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How-to Guide: Climate Change Strategy

Climate change: is your business ready?

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Introduction

Without question, climate change is the most serious environmental challenge that we face, perhaps the greatest challenge humanity has ever faced. The latest UK projections show for example that in the upcoming years, summers will get hotter and drier, winters will get milder and wetter, and sea level will continue to rise. This will contribute to and increase the frequency and intensity of extreme weather events, such as heatwaves, drought and flooding.

Business operations and infrastructure across the UK will be heavily affected. For instance, all businesses will need to be prepared to face higher cooling, heating and maintenance costs in periods of extreme temperatures and intense precipitation; they may experience productivity loss during these times and operational or supply chain disruption during extreme weather events. At the same time, for businesses operating in certain sectors – tourism for example – climate change may present significant opportunities.

However, businesses are not yet fully addressing the risks and opportunities of climate change. Globally, according to a recent study, 72% of businesses are not reporting on the financial implications of climate change on their operations and infrastructure¹ and in the UK, according to a YouGov survey commissioned by Veolia, over 61% of private companies have not yet set a specific target to reduce their emissions.

This is despite the latest report from the IPCC, its Special Report on Global Warming of 1.5C, which states very clearly that we have just 12 years left to prevent catastrophic global warming. In other words, this is the last chance to reverse the worst effects of climate change. It will require an unprecedented and concentrated effort from governments, businesses and individuals, to transition to a low-carbon and circular economy and cut greenhouse gas emissions by around 45% between 2010 and 2030.

In this complicated scenario, businesses have a vital role to play to address climate change and facilitate the transition to a sustainable economy. The need to address climate change is clear and companies must take the lead in developing proactive approaches to tackling it. A proactive approach will bring businesses various benefits over the short and longer-term, most notably: efficiency improvements (e.g. reduction in energy use and cost), business resilience, reduced disruption, effective supply chain management, innovation opportunities and reputational benefits.

Broadly-speaking, there are two types of response that companies must consider in addressing climate change proactively through their operations and strategic plans: mitigation and adaptation.

¹ KPMG: Survey of Corporate Responsibility Reporting 2017

Mitigation

Climate change mitigation refers to all actions that a business implements to reduce its environmental impact, particularly its carbon emissions. By reducing negative externalities and emissions, companies can limit their impact on climate change.

Examples of climate change mitigation actions include:

- Switching to low-carbon and renewable energy sources or investing in on-site generation
- Investing in LED lighting to increase operational energy efficiency
- Reducing the impacts of products and services

- Involving employees in adopting environmentally conscious behaviours
- Working with suppliers to reduce emissions along the supply chain

Together, mitigation initiatives are a powerful means to ensure the transition to a low-carbon economy, bringing us closer to the required 2030 goal as outlined in the IPCC report. Yet it relies on businesses setting more challenging mitigation (or carbon reduction) targets, something which is not yet happening widely enough. We advise companies to avoid “sitting and waiting for the next storm”, but to take a proactive science-based approach to reducing emissions and aligning reduction goals with climate change models.

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Adaptation

Climate change adaptation refers to all actions that anticipate the adverse impacts of climate change on operations and infrastructure, and resulting initiatives to prevent or minimise potential damage, thus ensuring business continuity.

Examples of climate change adaptation initiatives include:

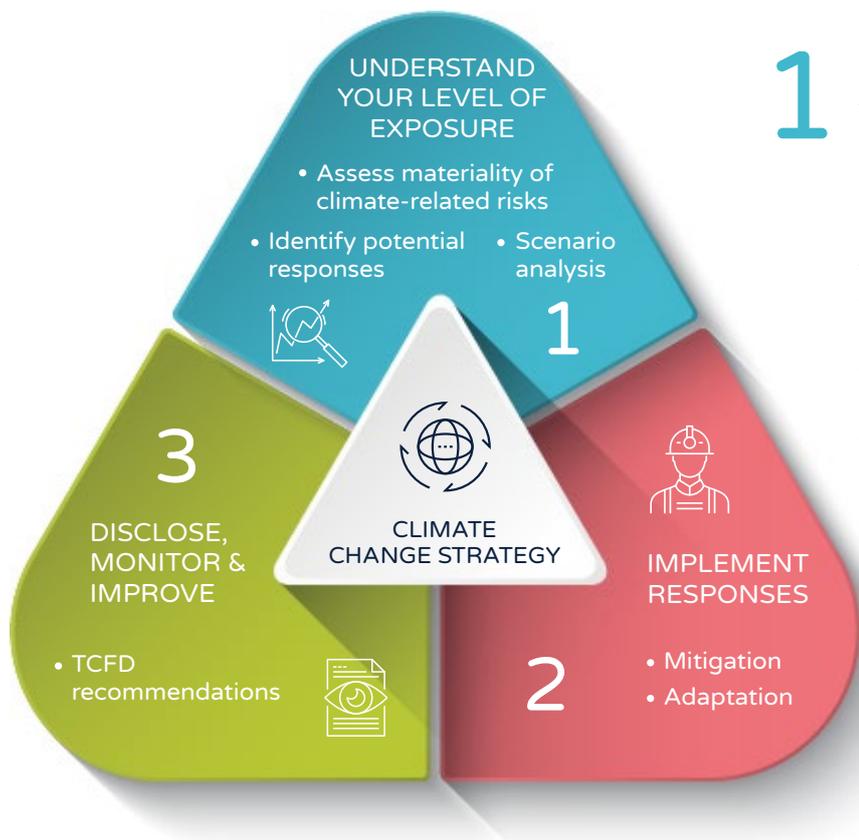
- Improving the quality of infrastructure, buildings and equipment to withstand hotter temperatures or extreme weather events
- Building flood defences
- Installing water harvesting systems

