulsome end of the scale, a large organisation should prepare a fully comprehensive transition plan, which should be updated every three years or so.

When the large organisation then provides annual reports to comply with TCFD or ISSB requirements, the transition plan serves as a yardstick by which to measure progress.

A fully comprehensive transition plan would be an onerous task for an SME.

At the other end of the scale is the government's PPN 06/21. This requires suppliers (which can include SMEs) to provide a list of measures that they are taking to reach net zero when bidding for contracts within scope.

This is quite a 'light touch' requirement and the template provided only asks for brief details of completed and future steps that the supplier is taking to reach their net-zero target.

Complying with PPN 06/21 is a requirement for the supplier to pass the selection stage of the procurement process, but in itself avoids being overly prescriptive. This is deliberate by design so that SMEs are not deterred from bidding for public contracts simply because they do not have the resources to write a full transition plan.

A hybrid approach for SMEs
A hybrid approach would be suitable for an SME in which the themes within TCFD/ISSB-IFRS S2 are added to the organisation's strategy and management processes, and used to provide narrative on the organisation's transition to net zero. This narrative can then be used to complete a carbon reduction plan template or similar client request.

Summarising the TCFD and ISSB recommendations, and scaling them down to something that is manageable by an SME, the organisation would at the very least consider the day-to-day management of transition planning by:

- Saying who on the board has oversight of climate (including emissions reporting and climate-related risks and opportunities).
- Describing the management processes for implementing the direction from the board
- Measuring and reporting on scope 1, scope 2 and scope 3 emissions.
- Setting out the organisation's emissions baseline and stated targets, and the measures it intends to take to achieve the targets.

Far more complicated and very likely requiring specialist external support is future forecasting to include climate-related issues. Even very large organisations grapple with the challenge of doing this well. An SME will currently be ahead of the game if at the very least it:

- Acknowledges and keeps an open watch on the fact that climate-related risks and opportunities will exist for its organisation.
- Makes use of any information available where it is easily enough acquired and where it has the potential to have a material impact on the organisation's future.
- Reports on these with metrics and targets as the information becomes available.

This hybrid approach provides the foundations for an approach that an SME should consider adopting. As the organisation grows, and/or as clients and other stakeholders ask for enhanced reporting, there will be no need to start from scratch, only to build on these solid foundations.

1. Welsh Procurement Policy Note WPPN 06/21: Decarbonisation through procurement – Taking account of Carbon Reduction Plans | www.gov.wales

2. Building an evidence base for senior management

Larger organisations are more likely than smaller ones to have dedicated teams and access to external advice on addressing climate change and mitigation. Consequently, whether as a result of external reporting requirements or voluntary ambition, larger organisations are often further ahead than smaller organisations with addressing emissions and transition planning.

The TCFD/ISSB frameworks provide detailed and excellent prompts on how an organisation should prepare a report on how its board provides oversight, and how its management assesses and manages climate-related risks and opportunities[1]. However, this guidance is less useful for companies that have not reached this stage of maturity and do not yet have buy-in from senior management. Indeed, one of the key barriers SMEs identified in the workshop and interviews was building an evidence base for the need for a transition plan to put to senior management.

We found that often an organisation's climate lead is given the role on top of their existing responsibilities, meaning that they then lack the time to do the task well. Alternatively, to better manage staff time and get around a gap in internal expertise, external advice is often sought. Although this is comprehensive, it will often lack an internal champion with the authority and time to deliver on the recommendations, so that in the end the outcome is not much more fruitful than if all the work had been carried out internally from the start.

These problems are particularly acute where the lack of a transition plan is not an immediate barrier to gaining business or to accessing the financial products necessary to run the organisation.
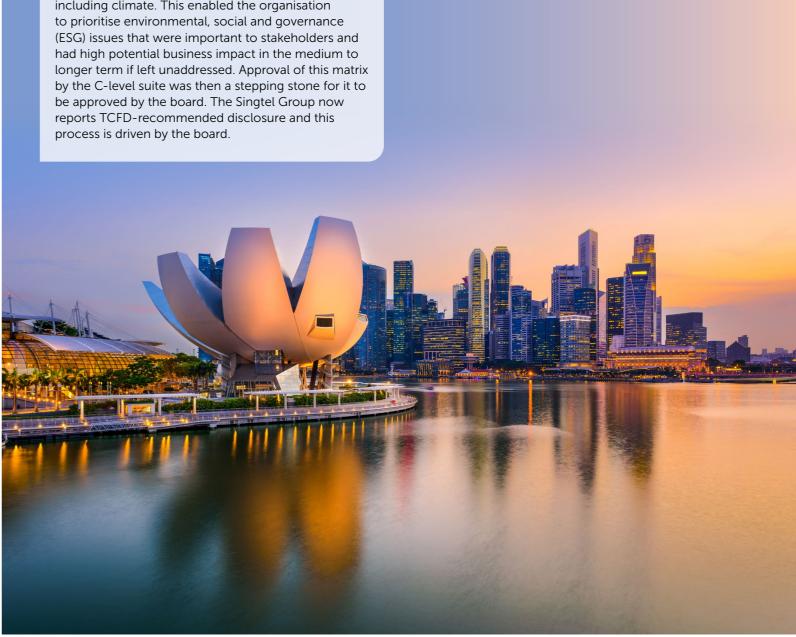
There are different routes the climate leads within organisations can take to put the case to senior management for setting aside adequate time for transition planning. Here are some case studies, followed by a summary.

