SME support for climate related supply-chain reporting

A guide to starting your net zero transition, provided by Royal Bank in partnership with Cogo.

Tomorrow Begins Today

Royal Bank of Scotland

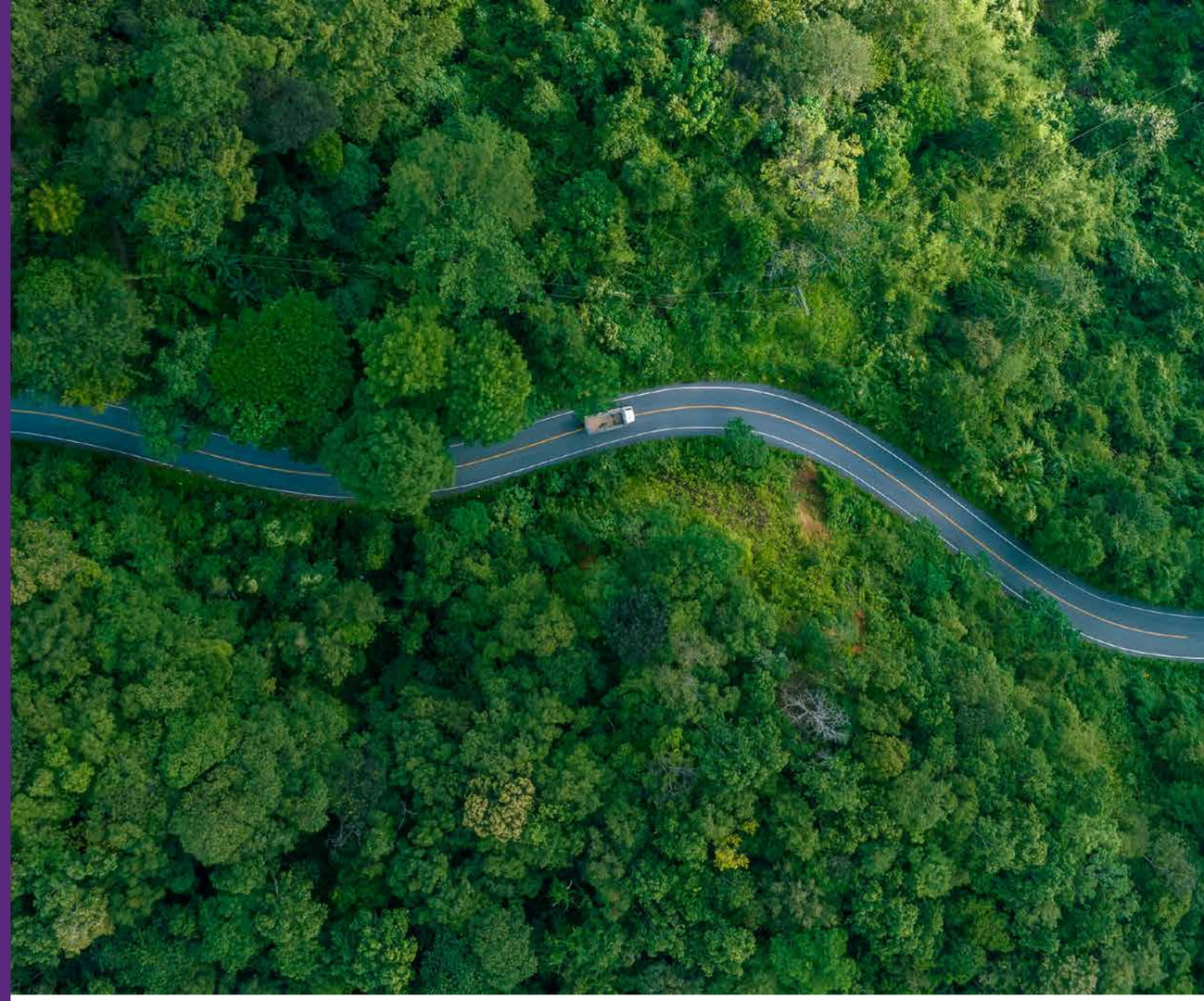
cogo

Royal Bank in partnership with Cogo

Disclaimer:

This material is published by NatWest Group plc (“NatWest Group”), for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by NatWest Group and NatWest Group makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the NatWest Group Economics Department, as of this date and are subject to change without notice. All reasonable checks have been made to assure that information in the report is both accurate and relevant. These articles are for information purposes only and any decisions made based upon this content are entirely at their own risk.

Version: 2.0 21st July 2023



Caution about this Report:

This “SME support for climate related supply- chain reporting” Report (the ‘Report’) (i) has been prepared by NatWest Group plc (together with its subsidiaries the ‘NatWest Group’) and ‘Cogo Connecting Good’. For information and reference purposes only; (ii) is intended to provide non exhaustive, indicative and general information only; (iii) does not purport to be comprehensive; and (iv) does not provide any form of legal, tax, investment, accounting, financial or other advice. The key findings, estimates and projections in this report are based on various industry and other information and are based on assumptions and estimates and the result of market research, and are not statements of historical fact.

Contents

cogo

Royal Bank of Scotland

Introduction

The UK Government has set world-leading targets to reach Net Zero by 2050, and decrease emissions by 35% between 2022 and 2030.

The NatWest report, **A Springboard to Sustainable Recovery**, confirmed that nearly a third of the UK's largest businesses have also pledged to reach Net Zero by 2050, with over 3,500 UK SMEs following their lead - the highest number of SMEs making commitments to eliminate carbon emissions in any country. However, in today's challenging economic environment, small businesses are finding it more difficult to find the time and resources to prioritise environmental concerns.

The financial sector has a clear role to play in helping their customers transition to a low carbon economy. We at Royal Bank understand our responsibility to help alleviate the challenges facing businesses and have partnered with **Cogo**, (**www.cogo.co**) who are leading experts in Carbon Management for individuals and SMEs. In partnership, we have developed this toolkit to help SMEs understand and navigate carbon reduction, making it easier to understand what they need to do, and why.

The Springboard Report finds that, given the right support, SMEs could contribute almost half of the UK's total Carbon reduction target, as they represent such a large part of the supply chain. As large companies adapt their businesses to meet new regulations on carbon emissions, they will expect the SMEs in their supply chain to also set targets and create emission reduction plans. The toolkit we've created with Cogo helps support SMEs pivotal role in the UK's decarbonisation journey.

Now, over to you - are any of your customers large companies or Government departments? When they start asking you for your Carbon Footprint and plans to reach Net Zero, do you have the information available and the tools to meet the required regulatory standards?

But it's not just about regulation and big company contracts. We know that almost a quarter of businesses aren't confident they will still be operating in the next 12 months. Did you know that reducing your carbon footprint could also help to decrease your costs, gain competitive advantage and make your business more resilient?

Whatever size of business you have, this toolkit brought to you by Royal Bank and Cogo, will help you to understand what your business, and suppliers, are required to do, and how to get started. We hope that you find it valuable, and that it supports your business to a prosperous, and sustainable future.

Key Drivers

What are the key drivers of carbon disclosure requirements for SMEs?

Enterprise and public sector buyers affected by scrutiny and regulation over their exposure and approach to climate change are increasingly passing requirements down to their SME suppliers. As the world moves towards a more sustainable future, SMEs are increasingly expected to take responsibility for their carbon footprint and reduce their emissions.

In this guide, we will explain the key drivers of carbon disclosure for SMEs and what they should do in response. SMEs need to be aware of these drivers to better understand the requirements and expectations and to be prepared to work with their supply chain to address them.

Mandatory reporting requirements

What is it?

For many large companies in the UK, it is compulsory to report on energy consumption and carbon emissions. The Streamlined Energy and Carbon Reporting (SECR) and Climate-Related Financial Disclosure (TCFD) are the primary frameworks that mandate carbon reporting in the UK (TCFD will transition to ISSB in 2024). They encourage, and in certain cases require, companies to report emissions in their value chain, i.e. their Scope 3 emissions.

Which industries are affected?

SECR originally applied to energy intensive companies in industries like heavy industry and manufacturing, but is now industry agnostic and applies to all UK publicly listed companies. It also applies to UK LLPs and private companies that meet two of the following criteria: 250 or more employees, turnover in excess of £36 million, balance sheet in excess of £18 million*.

Why is it important for SMEs?

The widely used frameworks for calculating emissions, like the **GHG Protocol**, advise that companies are not just responsible for the emissions they directly create, such as by burning fuel for vehicles or heating buildings, but also for the emissions that their suppliers or customers generate in their value chain.

Frameworks like SECR and TCFD encourage companies to manage carbon across their value chains and so, companies will look to their suppliers to provide accurate and transparent information on their emissions and support the companies' in reducing their emissions. Companies may even be more likely to do business with suppliers who are able to provide this information.

*Organisations using less than 40,000 kWh per annum are not required to report).

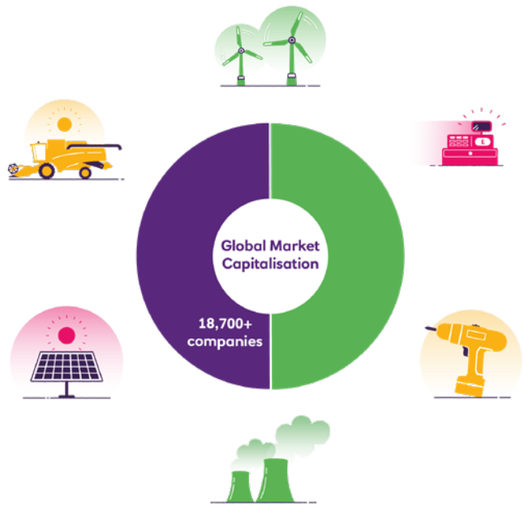
Voluntary value chain reporting and corporate climate commitments

What is it?