It can easily be seen therefore how climate change mitigation and adaptation differ. Mitigation can often require lower investment (at least initially), whereas adaptation often involves large-scale infrastructure changes, and is intrinsically linked to the sector that a business operates in.

Manchester Airports Group, the operator of a number of UK airports, is among the businesses that has developed an effective adaptation plan, in response to Defra’s second round of adaptation reporting.

Climate Change Strategy

The most effective way to ensure the success of climate change responses – mitigation and adaptation – is to develop a comprehensive climate change strategy. In practical terms, the following process indicates the steps that businesses should take in developing an effective strategy:



1 Understand
 Assess the business’ exposure to climate change risks through scenario analysis. In doing so, companies should take account of the latest climate change projections and understand how operations and infrastructure will respond to, for example, an increase in temperatures, drought or extreme weather events. This enables a business to appreciate the risks that they may be exposed to in the upcoming years, and identify opportunities to tackle these, through effective mitigation and adaptation responses.

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2 Implement

The next step is to implement mitigation and adaptation responses. Our recommendation is to ensure the responses are feasible and commercially viable. To do so, we recommend engaging with stakeholders in the identification and development of initiatives. This will not only serve to enhance reputation but will also enable the business to gather essential knowledge and ideas, ensure buy-in and contribute to the smooth implementation of future activities to reduce emissions and adapt.

3 Disclose

Disclosing the approach and results of mitigation and adaptation actions, is a powerful opportunity to reflect on successes and challenges, and to drive transformative change by evolving and improving the strategy. This is in addition to ensuring the company is accountable for the commitments it has made.

In this context, the recommendations developed by the Task-Force on Climate Related Financial Disclosure (“TCFD recommendations” in short) are a valuable tool to understand and report on the implications of climate change on operations and infrastructure, particularly (but not solely) from a financial standpoint.

Released in June 2017, they are now backed by over 500 organisations with a market-capitalisation of \$7.9 trillion. Despite currently being voluntary, there is a strong feeling that they will become mandatory in the future.

The TCFD suggest businesses report around 4 areas:

Governance: The business’ governance around climate related risks and opportunities. What does the Board think of climate change and which departments are responsible for overseeing and acting on climate change risks and opportunities?

Strategy: The impacts of climate change and the strategic plans and measures in place to tackle them

Risk management: The processes and procedures to identify and minimise the risk posed by climate change to the business. Practically, this could be a climate change risk register or similar.

Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.



Adapted from TCFD recommendations

From our experience, the TCFD recommendations are not just a reporting tool, nor should they be seen as a tick-box exercise. Instead, they are a powerful process. It might take businesses a few years to embed fully into reporting procedures but they will ultimately enable them to first understand and then manage climate-related exposure, and report on the financial implications of climate change on operations and infrastructure.

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Summary

In summary, whilst we don't know for certain how profoundly climate change will affect businesses, what we do know for sure is that they will be affected, whether they want it or not. To build resilience and achieve future success, a company must embed climate change considerations into its strategic planning and operational decision-making. Taking a strategic, proactive, and science-based approach to climate change mitigation and adaptation will enable each and every business to remain operational and meaningfully contribute to global goals.

About Simply Sustainable

Simply Sustainable is an award-winning consultancy offering top class, bespoke advice on all aspects of sustainability. We offer tailored solutions and thought leadership to help our clients build sustainability into their operations and maximise the opportunities of doing business sustainably. Our services are built around the areas of:

- Sustainability Strategy Development & Integration
- Impact Measurement & Performance Improvement
- Sustainability Communications & Reporting



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