1. For further reading, see 2021-TCFD-Implementing_Guidance .pdf (www.bbhub.io)

STARTING FROM THE GROUND UP – ENGAGE WITH STAKEHOLDERS

The Singtel Group is a leading telecommunications company providing business-to-businesses and direct-to-consumer services mainly in Singapore and Australia, and across Asia
Source: TCFD Status Report 2022

Prior to 2017, the board had little formal oversight of climate-related issues. Starting in 2014, the company carried out formal stakeholder engagement and materiality assessments for sustainability topics, including climate. This enabled the organisation to prioritise environmental, social and governance (ESG) issues that were important to stakeholders and had high potential business impact in the medium to longer term if left unaddressed. Approval of this matrix by the C-level suite was then a stepping stone for it to be approved by the board. The Singtel Group now reports TCFD-recommended disclosure and this process is driven by the board.

FRAME THE FINANCIAL CASE

The Singtel Group
Source: TCFD Status Report 2022

Early on in the process, the team building the evidence base for the board and senior management realised that it was important to frame the message not solely in climate jargon, but to translate that into what it all meant in terms of financial drivers of the business, formally mapping the risks onto the income and balance sheets for the business. This then enabled existing financial information to be leveraged into the process.

MATCH IT TO YOUR EXISTING CODE OF ETHICS

UPP is the UK's only multi-discipline, full-service design, build, fund and operate (DBFO) company that is dedicated to the higher education sector, providing 35,000 residential spaces
Case study supplied by Tom Yearley, FIEMA, director of energy and environmental sustainability, UPP

UPP recognises that there is an increasing focus on how businesses impact on society and the environment, and our stakeholders are looking for both action and accountability.

UPP's executive leadership team has been promoting metrics to support risk mitigation and communicating these through an annual ESG report. Identifying corporate risks associated with the transition to a net-zero operational model depends on reliable data from business partners.

When considering supply chains in particular, balancing stakeholder requirements with transition risks highlights the importance of sustainable procurement, ethical supply chains and the highest standards in corporate management.

The UPP Code of Business Ethics revolves around five simple behaviours expected of all staff and stakeholders:

- Behave in an ethical manner, apply good judgement and take pride in your actions
- Comply with the principles outlined in this code, and fulfil your legal and regulatory obligations
- Understand our values and apply them to your work
- Speak up if you feel a working practice is not ethical or safe, or if it breaches this code
- Refer to our policies and procedures that underpin the code.

By reminding staff of these responsibilities, we promote appropriate behaviour. Find the UPP Code of Business Ethics at www.upp-ltd.com/wp-content/uploads/2018/10/Our-Code-of-Business-Ethics.pdf. Adherence to our own business policies and standards is benchmarked regularly. It is also linked to voluntary reporting against independent international standards such as GRESB and the Global Reporting Initiative ensuring that impact is measurable and transparent.

MAKE THE MOST OF THE OPPORTUNITIES PRESENTED BY OTHER CHANGES

Go Green is an ever-evolving business leader in outsourced waste management and recycling solutions, utilising innovation and environmental change to develop bespoke services.
Case study supplied by Sabrina Barnett, sustainability manager, Go Green

In 2021, we established that as our business increased in size, it was crucial that we played a considerable role in delivering sustainability within our sector. Although we had been consciously making environmentally sound decisions through our ISO 14001 accreditation, we hadn't yet set ambitious targets for carbon emission reductions.

First, we dedicated time and resources into developing our sustainability framework. We created a sustainability department to ensure there was accountability for setting targets and delivering against them. At the end of 2021, we published a net-zero 2030 target against our scope 1 and 2 emissions.

While in a growth period and recovering from the pandemic, we identified opportunities in operational decisions being made. Our head office building was undergoing an extension to allow for expansion and this enabled us to carry out the project sustainably – in particular, with more roof space, we tripled our existing solar array to reduce our grid electric. Additionally, we looked at the infrastructure inside the older areas of our building, installing efficient lighting and amenities throughout.

Having to stop external visits for 18 months meant we increased our fleet rapidly to make up for lost time; we invested in electric vehicles and slowly removed the need for internal combustion engine vehicles, which has played a huge part in our carbon footprint reduction.