Irrespective of regulatory requirements, many companies and public sector bodies are voluntarily reporting on their scope 3 emissions through initiatives such as CDP (formerly known as the Carbon Disclosure Project). Organisations are subscribing to this practice to demonstrate their commitment to sustainability, engage with their customers and stakeholders on climate issues, and, to help them meet their climate commitments which increasingly include scope 3 emissions.

Which industries are affected?

18,700+ companies representing half of global market capitalisation report to CDP, though companies which are typically voluntarily reporting on their value chain are those with high value emissions. These often come from industries like energy, oil and gas, agri-food, manufacturing, and retail and consumer.



Why is it important for SMEs?

The growing trend towards voluntary value-chain reporting and corporate climate commitments creates pressure for SMEs in supply chains to report on their emissions and set emissions targets.

This is because buyers are expecting their suppliers to help them meet their sustainability commitments or help them improve their sustainability credentials. Buyers are more likely to do business with suppliers who are transparent about their emissions and who are taking action to reduce their impact on the environment.

Climate-related finance risks analysis and disclosure

What is it?

The Task Force on Climate-related Financial Disclosures (TCFD) is a global initiative aimed at improving transparency and disclosure around the financial risks associated with climate change. To do this, companies are expected to disclose information on their climate risk governance, strategy, risk management, and metrics and targets. There are two main sources of climate risk: **transition** (a movement away from high-emitting and fossil-fuel dependent sectors) and, **physical** (exposure to extreme weather, such as flooding, and changing climate, such as water shortages over time).

Which industries are affected?

TCFD requirements were initially levied at financial institutions in particular, but are now industry agnostic and apply to all UK publicly listed companies, banks or insurers with 500+ employees. Also required to disclose are UK-based AIM companies with 500+ employees, and LLPs/non-listed companies with 500+ employees and a turnover of £500m+.

Why is it important to SMEs?

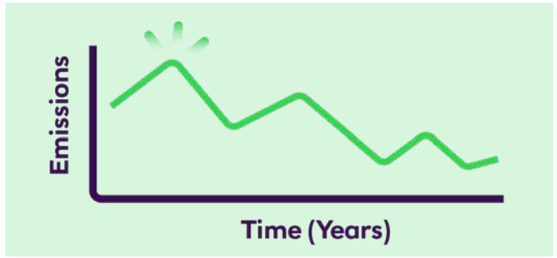
As of April 2022, over 1,300 organisations are required to disclose climate-related financial information on a mandatory basis, using guidelines from the TCFD. Even more companies will fall under mandatory reporting requirements by 2023 and 2025.

SMEs don't have to report, but still face growing pressure to provide emissions data, set targets, and plan emissions reductions for their business or assets where they have loans – for use in the compliance journey of their large corporate buyers and finance providers.

SBTi value chain emissions target setting and tracking

What is it?

The Science Based Targets initiative (SBTi) is a voluntary validation initiative that helps companies set emissions reduction targets that are in line with the latest climate science. As part of this initiative, companies are heavily encouraged, or in many cases expected, to set targets to reduce their value chain emissions. Companies that set targets are then expected to report on progress to their targets.



Which industries are affected?

SECR originally applied to energy intensive companies More than 1,000 companies in 50 sectors are working with the SBTi to set science-based targets. Currently, companies in all sectors (apart from oil and gas) can set science-based targets, aligned with the SBTi criteria.

TCFD requirements apply to:

- UK publicly listed companies, banks or insurers with 500+ employees
- UK based AIM companies with 500+ employees
- LLPs/ non-listed companies with 500+ employees and a turnover of £500m+

Why is it important for SMEs?

Thousands of major companies have signed up to the SBTi and are setting value chain targets and looking to report on their annual progress towards those targets. Both of these require accurate data from their value chains, which creates a demand for emissions data from SMEs, rather than just modelled estimates.

As companies then look to reduce their emissions to meet their targets, they will expect SMEs in their supply chain to also be setting targets and creating emissions reduction plans.

Some companies and organisations are already using target setting and emissions reductions plans as elements to access contracts and tenders.

What's next?

There's lots of benefits for companies that engage with their carbon disclosure which you can read more about below. We've also created a handy list of guides to help you get started on your carbon disclosure journey.

- How to calculate your business's carbon emissions
- How to set targets
- How to take action and reduce your emissions
- How to disclose your emissions, targets, and plans
- How to get certified or receive external assurance

Benefits for SMEs that engage with carbon management

Carbon management is an organised approach to reducing carbon emissions, and includes calculating and maintaining an emissions footprint (inventory), reporting emissions, setting targets, and making and acting on reduction plans.

Day-to-day business operations understandably require substantial focus, but SMEs that find the time to engage in carbon management can receive a range of benefits that improve the performance and competitiveness of their business.

Potential benefits

Cost savings

A key way of reducing emissions is by improving efficiency and reducing wasted resources. By tracking their emissions, SMEs can begin to identify areas where improvements can be made in the business which at the same time align with a reduced carbon footprint, freeing up funds for reinvestment in other key business areas.

Read about changes you can make to save money such as **switching to renewable energy sources** **or** **improving the efficiency of your fleet.**

Improved staff engagement and retention

Employees are increasingly looking for employers who are committed to sustainability and who are taking action to reduce their carbon footprint.

Benefits for SMEs that enage with carbon management

What's next?

By engaging in carbon management, SMEs can show their employees that they are committed to sustainability and that they are taking action to reduce their impact on the environment, which can improve employee morale and increase job satisfaction, in turn leading to improved staff retention.

Read our **staff engagement handbook** or for ideas on schemes focused on your staff, or why not consider a **cycle to work scheme**.

Alongside this, actions that reduce carbon and at the same time improve workspace quality, such as insulation that improves thermal comfort, can improve wellbeing and productivity.

Read more in our article on **building energy management systems**.

Better understood business risks

Climate change brings with it a range of risks for businesses: access to contracts will hinge on lower carbon delivery, consumers will demand lower carbon goods, carbon taxes may severely change pricing of certain goods. Carbon management can help SMEs to better understand and mitigate some of the risks, such as changing to more sustainable procurement sources leading to a reduced carbon footprint and greater access to contracting opportunities.

Read our article on **purchasing alternative materials** with lower carbon footprints.

Business opportunities

To meaningfully reduce their emissions, most companies must fundamentally change their products and how they are delivered. Companies that do so can tap into growing demand for low carbon products and services.

Partnership opportunities may arise as companies work together to share knowledge and resources to address new carbon-related challenges.

By leveraging regulatory and policy changes, companies can stay ahead of the curve and position themselves as leaders in the transition to a low-carbon economy, which can result in enhanced brand value and increased market share.

Read how **businesses are taking advantage of demand for low carbon micro-mobility**.

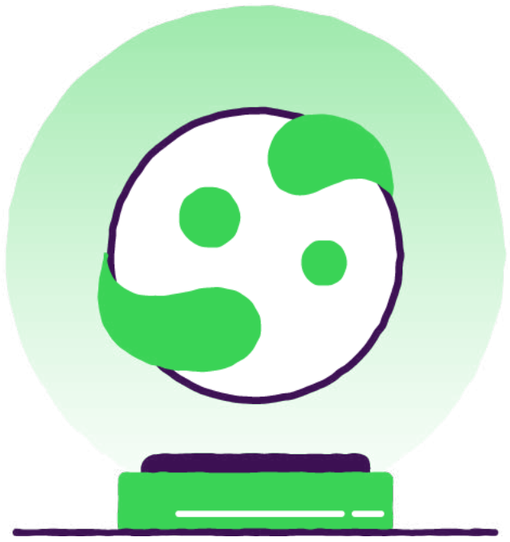
Improved reputation with customers and other stakeholders

SMEs that tackle climate change by managing their emissions and acting ahead of potential regulatory requirements demonstrate that they take customer and buyer concerns seriously. This can build trust and credibility with customers, investors, and other stakeholders, and can help to differentiate the business from competitors.

See potential funding sources available to you in the funding and grants section of our **Carbon Planner**.

Climate change mitigation

Reducing carbon emissions is crucial in addressing the physical impacts of climate change, such as increased frequency and severity of extreme weather events. Companies have a unique opportunity and responsibility to take action, regardless of the potential benefits of their own carbon management.



Access to contracts and tenders

Many large companies are looking to reduce their own carbon footprint and to work with suppliers who are committed to sustainability and may include criteria around reporting on and tackling emissions in their contracting and tender processes. Meeting these expectations will help SMEs to access new contracts and tenders with large companies, retain existing contracts, and stay ahead of the competition.

Improved access to funding

In order to reduce their potential climate risks, investors and funders are increasingly looking to engage with companies that are committed to sustainability and who are taking action to reduce their carbon footprint and reduce their risks. SMEs managing their emissions can demonstrate to investors that they are taking action to reduce their impact on the environment. This can help SMEs to potentially access new sources of finance, which is critical for growth and expansion.

What's next?

There's lots of benefits for companies that engage with their carbon disclosure. Here's a handy list of guides to help you get started.

- How to calculate your business's carbon emissions
- How to set targets
- How to take action and reduce your emissions
- How to disclose your emissions, targets, and plans
- How to get certified or receive external assurance

Getting started with measuring emissions and generating an emissions inventory

An emissions inventory is a comprehensive account of carbon emissions generated by your company. It is essential in baselining and monitoring your emissions journey, understanding what generates your emissions, and focusing efforts to reduce them.

This article provides a list of steps to demystify emissions inventories for SMEs and at the same time, help you reap the wider benefits of carbon disclosure.

Understand your reporting requirements

Maintaining an emissions inventory is important to meet the reporting requirements of your buyers.

- Reporting requirements differ between buyers, so it is important to understand what is being asked of you from current and potential future buyers.
- For example, **UK Government procurement** frameworks for a certain size and type of contract requires companies to submit an emissions inventory created using specific **calculation** methods and including emissions for specific business activities such as business travel, employee commuting, and waste generation.
- Some requestors ask for inventories that follow the **GHG Protocol Standard**, a widely recognised framework for quantifying and reporting emissions.
- The GHG Protocol relies principally on the activity-based method for calculating emissions (explained later in the article), so requests that must adhere to this require specific data and calculation methods.

Decide how to calculate your emissions inventory

There are several ways that companies typically use to establish their emissions, each of which is discussed below.

Calculation tools

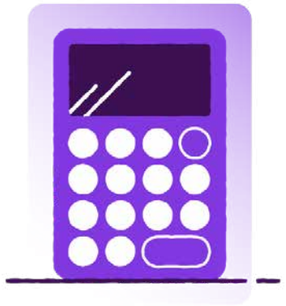
- There are a number of online tools available to help you calculate your emissions inventory. Some of these tools charge a fee while others are free.
- These range from basic excel templates for manually entering data to software platforms which manage your company's full climate disclosure journey.
- The calculation methods used by each tool will differ, so it is important to understand your reporting requirements before choosing a tool.
- Below are just a few links to get you started.
  - Carbon Planner: Start measuring your company's full emissions inventory in just a few simple steps.
  - Scope 3 Evaluator: Estimate emissions in your value chain using a tool from the leading emissions standard, the GHG Protocol.
  - The Emission Possible guide: Explore sector-specific tool recommendations in this guide from WWF.
  - UK Business Climate Hub - find advice on energy saving and net zero for SMEs: Explore a suite of emissions-related tools and support aimed specifically at SMEs.

Consultancy services

- External consultancies can help you to calculate your carbon emissions. These services can be expensive but they help manage the process and save time for your company.
- In certain cases you may be required to have your emissions validated by an external source such as a consultancy. Read more about assurance here.
- Before hiring a consultancy, ensure that you understand your reporting requirements and that the consultancy can meet them. Read more here.

Manual calculation

The calculation process for estimating emissions must be performed carefully, as it is manually intensive, can often lead to errors and requires expertise to meet reporting standards. Software tools and consulting services ease this process for companies, but you can still choose to manually calculate your emissions.



Organise your business data in order to calculate your footprint

Decide on your organisational boundary for reporting

- There are two key ways to understand how emissions are attributed to your company: **the equity-share approach and the control approach**.
- These approaches change your emissions inventory in two ways: altering which operations you calculate emissions for (and therefore collect data for) and how you categorise emissions for reporting purposes. Both are covered in more detail further in this article.
- The best source of information on organisational boundaries is the **Corporate Standard** by the GHG Protocol.

Decide what business activities to include

Every activity which a business is involved in has related emissions. These activities are typically categorised into 3 'Scopes' based on the relationship between the company and the activity in question.

Understanding Scopes

- Scope 1 emissions are direct releases of greenhouse gases from the company's facilities, fleets and activities that they own or control. These primarily come from the consumption of fuels in premises, machinery and vehicles. For some businesses there will be emissions from the processes they use, such as in chemical reactions, and also fugitive emissions such as from refrigeration units and heat pumps which will both contribute to the company's Scope 1 emissions.
- Scope 2 emissions result from the consumption of energy bought from grids for the company's activities.
- Scope 3 covers emissions that are not produced by the company's immediate operations, but by activities it is indirectly responsible for in its value chain.
- Indicative examples of sources of emissions in Scopes are:

Scope 1: Emissions from fuel used in company vehicles or machinery

Scope 2: Emissions from purchased electricity for facilities

Scope 3: Emissions from fuel used by a logistics supplier to transport purchased goods to the company or to distribute sold products from the company to customers

Understanding what activities to include

Your reporting purpose will dictate, at a minimum, which scopes / activities you should include in your emissions inventory - read more **here.**

Companies should in most cases, as a minimum, report their direct and indirect energy emissions (Scope 1 and 2).

Where possible and relevant, companies should also report their process and fugitive emissions (Scope 1).

Where possible, SMEs should go beyond Scope 1 and 2 emissions and begin to report on their value-chain emissions, i.e. **Scope 3**. This constitutes the greatest proportion of many companies' emissions. Scope 3 emissions can be both upstream (e.g. from your suppliers) and downstream (e.g. to, and from, your customers).

Scope 3 is split into 15 categories, which can each be tackled individually, according to the impact they are likely to have upon your footprint, what data is held to support the calculations, and the ability of companies to reduce consumption for that activity.

Scope 1

Scope 2

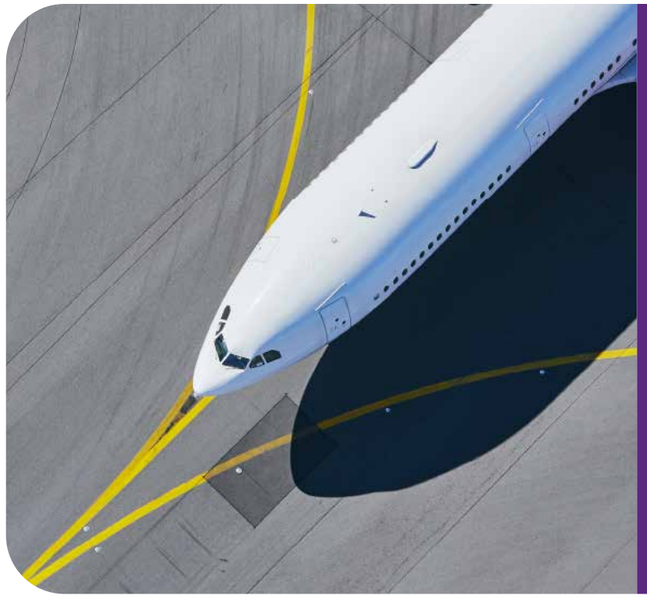
Scope 3

Choose a calculation method

- There are two main methods used to calculate operational and value-chain emissions: spend-based and activity-based. These methods are set out by standards such as the GHG Protocol.
- Each method has different levels of complexity, accuracy and suitability to different emissions sources and data end uses.

Companies starting to calculate their carbon footprint may want to begin with a spend-based method. This approach uses a relatively simple and aggregated data source (financial data) and gives a broad overview of a company's emissions.

- However, it cannot be used for some emissions sources that aren't represented in a company's spend data, such as emissions from use by customers.
- For a more accurate emissions inventory and full compliance with emissions standards, supplementation with activity data for at least some sources is necessary. This however requires more effort in data sourcing.
- The general expectation is that companies work towards more accurate and precise approaches. This doesn't have to be an all-or-nothing approach - you can focus on improving accuracy for some activities first, ideally your major emitting activities.
- For Scope 3 in particular, improvements in accuracy may take time as it depends on sourcing decentralised data (such as from different suppliers), and a spend-based approach is a practical solution to close this gap until detailed supplier data is obtained.



Collect business data

Each of your business activities has related emissions, and to estimate these emissions you need to gather data related to each activity.

Choosing which data to collect

- The type of business data you would collect for each activity will be partly driven by what data is available, as the type of data related to each activity can be different. For example, you could have a fleet of vehicles which have generated emissions through the fuel they consume: you might have data on the amount of fuel they used, the distance they travelled, or even the amount of money spent on fuel.
- The type of business data you would collect for each activity will also be influenced by the calculation methods required for your reporting purpose. For example, you may be reporting to a buyer who requires adherence to the GHG Protocol. For particular business activities, this requires you to use physical-activity data to calculate emissions rather than spend-based data.
- You typically gather data for a full annual period, either calendar or financial year - this would typically be determined by the organisation you are reporting to.
- You might not always have the perfect data available. The GHG Protocol has recommendations for companies with data gaps or concerns about data accuracy for their Scope 3 emissions.

Where to look for business data

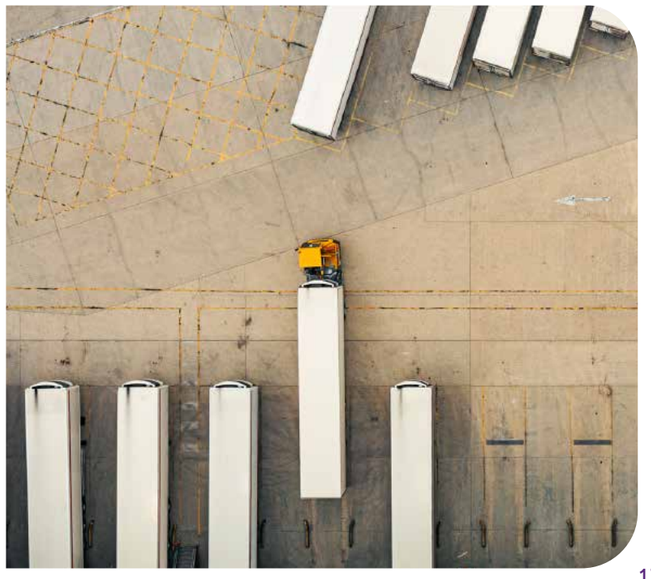
Spend-based data: There are tools available in the market that guide and automate data collection for carbon footprinting. If you are using a spend-based method, data from your accounting function or bank account data can be used.