To demonstrate full transparency, we started publishing annual sustainability reports to show our progress and how we are delivering on the targets set.

As with everything, there have been challenges along the way, including increased expectations for scope 3 carbon reporting, something we are working hard to perfect. Being an SME, there is no expectation to report on our impact as much as we do. However, it's important to push ourselves and our credibility within the industry. We have made huge strides in a short space of time – it feels like once you take the leap to push yourself on environmental targets, the momentum continues to build.

SUMMARY

THE BUSINESS CASE FOR STARTING A TRANSITION PLAN BEFORE IT BECOMES MANDATORY

These case studies demonstrate the value of considering transition planning from the stakeholder perspective. It can be a project that consciously aligns to other existing organisational objectives or it can be a springboard for new ones. These case studies demonstrate a staged rather than an immediate process, but ultimately they all show a pathway in which value will be added to the organisation's offer.

Expanding on the following five themes within the context of your organisation will support a business case for transition planning.

1. Start before it's desperately urgent and there's still time to do it efficiently. It always takes longer to get right than initially envisaged. The process will take several years to refine and the sooner it is started, the easier it will be to accommodate within general workstreams. Delays could result in a hurried process close to a mandatory deadline, disrupting other organisational priorities.
2. Take the time to get it right for your organisation. Allow time to focus on the most salient points for your sector, and develop methods and metrics for assessment that are most appropriate

for your organisation's structure and product or service.
3. Incorporate it into your general strategy planning process. Transition planning creates a new viewpoint from which to consider the strategic direction of the organisation.
4. Position yourself as a leader in your sector, as this is good for general visibility and helps to attract good employees.
5. Make it your unique selling point. As general awareness of the consequences of climate change grows, the existence of the transition plan and data gathered for its purposes can be a unique selling point, providing a point of differentiation from competitors in tight markets.

Once the business case is made and accepted, the SME can set out the governance processes by which it will maintain momentum and evaluate progress on an ongoing basis. The governance process need not be complex, just robust in itself. In this respect, a small organisation has a considerable advantage over a larger one, being more likely to be flexible and nimble at reviewing governance processes.

3. Target setting

Once an organisation has conducted an assessment of its current emissions, it should consider setting realistic and achievable targets in order to reduce its organisational impact. An SME should set climate targets for several compelling reasons.

- By setting climate targets, SMEs can identify and mitigate climate-related risks, including regulatory changes, resource scarcity and reputational risks associated with environmental issues.
- Implementing climate targets often leads to increased energy and resource efficiency, resulting in cost savings through reduced energy consumption and waste.
- SMEs with clear climate targets gain a competitive edge by differentiating themselves as responsible and forward-thinking businesses in a world increasingly focused on sustainability.

- Climate targets help SMEs stay ahead of evolving environmental regulations and requirements, avoiding potential penalties and positioning themselves for compliance advantage.
- Climate-conscious initiatives can attract and retain employees who are passionate about working for environmentally responsible companies.
- By setting climate targets, SMEs can future-proof their operations, anticipate changing market demands and remain resilient in the face of climate-related disruptions.

By committing to climate targets, SMEs can actively participate in combating climate change while reaping numerous benefits for their business, stakeholders and the planet.

Align your organisation to a well-established and credible framework for carbon reduction and transition planning

Once organisations have started reporting, the next step is to consider setting reduction targets. Typically, targets should be aligned with the need to halve emissions by 2030 and reach net zero by 2050 or earlier. Note, however, that some high-emitting sectors (e.g. agriculture or energy generation) may be required to decarbonise faster or slower than this. Specialist guidance should be sought in relation to such sectors.

Organisations can choose from a multitude of frameworks for committing to a carbon reduction plan or net-zero target. Popular among private companies are the United Nations' Race to Zero and the Science Based Targets initiative (SBTi).

An increasing number of organisations are signing up to international frameworks for carbon reduction and transition planning. Spend some time finding the frameworks that leaders in your sector have adopted so that, as an SME, you can demonstrate both credibility and leadership.

Target-setting initiatives

There are a number of frameworks an organisation can adopt and adhere to. The most frequently used include:

UN Race to Zero

The Race to Zero coalition is open to companies, regions and investors that commit to meeting a set of minimum requirements. This includes setting net-zero targets over all scope 1, 2 and 3 emissions, and reporting annually on progress. As a result, upstream suppliers can expect to be asked for their annual emissions, and will be encouraged to regularly share their carbon reduction or net-zero transition plans.

Science-based targets

The SBTi encourages large and small organisations to commit to net-zero targets that are 'science based' – in other words, sufficiently ambitious to keep the average global temperature rise below 1.5°C. Its standards require that the majority of scope 3 emissions are included in the target boundary.

Tier 1 suppliers for companies that have published science-based targets will be encouraged to set their own science-based targets for scope 1 and 2, and potentially scope 3 as well. Annual reporting will be required, both to customers and the public. Note that there is a simplified route to science-based target validation for SMEs that can simplify the validation process, but will ultimately still require a transition to net zero.

SME science-based targets

The SME SBTi route recognises that smaller businesses may have unique challenges in setting ambitious climate targets and may require simplified methodologies and guidance. It provides a step-by-step process for SMEs to develop science-based targets that are appropriate for their size, sector and capabilities.

Public sector

In the public sector, requirements and targets vary by region, with more than 70 countries having made net-zero commitments. These are resulting in policies aimed at government departments and communities.

For example, in support of the UK government's commitment to reach net zero by 2050, the National Health Service (NHS) has a stated commitment to reaching net zero by 2040 for its scope 1 and 2 emissions, and by 2045 for the goods and services it procures. At the time of writing, the NHS is considering widening requirements for potential suppliers to submit PPN 06/21-aligned carbon reduction plans in a greater number of procurements from April 2024. Currently this is only required for contracts over £5m.

United Nations Sustainable Development Goals (SDGs)

The 2030 Agenda for Sustainable Development, adopted by all United Nations member states in 2015, includes 17 SDGs. While not exclusively climate focused, SDG 13 specifically calls for urgent action to combat climate change and its impacts. Many companies and governments align their climate targets with SDG 13 to contribute to global efforts to address climate change while also advancing broader sustainable development objectives.

The 2°C Scenario (2DS) and Beyond 2°C Scenario (B2DS)

These scenarios, developed by the International Energy Agency, provide guidelines for the energy sector to achieve climate goals, such as limiting global warming to 2°C and avoiding more than 2°C, respectively.

Local and regional climate action plans

Depending on your location, there might be local or regional climate action plans with which you can align your targets. These plans often set emissions reduction goals and provide guidance for businesses operating in the area.

Renewable energy commitments

Consider joining initiatives such as RE100 if you want to commit to sourcing 100% of your electricity from renewable energy sources.

The Climate Pledge

An initiative co-founded by Amazon and Global Optimism, The Climate Pledge is a commitment by companies to take bold action to address climate change and achieve net-zero carbon emissions by 2040, a decade ahead of the goals set by the Paris Agreement. The initiative encourages businesses to invest in renewable energy, improve energy efficiency, reduce carbon emissions throughout their supply chains and actively participate in creating a more sustainable future.

Choosing a target-setting framework for your organisation

Selecting the most suitable framework for your organisation requires a thoughtful assessment of your company's capabilities, goals and commitment to climate action. Here are some key factors:

- Consider the size of your SME and the resources available for implementing climate initiatives. Some frameworks may require more extensive data reporting, verification and financial commitments, which could prove challenging for smaller businesses.
- Different industries have varying carbon footprints and climate-related challenges. Choose a framework that aligns with your industry's standards, best practices and sector-specific goals.
- Assess your SME's carbon emissions and identify the main sources of GHG emissions. This analysis will help you understand which areas offer the most significant emission-reduction potential.
- Decide whether you want to align your SME's climate targets with global climate goals, such as the Paris Agreement, or focus on local or regional initiatives that may be more relevant to your operations.
- Consider the reporting and transparency requirements of the frameworks. Some may ask for public disclosure of your climate-related data, while others may allow more flexibility in reporting.
- Engage with your employees, customers, suppliers and investors to understand their expectations and concerns regarding your SME's climate commitments. Choose a framework that aligns with stakeholders' values and priorities.
- Evaluate the level of support and guidance available for implementing the chosen framework. Some initiatives offer toolkits, resources and expert advice to assist SMEs in setting and achieving climate targets.
- Explore opportunities for collaboration with other businesses in your sector that are also participating in the same framework. Collective action can lead to shared benefits and greater impact.

Ultimately, the choice of a climate-target framework should align with your SME's values, long-term sustainability goals and capacity to implement meaningful climate actions.

Taking the time to carefully evaluate and select the most appropriate framework will ensure that your climate targets are meaningful, achievable and contribute to the global effort to combat climate change.

4. Engaging with supply chains and scope 3 reporting

> Scope 3 reporting is an incredibly complex element of emissions accounting because it relates to those emissions generated within the organisation's supply chain.

The first challenge is deciding which data to capture. The initial list proposed by the Greenhouse Gas Protocol Corporate Value Chain (scope 3) Standard seems fairly straightforward until the boundaries are taken into account. For example, even seemingly simple categories such as transportation and distribution become complex once modern supply chains, with multiple distribution layers, are factored in.