Physical-activity data: The best places to Wstart gathering data related to the activity-based method are from the persons responsible for managing your facilities and your purchasing (who would typically gather this information from supplier invoices). For some areas of consumption you may have access to automated feeds of information, such as energy and gas smart metering.

Storing your data

Once you have identified and obtained all of your data, it is useful to store all the relevant data organised for easy access to the relevant metrics, along with notes and commentary so that you can more easily manage and update the data over time.

Regularly monitoring areas of consumption like energy can also have other practical benefits, such as identifying areas for cost and emissions reductions.



Understanding the calculation process

Whether using calculation tools or working with a consultancy, the same general process for developing an emissions inventory is followed.

Linking emissions factors to business data

- Emissions factors are used to convert data on your company's activities into an emissions estimate.
- They must be linked to your business data to calculate your emissions, by matching with your data's:
  - Unit (e.g. for transport, an emissions factor could be per mile or per km),
  - Activity (e.g. for transport, there might be different emissions factors depending on the vehicle type)
  - Time period (emissions factors are updated over time and so the date should reflect that of your data)

Calculating emissions

- Once your business data is linked to appropriate emissions factors, these are multiplied to generate an emissions estimate for each activity.
- Your emissions estimate will typically be measured in CO_2e. There are a number of gases which contribute in varying degrees to global warming, and CO_2e turns those into one single and easily comparable metric.
- Let's say that a UK business used 5,000 kWh of electricity to power their facilities over the course of 2022. The UK Government's emissions factor for electricity generated in the UK in 2022 is 0.19338 CO_2e per kWh. The emissions calculation for this would look like:

Carbon emissions (CO_2e) = Buisness data (e.g. £ Spent or litres of fuel used) x emission factor

- This process is repeated for every activity which is being included in your emissions inventory.

Categorising emissions into scopes and sources

The Scope and source of your emissions are determined by the type of business activity the emissions are associated with.

Scopes can be broken down into sources like energy use, business travel, commuting - it's helpful to have this breakdown because you may be asked to report on it, and it also helps with understanding and reducing your emissions.

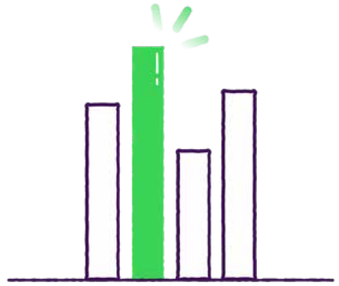
What's next?

Through these steps, you should have a view of your emissions as a business. Now, it's time to start:

- Setting Targets
- Creating Action Plans
- Disclosing Details Of Your Emissions And Commitments
- Certification And Assurance

Getting started with setting targets and making public commitments

You have calculated an emissions inventory and you're wondering, what next?



This article provides a list of steps for you to set emissions reduction targets.

Make a public commitment

- The **SBTi** and the **SME Climate Commitment - UK Business Climate Hub** are two prominent international organisations which help SMEs to make credible commitments to reduce their emissions. You need targets in-line with emissions reduction needs dictated by the latest science. This is often expressed as aiming towards a particular maximum increase in global temperature. 1.5°C aligned science-based targets have now become the accepted standard in order to align with SBTi and The SME Climate Commitment.

- The purpose of making a public commitment is to demonstrate your company is engaged in reducing emissions in a transparent and accountable manner. Your customers may expect you to meet the criteria of these commitments, even if your commitments have not been validated by either standard - more on that below.

Set a near-term target

Carbon dioxide emissions in particular have a cumulative impact because of their long lifetime, and so it is the total emitted over time that matters most, not just the date that zero emissions are achieved.

- To be on course for global goals, emissions must be reduced immediately to have enough 'carbon budget' left to limit harmful impacts.
- Consequently, both the SBTi and SME Climate Commitment expect SMEs to set a near-term target. At a minimum, this target should be set to halve your emissions before 2030 from your base year emissions (covered further in the article here).
- You can adopt an earlier target year to achieve this level of reduction, which will require adapting your business more quickly. To give a sense of scale, halving emissions means:
  - 7% annual reductions over 10 years
  - 13% annual reductions over 5 years
  - 21% annual reductions over 3 years
- Your near-term target only needs to cover Scope 1 and Scope 2, though including some or all of Scope 3 is preferred. Read more about Scopes here.
- You can adopt Scope 3 near-term targets later on as you include them in your inventory - more details further on.
- SBTi and SME Climate Hub only require SMEs to set an absolute target as these are the most straightforward. However, SMEs that wish to can also set an emissions intensity target (e.g. CO2e/net revenue), which can be useful for buyers to see.

Set a long-term target

- The overall ambition for emissions reduction targets is to reach 'Net Zero', which is to reach a point where the activities within a company's operations and value chain cause no net impact on the climate from emissions of a variety of greenhouse gases. The emphasis of Net Zero is changing business practices to achieve emissions reductions and limit the harmful effects of climate change.

SBTi and SME Climate Hub's commitments both require companies to reduce their emissions across Scopes 1, 2 and 3 by at least 90% by 2050.

- Only then should any residual emissions be **offset**.
- As with the near-term target, you can adopt an earlier target year to achieve this level of reduction.
- Scope 3 for many companies is the largest proportion of their emissions, and so long term targets must include Scope 3 emissions.
- Increasingly the demands are for interim targets and plans to address them, as the 2050 target is still far away and out of many people's planning horizon.

Choose your base year

- A base year is the year against which you will measure your reductions from, and it is used as a comparison to show progress.
- SBTi and SME Climate Commitment both have slightly different rules about which year to use as a baseline, though as a rule of thumb companies submitting targets for the first time are encouraged to set the most recent year with available data as the base year.
- If a company has more detailed data for a previous year, this is also acceptable for validation purposes as long as the reason for using a previous year is justifiable (i.e. the historical data is a more accurate reflection of the company's typical annual emissions).
- When choosing a base year, bear in mind that if you don't have full data coverage for emissions, you will need to recalculate your baseline and amend your targets in the future in order for your target to be meaningful.

Calculate your baseline

- Typically, emissions for your base year are aligned with your initial emissions inventory. Read about how to calculate your emissions inventory here.
- As many companies will progressively add Scope 3 emissions categories into their emissions inventory, these should also be updated into the baseline emissions inventory.
- Anything which would significantly alter your emissions inventory for your base year also requires recalculation of your baseline. Examples include
  - Company acquisitions
  - Errors in input data
  - Updates to climate science (e.g.changes in current thinking on the pace of progress needed to achieve Net Zero, more accurate emissions factors which materially change estimates of your business's emissions).

Add Scope 3 near-term targets

- Calculating Scope 3 emissions can be more complex and so it's not unusual for companies to do this after having performed their initial emissions inventory and target-setting.
- If you have already calculated your Scope 3 emissions in your emissions inventory, you may prefer to align them to your near-term and long-term targets for Scope 1 and 2.
- For those companies that are progressively including Scope 3 emissions in their emissions inventories, you can adopt Scope 3 near-term targets as you go and break targets down by each Scope 3 category rather than as a whole.
- For example, if you just recently started calculating emissions on business travel, you may decide to set a near-term and long-term business travel emissions target. This also helps support more realistics and actionable transition plans.

Validate your target

Companies can choose to have their targets validated by the standards they are aligned against, such as the SBTi or SME Climate Commitment. This signals to buyers that your target is aligned with current science on achieving emissions reductions required to limit the worst consequences of global warming.

- To get and maintain validation, the company will have to:
  - Provide an emissions inventory - read more here.
  - Make near and long-term targets for your emission reductions in line with the commitment
  - Describe significant emissions activities in line with typical disclosure requirements - read more here.
  - Publicly disclose your carbon management annually. Read more here.
- In certain cases, such as with SBTi, validation comes with a fee. For now, most enterprises recognise cost constraints for SMEs and do not require a validated target, though this may change. Read more about what buyers expect you to disclose here.

What's next?

Through these steps, you can demonstrate to your buyers and other stakeholders that you recognise the threat climate change poses and that you are committed to taking action proportionately and immediately.

In order to begin, have a look at the following guides:

- Creating Action Plans
- Disclosing Details Of Your Emissions And Commitments
- Certification And Assurance

Creating action plans to reduce your emissions and achieve your targets

Companies that have set emissions reduction targets need to commit to reducing their emissions in line with the latest climate science-based recommendations and monitoring their progress. They also may need to demonstrate to stakeholders that they are taking action.

A credible action plan is the strategy for a company to deliver on these climate commitments. It should identify and detail a range of interventions that achieve necessary emissions reductions over time, provide clear indicators to measure progress, and clearly indicate who is responsible for delivery. This section provides a list of steps to demystify creating credible climate action plans in support of you achieving your emissions reductions targets and disclosure requirements.