Upstream scope 3 categories
1. Purchased goods and services
2. Capital goods
3. Fuel- and energy-related activities (not included in scope 1 or scope 2)
4. Upstream transportation and distribution
5. Waste generated in operations
6. Business travel
7. Employee commuting
8. Upstream leased assets

Downstream scope 3 categories
9. Downstream transportation and distribution
10. Processing of sold products
11. Use of sold products
12. End-of-life treatment of sold products
13. Downstream leased assets
14. Franchises
15. Investments

The second challenge is accessing the data. Unlike scopes 1 and 2, for which the data is held in house, scope 3 requires the acquisition of data from partners over which an organisation has no control. Larger organisations might use their purchasing power to extract this information from their suppliers, but smaller organisations will lack this lever.

In recognition of these difficulties, the reporting frameworks provide transition-period exceptions described as 'reliefs' so that organisations can get started with their transitions to a low-emissions economy.

PPN 06/21 requires data on five of the scope 3 emissions categories[1], while the others are currently optional:
- Category 4: Upstream transportation and distribution
- Category 5: Waste generated in operations
- Category 6: Business travel
- Category 7: Employee commuting
- Category 9: Downstream transportation and distribution.

In practice, upstream and downstream distribution and transportation reporting under PPN 06/21 is restricted to one layer of transportation up and downstream.

The ISSB framework includes a requirement for full reporting of scope 3 emissions, together with a degree of relief in that companies are permitted to report only that which is available without undue cost or effort, and may incorporate the use of estimation[2,3].

Working out scope 3 emissions is a time-consuming task for any organisation and the time taken as a proportion of other management time is possibly greater for an SME than for a larger organisation.

It is acceptable for SMEs to initially use the guidance provided by PPN 06/21 and the reliefs put forward for larger organisations by the ISSB. On these notes, see this section's case studies on supply chain engagement and management from larger organisations that have core learning points scalable to SMEs.

Advice: get started with a customer-focused inventory

The best way to support customer reporting requirements is to construct and maintain a GHG inventory for your own operation. Typically, this will require you to adhere to the GHG Protocol framework and/or ISO 14064–1:2018.

Some customers may only require you to evaluate your scope 1 and 2 emissions, or scope 1 and 2 plus upstream scope 3 (for example, the emissions associated with raw materials used in your manufacturing processes). However, where downstream scope 3 emissions are a significant part of your product footprint (for example, if you are supplying a product that will consume electricity during its use phase), you may be asked to include these as well.

A 'materiality assessment' for scope 3 emissions is a good start, as this can identify which emissions are significant and which ones may be justifiably de-prioritised. However, it should be noted that PPN 06/21 doesn't accept materiality grounds for not reporting the required emissions in the PPN. In any case, it is advisable to record scope 1, 2 and upstream/downstream scope 3 emissions separately in order to enable customers to align the data you provide with their own reporting needs. Being clear about what is included or excluded will help customers compare suppliers on a like-for-like basis.

Additionally, some customers may request an intensity metric. This is typically the carbon emissions associated with a functional unit (such as the carbon emissions per 100 sterile wipes produced). This can be useful to demonstrate that even if production is growing, emissions per unit of product are reducing.

Creating a GHG inventory for the first time can be daunting, but it is accepted that data quality and coverage may need time to improve. It is to be expected that you will have to re-baseline your historic emissions regularly to incorporate changes in data accuracy and the latest reporting requirements.

As a rule, it is best to consider GHG reporting as an ongoing process, not a one-off exercise. Creating data management systems and models that are well documented and flexible will save you considerable time when updating the inventory in the future.

THE NHS SUPPLIER FRAMEWORK

NHS England & NHS Supply Chain
Case study supplied by Heidi Barnard, head of sustainability, NHS Supply Chain

The NHS has committed to reaching net zero by 2040 for the emissions we control directly, and by 2045 for the emissions we influence through the goods and services we buy from our partners and suppliers. To achieve this goal, we will require the support of all our suppliers. We are putting the following elements in place to achieve these goals:
- Our NHS net-zero supplier roadmap sets out a clear timeline for our suppliers so that they are well advised in advance on how and when they need to align with our goal.
- Our bespoke online tool, the Evergreen Sustainable Supplier Assessment, enables suppliers to engage with the NHS on their sustainability journey. It helps them understand how to align with the NHS net-zero and sustainability ambitions, including those set out in the NHS net-zero supplier roadmap. The Evergreen Sustainable Supplier Assessment is a self-assessment and reporting tool for suppliers to share sustainability information with the NHS, providing a single route for information and data sharing between suppliers and the NHS. After completing the assessment, suppliers will receive a sustainability maturity score against NHS priorities, which signposts their current position and pathway to progress.
- NHS England takes a leadership role, working closely with regulators, suppliers and industry bodies to shape our approach and give all suppliers the opportunity to align with our net-zero ambition.