- **Creating action plans to reduce your emissions and achieve your targets**
  - Establish your emissions hotspots
  - Estimate how much you need to reduce your emissions by
  - Develop a set of actions you can take to reduce your emissions
  - Prioritise your list of actions
    - Prioritise easy-to-achieve and high-return actions first
    - Progressively incorporate more actions to achieve your Net Zero target
  - Set targets and timelines for your actions
  - Formalise your action plan
  - Consistently review progress and update plans
  - Engage your staff
  - Work with your suppliers to reduce emissions
    - Update procurement practices
    - Engaging with your suppliers
- **What's next?**

Establish your emissions hotspots

- Emissions hotspots are your business activities with the highest associated emissions. Identifying these hotspots can help you to focus your limited resources where they're likely to make the biggest impact.
- To identify your hotspots, you should calculate an inventory of your emissions.
- You don't need to have an emissions inventory to start taking action, although it is highly recommended - see the resources below for further information on the best actions you can take right now.

Estimate how much you need to reduce your emissions by

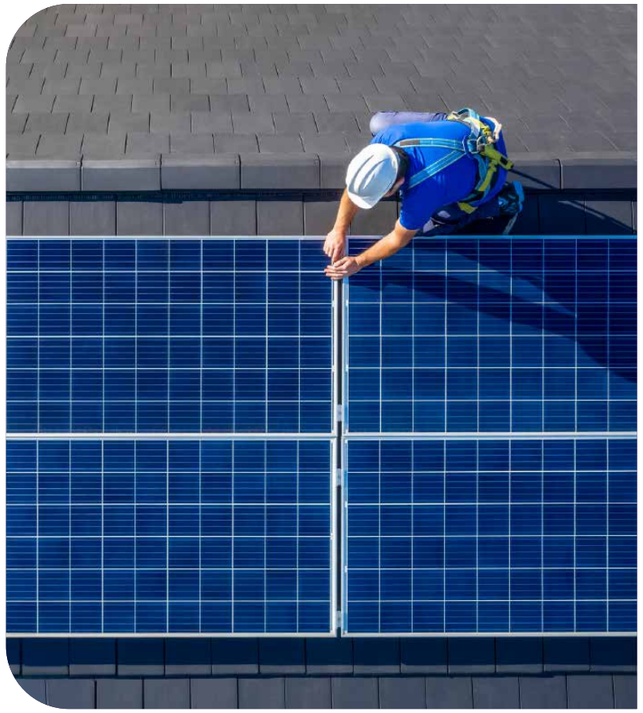
- You should have near and long-term targets to achieve specific emissions reductions. These should be set against your emissions from a baseline year calculated via your emissions inventory.
- The simplest approach is to model reducing your emissions annually in a roughly linear fashion until you meet your target. For example, a typical science-based near-term target is to halve your emissions in 10 years, which equates to 7% reductions annually.
- This will inform whether the actions you are planning are ambitious and timely enough to meet your targets. Be aware that if you are growing, or your business changes, then your progress from your baseline to the target may not necessarily be on track, and so all targets and plans need to be monitored continuously to account for such changes to your business.

Develop a set of actions you can take to reduce your emissions

- You've established the emissions associated with each of your business activities - now it's time to generate a list of the actions you can incorporate to reduce them.

- **The types of actions worth focusing on will heavily depend on factors like your industry, size, region, and even whether you rent or own your property.**

- It's important to recognise what you currently can and cannot control, and so some actions may be easier to specify initially, and others will require more thought and engagement with your stakeholders to develop and implement
- It's also important to create an initial list of actions you can adopt quickly and build your action plan from. You will most likely return to and adapt it as your business progresses.



- There are a wider variety of websites, support organisations and examples from SMEs to build your plan as you go. Several examples include:
  - Journey to Net Zero for SMEs: this guide from the Carbon Trust covers actions that SMEs can take to reduce their emissions across a range of activities.
  - SME Climate Hub: quick changes to reduce emissions alongside a range of further support for SMEs to take action.
  - The 1.5°C Business Playbook: Pillars 1, 2, and 3 cover key actions to reduce your emissions and integrate climate in your business strategy.

Prioritise your list of actions

- There will be lots of actions you can take to reduce your emissions, and you probably won't be able to tackle everything at once. So it's a good idea to prioritise some actions first.
- You need some way of comparing actions to prioritise them. Some factors which you should consider roughly assessing for each of your actions are:
  - degree of control (typically Scope 1 and 2 emissions activities have a higher degree of control, whereas Scope 3 requires engaging with suppliers)
  - financial cost and return on investment
  - estimated emissions reductions
  - other benefits such as better working conditions, healthier workspace, less waste, more resource security
  - timespan for implementation
  - ease of implementation (e.g. are your premises or operations suitable for the intervention, does it require changes to staff behaviour)
- Lots of tools and resources are available to help you gather information on your actions including:
  - software tools like our Carbon Planner can be used to provide emissions reduction estimates for your actions
  - financial support is available for green initiatives, highlighted in these compilations by SME Climate Hub and the British Business Bank - also speak to your local authority to see whether there are any local support initiatives
  - educational support on Retrofitting can be accessed for free through the Supply Chain Sustainability School, who can support you to understand through their online courses and programme of events, how you could reduce your energy costs and improve the energy efficiency of your buildings.

Prioritise easy-to-achieve and high-return actions first

- You should focus initially on actions which are economically attractive, easy to implement, and have significant emissions reduction potential. This is important because the effect of emissions is cumulative so reducing them earlier has a greater impact.
- Actions which are easy to implement will often, but not always, address business activities where you have operational control. These typically involve less supplier management where control can be trickier to exercise.
- Examples of actions that companies tend to focus on initially include:
  - Energy: improving energy efficiency in buildings and machinery
  - Transport: reducing business travel, supporting alternative travel methods
  - Waste and recycling: minimising waste, updating recycling policy
  - Water: installing low consumption fittings and devices

- Suppliers are a good source of information when trying to build rough estimates of savings and costs for green initiatives. For example, an installer for a new heat pump system should be able to give you an emissions saving estimate and financial quote.
- Tools are also available to help estimate savings and returns from green initiatives, such as Energy Saving Trust's **solar energy calculator** (for domestic purposes but may give a useful indication) that estimates savings from installing solar panels.

Progressively incorporate more actions to achieve your Net Zero target

- More complex or difficult actions should still be included in your plans once the 'low-hanging fruit' of emissions reductions plans have been implemented. These will often include activities that contribute to Scope 3 emissions and may include:
  - More costly actions, like replacing machinery or a vehicle fleet
  - Those that take longer to implement, like working with suppliers to reduce supply chain emissions
  - Those that require fundamental shifts to your business, like completely altering your product suite to low-carbon.

- **Some of these activities may require that you engage and work with your suppliers, distributors and stakeholders in new ways, similar to how your customers may be engaging with you.** Read more about how you can work with suppliers and your staff to achieve your targets further in the article.

Set targets and timelines for your actions

- Targets and timelines measure your progress and provide an accountability mechanism if you are off-track.

- You have already set near and long-term targets to achieve Net Zero, which typically have time horizons from 10 to 30 years. From the previous exercise in this article, you should also have a set of actions you can take to achieve those targets.

- **Interim targets such as Key Performance Indicators (KPIs) should be set to maintain visibility and accountability over your progress.**

- There isn't a perfect recipe to follow for what or how many KPIs you should set. These depend on the specifics of your business and the actions you are choosing to prioritise. However, some examples of KPIs that you could implement are
  - Emissions produced (this could be overall or related to a specific business activity)
  - Proportion of waste recycled
  - Water consumption reduction
  - Number of business travel journeys avoided or made via alternative lower-carbon methods
  - Proportion of suppliers with carbon management plans

Set KPIs that are:

Specific
Measurable
Achievable
Realistic
Timed

- To set KPIs, you should
  - Decide what timeframe you want to conduct your actions over
  - What improvements you want to see over the timeframe
  - Set KPIs that are SMART: specific, measurable, achievable, realistic and timed

- As you progress on your carbon management journey, new business objectives or actions to achieve your carbon reductions may arise. Don't be afraid to adapt your KPIs as your business evolves.

Formalise your action plan

- You have identified your targets, identified and prioritised actions, estimated how much these actions will contribute to your targets, and developed KPIs to track your progress. It is time to bring these elements together in a way that can be delivered with accountability and transparency.

- Your action plan will underpin internal engagement around your reductions. To ensure accountability for the plan, you should create an implementation strategy that highlights how you will deliver each action. For each action, you should indicate:
  - Individuals responsible for delivery
  - Necessary resources
  - Delivery targets and timeframes
  - Costs estimations and funding mechanisms

- You are also expected to disclose details of your action plan, which may be in a summary form for general audiences. Clear and simple communications will help you on both fronts. One example is a simple to understand document such as a visually illustrative roadmap that helps communicate your targets, approach, priorities, and timelines. Read more about the action plan details you may be expected to disclose.

- The ClimateFit Education course from SME Climate Hub helps with establishing actions and creating action plans to reduce emissions.

- The Emissions Possible Toolkit from WWF is a collection of resources with several guides for creating action plans.

Consistently review progress and update plans

- Creating an action plan shouldn't be a one-off activity. You should review your progress, perhaps every quarter or six months, and assess whether you are on track to meet your targets.

- You shouldn't just review your progress internally.

Your Net Zero commitment requires you to publicly disclose progress towards your targets. Doing so will require you to continually monitor your emissions inventory and annually disclose how your actions are influencing your emissions footprint.

Read more about what your disclosure requirements are and how to meet them here.

- You can consider changes or new actions you might want to include in your plan. Equally, this could involve setting or adapting your interim targets and KPIs.

- Monitoring progress can also give you something to share with customers and the wider public. Read more about disclosing to your customers and stakeholders.