ENERGY CONSUMPTION AT BEYONDLY

Beyondly is an environmental compliance and consultancy company based in the UK
Case study supplied by Liz Wood, sustainability manager and principal consultant, Beyondly

Although we purchase renewable electricity at Beyondly, our former heating system ran on kerosene (due to our office location being off grid), which contributed 30% of our overall emissions. To meet our goal of net zero by 2030, we needed to reduce our scope 1 emissions.

After negotiations with our landlord, we relocated to a different office on the estate. Prior to the move, the new office was retrofitted with a ground-sourced heat pump. The successful implementation of this technology means all energy supplies at our office now run with zero emissions.

This transition will save 13.4 tCO_2e a year going forward (based on the average annual emissions of our former heating system).

BUSINESS TRAVEL AND COMMUTING AT BEYONDLY

Beyondly
Case study supplied by Liz Wood, sustainability manager and principal consultant, Beyondly

Business travel and employee commuting together accounted for around 70% of our 2021 carbon footprint. In 2021, we set KPIs around reducing business travel, use of the electric pool car and limiting travel. We began to track employee commuting by car type so that we could calculate emissions from these more accurately.

To tackle employee commuting, we've implemented a cycle to work scheme and an electric car salary sacrifice scheme through Octopus. Two directors are now using electric cars and one more employee decided to get an electric vehicle as a direct result of trying and enjoying driving our electric pool car. Additionally, we have a working from home benefit where staff can work from home two days a week, which in some cases has cut commuter emissions by half.

One of the most successful schemes we have introduced has been our car share scheme. Staff can car share with another member of staff on any day of the week and claim back their mileage expenses for one day per week. This results in fuel savings for the passenger as they don't have to use their own car, and gives the driver a nice reimbursement of 45p per mile back on their commute.

To promote our car sharing scheme, we have implemented some helpful area maps to show where every employee is located so that staff can easily see who is on their route to work. We also have a car share WhatsApp group in place where staff can message one another about car sharing.

In the first six months of introducing the scheme, we had 785 shared miles claimed and some staff have benefited from payments of up to £100 a month as a result of regular car sharing. Overall emissions have reduced 27% in 2021 against our 2019 baseline, despite rapidly growing business size and turnover.

The pandemic obviously had an impact in 2020, but our 2021 figures prove that we are managing to keep business travel emissions down. In a reopening world, we reduced our business travel by 88% against our pre-pandemic baseline. Employee commuting emissions have reduced by 11% in 2021 compared with 2019.

MEASURING DELIVERY PARTNERS' PROGRESS AT DHL

DHL Supply Chain
Case study supplied by Kirit Patel, environment manager, DHL Supply Chain

DHL Group has introduced a global DHL Green Carrier Certification programme to reward road transport subcontractors for their efforts to become more sustainable. As part of its sustainability roadmap, DHL Group aims to reduce GHG emissions to below 29 million tonnes by 2030 (SBTi approved) and net zero by 2050. Ground transport currently accounts for 22% of the Group's total CO_2e emissions. In addition to electrification of the last mile and investment in alternative drives and fuels in its own fleet, another important lever is within the scope of sustainable transport services provided by the group's service partners.

By certifying its green subcontractors, the world's leading logistics provider underlines its responsibility in terms of sustainability and climate change, while at the same time creating transparency for its stakeholders.

Decarbonising trade lanes and supply chains is a joint effort and must be built on transparency and collaboration. With our DHL Green Carrier Certification, we have implemented uniform and transparent criteria when it comes to cooperating with our ground carriers.

Visibility and managing reductions on transport carriers' emissions is one of the biggest challenges and is key in delivering commitments on science-based targets. To support this, DHL has developed a standardised programme to assess the environmental performance and accordingly award certification ratings to the various partners providing ground transport services to its divisions. The solution enables DHL to effectively manage relationships, build capacity and reduce emissions. The Green Carrier Certification programme helps to identify subcontractors that are already contributing to sustainable logistics, while encouraging even more investment in green technologies to reduce our CO_2e footprints and those of our carriers and our customers. In this way, DHL can not only increase transparency for all stakeholders, but also become more sustainable in road freight transportation.

The carriers should have an environmental or sustainability strategy, measure their carbon footprint and be transparent with their data. As well as basic technologies such as aerodynamic enhancements, idle cut-off and low rolling resistance tyres, leading green carriers also work with advanced technologies such as more sustainable fuels and alternative drives. All relevant information is obtained via a dedicated online platform and is verified via internal audit processes.

Based on the findings, the subcontractors are ranked in four certification categories: Pass, Good, Excellent and Outstanding. This enables carriers to benchmark and action continual improvements in environmental performance. This transparency helps DHL on decision-making points for future transport tenders and assignments, and determining where additional capacity building is required.

The introduction of the DHL Green Carrier Certification is one of many initiatives that DHL Group has launched as part of its sustainability strategy. This is in parallel to the usual country or region-specific initiatives. For example, in Turkey, the DHL Supply Chain operations support small, outsourced services providers on energy and carbon accounting through the provision of tailored guidance and local support.

To reduce CO_2e emissions in line with the Paris Agreement, DHL Group is investing €7bn in climate-neutral logistics solutions through 2030. The sustainability roadmap includes programmes for the purchase of sustainable fuels in air and ocean freight, the electrification of the last mile delivery, and building climate-neutral logistics sites and warehouses for operations.

KLOECKNER METALS UK REDESIGNING PRODUCTS WITH LOWER CARBON FOOTPRINTS

Kloeckner Metals UK is one of the largest multi-metal stockholders and distributors in the UK, and is part of the wider global Klöckner & Co group

Case study supplied by Sara Halliday, sustainability and ESG manager, Kloeckner Metals UK

Sustainability is an integral part of our strategy of delivering sustainable, innovative solutions. Kloeckner Metals UK believes that sustainability should be considered in a broad context, as it is relevant to all stakeholders, including the company's employees, suppliers and customers, and the wider communities and environments in which it operates.

As a member of the Klöckner & Co group, Kloeckner Metals UK is committed to the UN Global Compact Initiative 'Business Ambition for 1.5°C'. The initiative aims to contribute to limiting the rise in global temperatures to 1.5°C by reducing greenhouse gases through appropriate and verifiable measures within the framework of the Science Based Targets initiative.

Our targets include halving all scope 1, 2 and 3 emissions that we can directly influence ourselves by 2030 and reaching net zero by 2040. Emissions that can only be influenced indirectly, in particular from purchased goods and services, will be reduced by 30% by 2030 and to net zero by 2050. By recording our emissions, we are able to make targeted decisions to reduce our impact.

Since 2019, Kloeckner Metals UK has introduced several measures that led to reductions of 56% in our scope 1 and scope 2 emissions by the end of 2022. These include switching to 100% renewable electricity, the introduction of hydrotreated vegetable oil into our HGV fleet and continuing to implement lean practices across our facilities.

We are also seizing the strategic opportunity to integrate the new area of sustainable solutions into our business model, including the introduction of Nexigen®, our new brand for CO_2-reduced steel and metal solutions.

With the introduction of Nexigen®, we are able to support our partners and customers in their green transformation, and make their progress in sustainability achievable. We see this transformation as a unique growth opportunity – not just in the future, but also today.

COORDINATING EFFORTS ACROSS INDUSTRY BODIES

White goods manufacturer based in the UK

Case study supplied by Helen Sprakes, director, Environmental Strategies Ltd

One of our manufacturing clients was asked by its biggest building merchant customer to provide a wide range of carbon-related data as part of the merchant's efforts to understand its scope 3 emissions. The spreadsheet the merchant wanted our client to complete was daunting, and needed data the manufacturer did not have and could not obtain without spending a significant amount of time sourcing it.

The manufacturer took the request to its industry body to find out if other manufacturers were being asked similar carbon emission questions and, if so, how this was being approached. Most manufacturers were in a similar position and agreed that large customers needed to give them more support to obtain the data and an appreciation of the time this takes.

The result was that the merchant developed an online workshop for its suppliers regarding how to complete the spreadsheet and estimate emissions where data was lacking or difficult to obtain in the timeframe. The merchant also provided regular email and webinar support. It has been a win-win for both parties. The manufacturer gained a working knowledge of carbon emissions from its different activities and the merchant received the required data for its scope 3 carbon footprint.

The manufacturer has subsequently been able to set carbon reduction targets, based on the data sourced for the merchant, with these targets managed through its ISO 14001 Environmental Management System (EMS) improvement processes. Managing the targets using the EMS has meant the whole business has improved awareness of carbon reduction.

Different angles for business planning for the transition to a low carbon economy

Each organisation that has made a successful start to their transition plan has done it by looking at different angles to the way they do business.

Thinking about GHG emissions linked to their work location
- Choice of office tenancy
- Active engagement with office managers
- Reducing commuting
- Salary sacrifice for electric vehicle purchase
- Reducing home working emissions

Thinking about how they work
- Use of paper
- Data management and use of IT services

Thinking about how they do business
- Reducing travel where possible
- Switching to lower-carbon travel
- Reducing overnight hotel stays
- Internal carbon pricing
- Purchasing second-hand/refurbished IT equipment
- Integrating purchasing and sustainability teams

Thinking about redesigning products and services
- Limiting carbon in design of new products

Scalable ideas transferable to SMEs

Planning stages:
1. Don't assume your organisation is too small to be impacted: it is worth setting aside some time to look at how climate change could impact you and your supply chain.
2. Use existing business processes to manage your transition. For example, if you already have company objectives covering other ambitions, include a decarbonisation one. This raises the profile of the transition ambition within the company.
3. While individual SMEs don't have the individual weight to engage directly with regulators, they can do so collectively via their relevant industry bodies. Taking the time to encourage and support industry bodies to engage with regulators will not only help move the overall market, but it will also demonstrate your own commitments to emissions reduction.