Engage your staff

- Buy-in from staff at all levels is imperative for any business to achieve its carbon action plan. Some people will already be passionate about sustainability issues, while others will need persuasion or support to make changes.

- Communication and engagement from senior leadership is key for employees to understand the vision of the business and the part they can play.

- Examples of how you can engage employees include:

  - Encouraging employee ideas to reduce emissions
  - Receiving employee feedback on your action plans
  - Incorporating carbon literacy training
  - Appointing sustainability champions
  - Implementing reward mechanisms for carbon reductions and supporting employees to make better choices to get to work.

- Lots of materials and toolkits to support you with engaging and training your employees exist online. Carbon Literacy Project is a good starting point wwith content tailored for different sectors.

Work with your suppliers to reduce emissions

For many companies, the majority of their emissions are within their supply chain, but these are also the most difficult emissions to reduce.

- You probably won't be able to tackle everything at once, so it's a good idea to prioritise your attention to the most impactful areas.

- You could create a list of suppliers where you will focus your efforts. When deciding which suppliers to focus on, you should consider factors like:

  - Which suppliers do you have the highest spend with?
  - Which activities in your emissions inventory have the highest emissions? (Suppliers may have access to more accurate emissions estimates than you, so you can also check with them if they can provide better data).
  - Where might you have the greatest leverage in getting a supplier to take action?
  - What are your suppliers' current emissions plans and commitments? This could help you understand which suppliers are more motivated to reduce their emissions and the level of support they may need.
  - Are there plausible low-carbon alternatives to the product offered by your supplier?

Update procurement practices

- To integrate carbon management into your supply chain, climate considerations should be incorporated in your standard procurement practices - the same as your customers might do with you.

- Typical examples of low-cost changes to procurement practices include:

  - Requiring suppliers to have publicly committed to a Net Zero target (potentially aligned with SBTi or the SME Climate Commitment)
  - Requiring suppliers to commit to measuring emissions and/or planning emissions reductions

- You will need to identify documents and processes that are instrumental to carbon goals and update them.

- One section of the SME Climate Hub's Climate Fit Education Course covers how to reduce emissions in your supply chain. It discusses possible changes you can make to a wide range of procurement documents and processes. Examples include:

  - Formal and informal supplier interactions
  - Tender documentation
  - Procurement practices
  - Supplier codes of conduct
  - Supplier evaluation criteria

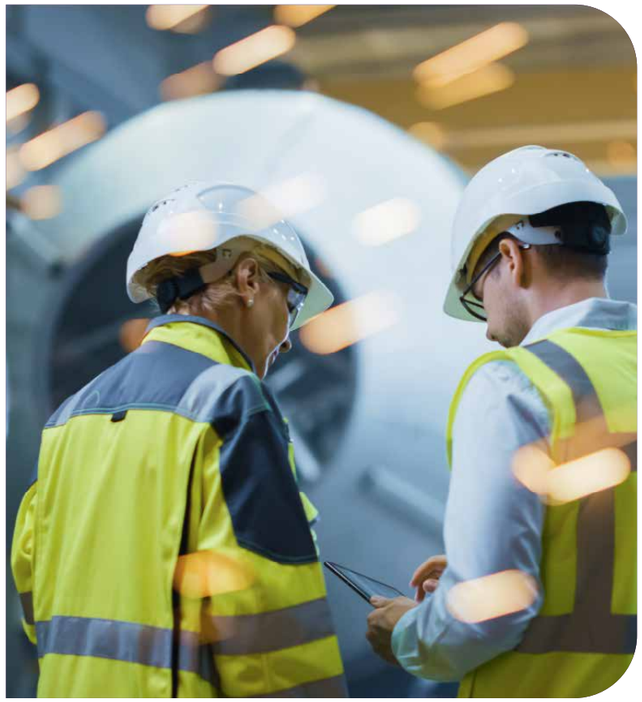
Engaging with your suppliers

- It's usually more effective to engage in dialogue with suppliers about climate action rather than seek simply to mandate change through procurement processes. In practice, share your climate goals and engage with suppliers regularly to support their efforts and track their progress. Engaging with priority suppliers enables you to guide their decisions and maintain a good working relationship, especially important in long-term supplier relationships.

- Tips for engaging your suppliers:

  - Share your goals and ambitions with your suppliers and invite them to join you on the Race to Zero for example through the SME Climate Hub
  - Open dialogues with current and potential suppliers about the changes you're making to your procurement criteria
  - Offer support or links to resources on carbon management
  - Check-in periodically with suppliers on their progress. Support or signpost to resources if their progress is lagging
  - Be prepared to change suppliers if your current ones don't take action.

- The 1.5°C Supplier Engagement Guide provides practical guidance for companies to work with suppliers to set, and act upon, emissions reduction targets.



What's next?

Through these steps, you should have a credible set of steps to help you achieve your emissions reductions targets and to remain accountable on your journey to Net Zero. Now, it's time to start:

- Disclosing Details Of Your Emissions And Commitments
- Certification And Assurance

Disclosing your ambitions and progress on carbon management

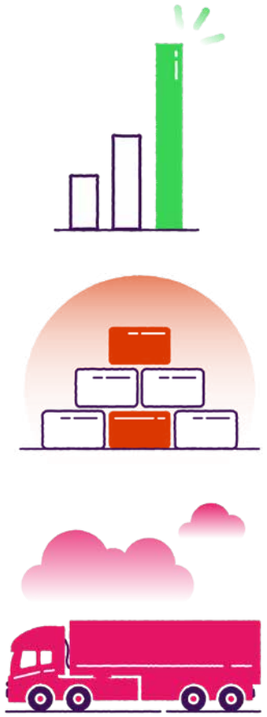
SMEs are increasingly expected, and in certain cases required, to disclose information about their emissions and how they manage them. Disclosure is the act of sharing information on your carbon management including your emissions inventory, emissions targets, reduction strategy, and annual progress towards targets.

With transparent and credible disclosure, you can contribute to a more sustainable future while demonstrating your commitment to sustainability and improving your environmental performance, both of which coincide with a range of benefits for your company.

This article provides a list of steps to demystify what you need to disclose and how.

What does good disclosure look like?

- **Comparable with best practice**: You should voluntarily disclose as much information on your emissions as possible. Your disclosure should be complete, accurate, and created following accepted standards that can be verified against. Disclosure performed in this way ensures your carbon management practices are comparable and helps to provide stakeholders with assurance of your climate ambition.
- **Clearly explained**: Companies use varying standards or calculation methods to estimate their emissions and annual reductions. Likewise with setting targets. They can even report on different activities. You should include clear explanations in your disclosure for full transparency, particularly on issues such as exclusions and boundaries.
- **Transparent**: Target-setting commitments require you to publicly disclose your targets and progress annually. Even if you haven't made a formal target-setting commitment, public disclosure helps your customers and stakeholders understand your carbon management journey. This includes publishing through your own external channels as well as through voluntary disclosure platforms. Read more further in this article.



Types of disclosure

Disclosing to your buyers

Upstream reporting

- Gathering emissions data, reductions achieved, and emissions action plans directly from suppliers can be a more accurate means of gathering value chain emissions data. Your buyers may request this data directly from you to more accurately report, track progress, or plan how to reach their targets.
- Typically you would be expected to disclose for these purposes annually at a minimum. For emissions inventory data in particular, it could be quarterly or even more frequently.

Supplier selection and management

- Your buyers may want to reduce their supplier-associated emissions. and to do this they need data on your carbon management.
- You may be expected to provide details on your carbon inventory, your target-setting, and your emissions action plan.
- This information will be used to benchmark suppliers, identify suppliers that may be underperforming compared to peers and need support, or help buyers identify suppliers they would like to work with.

Disclosure platforms

- You can use disclosure platforms to benchmark performance against other companies. CDP is the **main platform for carbon disclosure**.

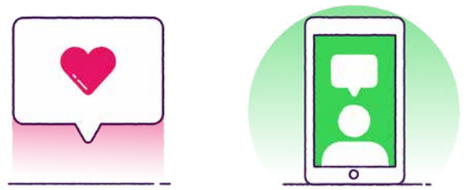
Using disclosure platforms may help you gain a competitive advantage and stay ahead of regulatory and policy changes in your industry.

- Many corporates use the CDP platform and may request you to report also, so it is worth considering. The reporting requirements through CDP's platform are extensive, particularly for SMEs, though to address this, CDP has recently developed a specific **framework for SMEs**. In time it will likely be rolled out to their platform and aligned to by other disclosure organisations.
- CDP's SME Climate Framework splits disclosure elements into necessary and optional requirements. This article already covers all of the necessary requirements which include your emissions inventory, targets, action plans, and emissions reduction progress.

Disclosing to your wider stakeholders

Disclosing is a valuable way to communicate sustainability to other stakeholders than just your suppliers. This can take different forms, such as through your sustainability reports or social media.

- If you have committed to a Net Zero target with the SBTi or SME Climate, you are expected to annually disclose your emissions, targets, and action plans through public channels.



GHG Protocol permissible disclosure

- The **GHG Protocol** is the leading framework for calculating and reporting emissions. Some disclosure requests may expect your reporting to align with the GHG Protocol, which in practice means calculating your emissions inventory and monitoring your reductions following GHG Protocol guidelines.
- Meeting GHG Protocol requirements in disclosure isn't always necessary. Many buyers recognise the resource constraints on SMEs and do not currently require this. Where possible though, it is recommended you try to meet the GHG Protocol standards as there is a general expectation that the accuracy and completeness of your carbon management practices increase over time.
- Read more about the role of the GHG Protocol standards in our other articles on emissions inventory and target setting.

How to prepare for disclosure

- Confirm what disclosures you expect to make for the year and what information you need to disclose. Read more about the specific data typically expected from you below.
- Maintain an up to date overview of your emissions including
  - Emissions inventory with key statistics as outputs
  - Record of emissions reduction progress towards your targets
- Throughout the year, keep track of emissions actions, changes and useful information relating to your carbon management so that nothing is forgotten when it comes time to disclose.
- You may have received feedback on previous disclosures. Make sure to review any feedback so that you identify and address any gaps.

Regardless of how prepared you are, readying your disclosure can take time. Make sure to get started early and give yourself enough time to respond in full.

What information are you expected to disclose?

You will be expected to include certain details when making carbon disclosures which will vary depending on the type of disclosure you are making. The most frequently requested details are covered below.

Carbon inventory

Total emissions per year

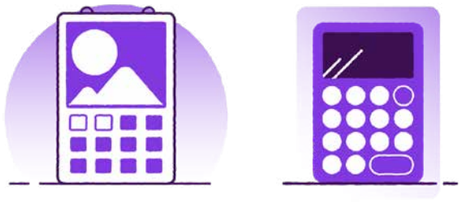
- This metric represents the total emissions associated with your business activities each year, measured in kg CO2e (this is a single metric that represents several different gases with global warming potential). You are expected to maintain a running total of this with your emissions inventory.

Scope breakdown

- You are expected to provide your emissions by scope (in kg CO2e) - typically Scope 1, Scope 2, and the different categories in Scope 3. Read more about Scopes in our emissions inventory article.
- You may be expected to break your Scope 2 emissions down into market and location-based emissions, which are used to understand your emissions from electricity consumption. Location-based estimates your emissions based on average emissions for electricity in your local grid, while market-based accounts for specific electricity purchasing decisions you have made such as using renewable energy certificates (RECS).

Reporting period

- The reporting period refers to when the emissions took place, and the frequency with which an organisation reports on its emissions.
- External disclosures will typically remain annual, but companies can track emissions quarterly, monthly, or even in real-time, linking their data systems (such as spend data and smart meter data for example) to automatic emissions inventory calculations.
- At a minimum, you should calculate and report on your emissions annually, either following the financial or calendar year. More frequent monitoring can help track trends more quickly but can be more costly and time consuming to set up and report on.



Buyer-specific emissions per year (attribution)

- Buyers may want to know how much of your emissions can be attributed to them.
- If you are asked to calculate this, the simplest method is to
  - Establish your company's overall emissions intensity (the quantity of emissions per unit - using the spend-based method, this is typically per unit of revenue).
  - Multiply your overall emissions intensity by the amount spent on your products by the buyer

Overall Emissions Intensity
x
Amount spent on products by Buyer
=
Buyer specific emissions

Target setting and action plans

Depending on the type of initiative reported, savings could be taken as a one-off or over a period of time.

Targets for Scope 1, 2 and 3

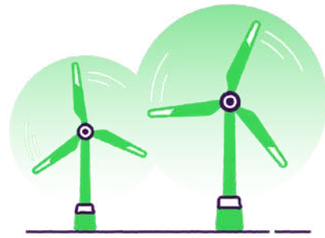
- As part of your Net Zero commitment, you should have set Scope 1, 2, and 3 emissions reduction targets.
- Target-setting bodies such as the SBTi and the SME Climate Commitment expect you to disclose your targets. Your buyers may also expect you to report on this information and that it aligns with expectations of both target setting bodies. Check our guide on setting targets for more details.
- You are only required by SBTi and SME Climate Hub to set absolute targets as these are the most straightforward. However, some buyers may wish to see emissions intensity targets (e.g. CO2e/net revenue) as well to help them compare suppliers or to monitor .

Emissions reduction initiatives

- Both the SBTi and SME Climate Commitment require you to disclose how you plan to achieve your Net Zero targets. Your buyers may also expect you to report on this information. This information helps build confidence for stakeholders that your business is steadily reducing its carbon footprint in line with current climate science.
- There isn't a fixed method for how you should report these plans, but you can check our guide on creating an action plan to help.

Annual emissions reductions achieved and actions taken

- The SBTi and SME Climate Commitment require you to disclose publicly and annually your annual emissions reductions achieved in kg CO2e.
- Buyers may also expect you to report annually on this to provide a clear indication of your progress in meeting your targets.
- You may be expected to break this information into Scopes and to provide clear descriptions of the initiatives which have led to emissions reductions.
- You should be careful about attribution of your emissions to make sure they are a consequence of actions you have taken and not due to factors outside of your control. An example is an increase of renewable energy production in the electricity grid leading to lower emissions from your electricity consumption.



Deviations from reduction targets taken

- The general expectation is that progress will be made towards emissions reductions targets over time. As part of your emissions reduction planning you should be setting plans which will help you make continuous progress towards Net Zero and forming KPIs which help you monitor progress. Read more here.

Buyers may expect you to clearly explain any circumstances where your emissions progress is lagging. This could include explanations for why you have not achieved plans set out for that year or limited progress towards your KPIs.

- Some reasons why your reductions may deviate from your targets include
  - Planned actions to reduce emissions being delayed due to lack of available financing
  - External factors that were outside the business's control, such as changes in legislation or market conditions

Future disclosure considerations

- CDP's SME Climate Framework has recently been developed and will likely become the standard that most disclosure organisations align to. The framework breaks down disclosure requirements into what is necessary right now, and what is optional but you may at least want to consider for the future.

- The necessary disclosure elements are explained in this article already. The framework also covers optional areas you should consider disclosing:

  - Energy reporting
  - Value chain emissions
  - Management and resilience
  - Climate solutions
  - These may also expand to include other topics in the future, like carbon removals and broader environmental topics (e.g. deforestation)

- CDP recommends you begin to disclose on the optional topics within 3 years, though which you choose to disclose on and prioritise for disclosure will vary depending on your company and stakeholders.

- These optional topics are outside of the scope of this article, but for more details check **CDP's SME Climate Framework**.

What's next?

Through these steps, you should have a view of how to disclose information on your carbon management. Now, it's time to start:

- Certification And Validation

Evaluation of your carbon management against external standards

External standards play an important role in driving the transition to a low-carbon economy. Evaluating your carbon management against them ensures companies are making real progress in reducing their emissions by providing confidence that a company's emissions inventories, targets, and plans are credible and in line with best practices.

Evaluation of your carbon management can come in many forms: certification, validation, verification, and assurance are the most commonly used terms. They are all independent procedures that check whether aspects of your carbon management meet requirements and specifications.

They are not usually a regulatory requirement, particularly for SMEs, and in most circumstances are not currently required by your buyers. However, you may be asked about it, and they still help build trust with stakeholders and can help differentiate you from your competitors. Read on to find out about the different types of evaluation.

Understanding the terminology

What do the terms mean?

- There's lots of terminology used when talking about evaluating your carbon management practices with subtle differences and crossovers. Many of the terms can be traced to definitions from the International Organization for Standardization (ISO). The ISO standards are among the oldest for quantifying and reporting on greenhouse gas emissions and removals, and **define these terms** as follows:

Verification and validation

- Verification and validation are both processes for evaluating different aspects of your carbon management.
  - Verification: a "process to evaluate a statement of historical data and information to determine if the statement is materially correct and conforms to criteria." Typically it refers to evaluation of emissions inventories.
  - Validation: a "process to evaluate the reasonableness of the assumptions, limitations and methods that support a statement about the outcome of future activities." Typically it refers to evaluation of targets, reductions, and action plans.
- Verification and validation can both be performed individually or by a third party. A third party is often preferred as it provides additional confidence in your statements to you and your stakeholders.

Certification

- Certification is the outcome of verification or validation. Generally, you receive a certificate for an achievement, such as reaching different stages in your emissions journey, such as achieving Net Zero.
- Typically certification is awarded by a third party after verifying your statements.

Assurance

- Assurance is also the outcome of verification or validation, and it indicates the degree of reliability in the findings of either.
  - Reasonable assurance: means a high but not absolute level of assurance
  - Limited: a level of assurance that is lower, but in many cases still perfectly acceptable, than reasonable assurance.
- Assurance must be performed by a third party with appropriate accreditation.

What do they have in common?

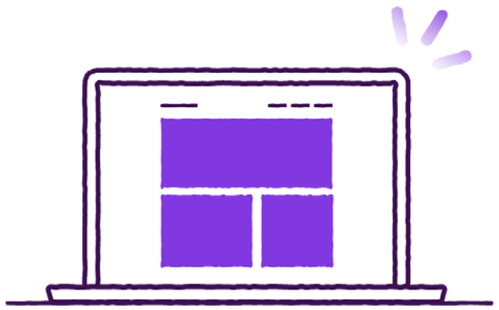
These terms have subtle differences, but they all recognise two things:

Evaluating your emissions statements is beneficial: It helps you check your data and ensures you can make public statements confidently, reducing the risks of making claims that could be subject to 'greenwashing' accusations.

Independence is important: It gives you and your stakeholders confidence about the accuracy of your carbon management statements.