Action stages
4. Educate senior managers and employees by providing access to introductory and transitional skills across the organisation (see IEMA's skills resources or more information).
5. Focus on the upstream supply chain emissions that have the greatest impact on your overall emissions.
6. Consider the downstream carbon footprint of the product or service you're selling, and take action to improve it where possible.
7. Negotiate with landlords where competition for high-quality tenants is high, as this is more likely to have successful outcomes.
8. Don't hope or try to have an overnight plan for decarbonisation of your supply chain. Consider setting reasonable mid-term phased goals for your suppliers. Making a phased set of goals and incorporating this into your procurement policies will enable procurement teams to take on this challenge in a measured way.
9. While developing a full interactive toolkit would be beyond the scope of an SME, it would be feasible for the organisation to develop a checklist for procurement teams to use and share with suppliers.

1. Full guidance available in the Technical Standard for Completion of Carbon Reduction Plans

2. IFRS – ISSB announces guidance and reliefs to support scope 3 GHG emission disclosures

3. ISSB-2023-A – Issued IFRS Standards

"Consider the downstream carbon footprint of your product or service, and take action to improve it"

5. Good practice reporting formats

Most purchasers or pledge organisations that require suppliers or signatories to report on emissions supply templates for the purpose. On the whole these are the same format each time and are reasonably easy to complete as far as the baseline and emissions are concerned.

During our surveys, IEMA found that the most daunting task for SMEs was reporting on and explaining future emissions reductions plans, especially where these relate to supply chain engagement and management.

In the absence of a prescribed format, it would be good practice and sufficient for SMEs to report on their ambitions – where these are realistic. For instance:

> We're working with our transport operator so that all our deliveries are made by zero-tailpipe-emissions vehicles by 20xx.

> We're reviewing our use of IT to cut our carbon footprint from data storage and we will have an overview of current use and a plan for reduction by 20xx.

> We're considering offering a salary sacrifice scheme for employees to purchase electric vehicles, and our decision on this will be made by 20xx. If we decide to go ahead, the scheme will be in place by 20xx. We estimate that xx employees will take this up, reducing our commuting emissions by xx.

It is also key that the project is properly planned and deliverable – for instance, by applying the SMART (specific, measurable, achievable, realistic and timely) target framework.

CASE STUDY

IEMA'S GHG REDUCTION TARGET FOR 2030

In line with IEMA commitments under the Pledge to Net Zero Scheme, IEMA has calculated a science-based reduction target.

Based on the above data and using the more ambitious 1.5°C scenario, IEMA is committed to the following science-based emissions reduction target for the reduction of our GHG emissions covering scope 1, 2 and 3 emissions. We have used the absolute contraction approach and the baseline year is 2019:

1. We will reduce our scope 1 and 2 emissions comprising gas and electricity to meet a 46.2% reduction of emissions to not exceed 7 tCO_2e by the first target year, 2030.
2. We will reduce our scope 3 emissions comprising our business travel and staff commuting to meet a 46.2% reduction of emissions to not exceed 18.1 tCO_2e by the first target year, 2030.

6. Verification and validation

Verification of reports is a topic that concerns SMEs, since the cost of the additional process can be perceived as a barrier.

Presently, suppliers providing a carbon reduction plan under PPN 06/21 must have their plan signed off by the board of directors or equivalent management body. The carbon reduction plan does not need to have been externally validated.

SME signatories to initiatives aligned to the UN's Race to Zero, such as the Pledge to Net Zero or the SME Climate Commitment, do not have to have their reports externally validated[1].

This said, some SMEs will benefit from additional recommendations that they can obtain through the verification and validation process, and would certainly be advised to seek external verification and validation before making any net-zero claims.

1. Rules for reporting v.1.1 (www.smeclimatehub.org)

Further information

The use of this guide will be reviewed, and future iterations published if and when required.

For more information, please contact:

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Price: £89
Free to IEMA members

About IEMA
iema.net
We are the Institute of Environmental Management and Assessment (IEMA). We are the global professional body for over 20,000 individuals and 300 organisations working, studying or interested in the environment and sustainability. We are the professional organisation at the centre of the sustainability agenda, connecting business and individuals across industries, sectors and borders. We also help and support public and private sector organisations, governments and regulators to do the right thing when it comes to environment and sustainability related initiatives, challenges and opportunities. We work to influence public policy on environment and sustainability matters. We do this by drawing on the insights and experience of our members to ensure that what happens in practice influences the development of government policy, legislation, regulations and standards

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to sustainability