Validate your emissions reduction targets

- Validating your emissions reduction targets is confirming externally that you are taking appropriate steps to achieve Net Zero in a timely fashion and that aligns with current climate science to limiting the effects of global warming. The SBTi and the SME Climate Hub are the most prominent organisations that provide guidelines and validation for companies setting targets.
- You should commit to achieving Net Zero by aligning with the expectations of one of these organisations. Read more about making a commitment.
- As an additional step, you can choose to validate your targets with SBTi and SME Climate Hub. You may be requested to do so by a buyer, or you may choose to do so voluntarily to market your company and its environmental credentials (if you are validated, your logo and company will feature on their website and you can use the validating organisation's logo in your marketing materials).
- Both have slightly different requirements for validating your commitment. To validate your target with the SBTi, you will first need
  - To have set a near-term and long-term science-based emissions target - read about how to do so here.
  - A recent and comprehensive emissions inventory that follows GHG Protocol guidelines. If you are only setting a near-term target, this should include Scope 1 and Scope 2, otherwise it should include all 3 Scopes.
  - Annual public disclosure of your emissions and progress against targets
  - To pay a fee: between $1000 - 2,000 USD
  - Read more about SBTi's target validation process or begin your submission
- A commitment is automatically accepted by the SME Climate Hub, but within six months must be supported by
  - A recent and comprehensive emissions inventory
  - Scope 3 reporting is recommended but not necessary
  - Annual comprehensive and public disclosure of your emissions, plans to reduce your emissions, and progress against targets
- Once your target is accepted by either organisation, it will be made publicly available on their website for you to share with your stakeholders.
- Even ambitious and valid science-based targets need to be reevaluated to account for changes in your business or even our understanding of climate science. As an example, from 2025, the SBTi requires companies to review, and if necessary revalidate, their targets every 5 years.



Verify your emissions inventory

- You can certify your emissions inventory to provide assurance that your company's emissions are accurate in line with global reporting frameworks such as the GHG Protocol.

- ISO 14064-1 is one such example. It is developed by ISO, one of the leading organisations for emissions management standards, and established the minimum standards companies should meet to comply with globally accepted emissions calculation methods, and it is used to verify companies' emissions inventories.

- Verification standards like the ISO 14064-1 typically define:

  - How you decide what emissions your company is responsible for
  - What data you collect
  - What emissions factors you use
  - How you perform calculations
  - How you report your inventory

- More detail on how to calculate your emissions inventory is included in our guide.

Third-party verification of your emissions inventory

- Several standards exist to support third-party verification of an emissions inventory, including ISO 14064-3 and ISAE 3410.

- For most companies, third party verification won't be a priority until their footprinting is reasonably advanced, or there is an explicit request from a buyer or contract opportunity.

- If you choose to use external verification for your emissions inventory, you should look for verifiers that are

  - Independent
  - Members of a suitable professional organisation or with appropriate accreditation where applicable
  - Can demonstrate they have experience with emissions inventories and understand ISO 14064 and the GHG Protocol
  - Carry out verification using standards such as ISO 14064-3 or ISAE 3410

Certify your progression

- You are expected to make plans and consistently reduce your emissions over time.

- Certifications exist to provide assurance of your progression, particularly aimed towards achieving Net Zero which is the global standard of emissions reductions.

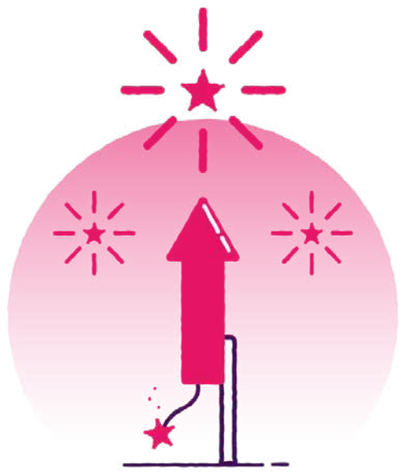
Progressing towards Net Zero

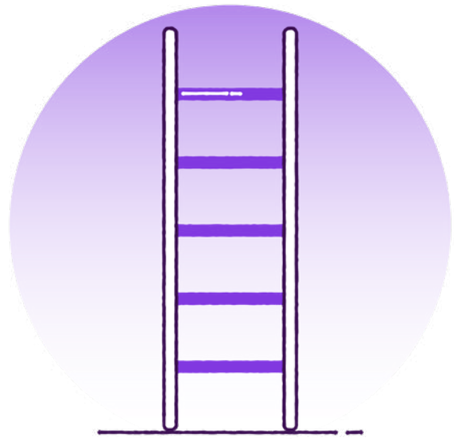
- The Route to Net Zero Standard has been developed by the Carbon Trust and is a widely accepted standard for progression towards Net Zero. It has three tiers used to differentiate the stages companies are at in their Net Zero journey: Taking Action, Advancing, and Leading.

- As you progress through the tiers, you face more challenging requirements criteria. The requirements for each tier are:

  - Taking Action: Targets, reductions, and action plans (i.e. not aligned with climate science)
  - Advancing: Targets, reductions, and action plans that are aligned to climate science (i.e. you are setting targets and achieving yearly reductions required by organisations like SBTi)
  - Leading: Targets, reductions, and action plans that are aligned to Net Zero (i.e. you are setting the most ambitious targets and achieving yearly reductions required by organisations like SBTi)

- The Route to Net Zero Standard can only be verified by a third party.





Certify your reductions achievement

- You can certify your emissions reductions to show that you have achieved specific milestones in emissions reductions.

- Certifications are only valid for a particular period of time and require consistent reverification for future periods.

- The two most popular milestones to certify are Net Zero and carbon neutral.

Net Zero

- Net Zero is the state where no new emissions are released into the atmosphere. It can only be achieved by eliminating virtually all of your emissions through changes to your business, and offsets are only permissible to remove hard-to-decarbonise emissions which are left - known as residual emissions.

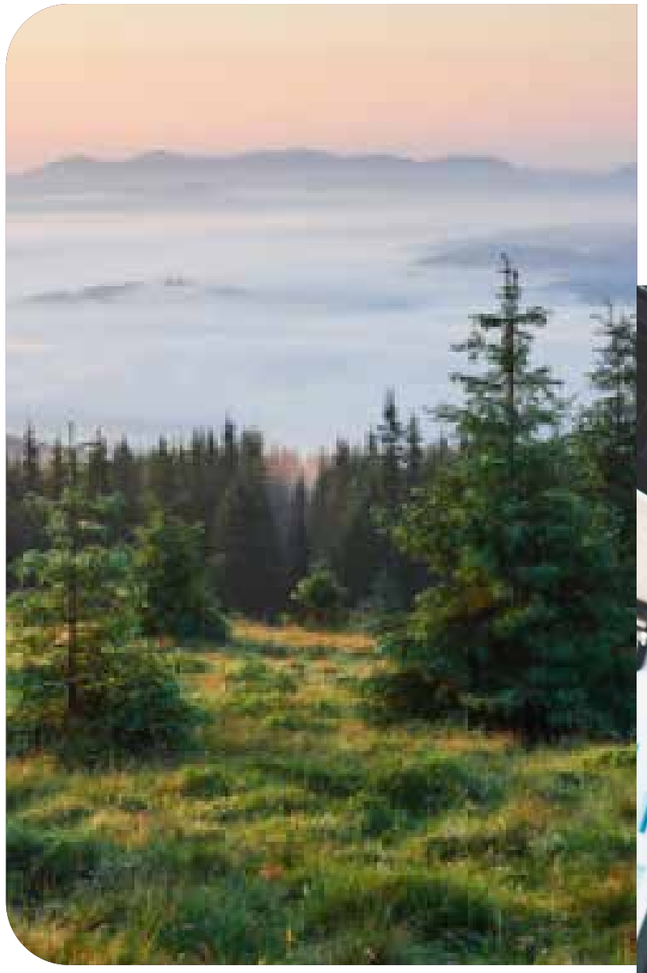
- Net Zero certifications show your company has achieved emissions in line with achieving your Net Zero target for a specific period of time. This requires significant emissions progress to be made and won't be a realistic prospect for most companies currently. The Route to Net Zero Standard's 'Leading' tier is one of the few awards available currently that certify this.

Carbon neutrality

- Carbon neutrality is on the face of it a similar concept to Net Zero.

The definition for carbon neutrality is broad though, and it is often used to mean that a company's emissions are solely balanced by an equivalent amount removed or offset, which is much easier to achieve than Net Zero. Carbon neutral certifications can be a useful stepping stone on the path to Net Zero.

- Companies may still choose to align with carbon neutrality initially if they struggle to meet the criteria for Net Zero, or they would like to achieve a state of neutral emissions right away through offsets.
- PAS 2060 is the most well known certification for carbon neutrality. In order to achieve certification, you must
  - Have a comprehensive emissions inventory
  - Have a credible emissions plan to achieve ongoing emissions reductions to reduce reliance on offsets over time
  - Offset excess emissions, often by purchasing carbon credits. It's important to note that offsets must meet stringent criteria to be accepted.
- PAS 2060 allows current emissions to be fully offset, but expects companies to reduce reliance on offsets over time through their emissions reduction plans. However, these reductions are not required to align with achieving Net Zero.
- For this reason, carbon neutrality can be seen to place less emphasis on changing business practices and leave organisations open to greater environmental scrutiny. So even if you decide to certify for carbon neutrality, it's still best to align your long-term ambitions with Net Zero.



What's next?

Take a look at our other articles to help you get started on your carbon management journey.

- Creating An Emissions Inventory
- Setting Targets
- Creating Action Plans
- Disclosing Details Of Your Emissions And Commitments

Endnote:

Thank you for trusting us in your journey towards Net Zero.

We are committed to providing more support to SMEs in this fast evolving space of decarbonisation. Please reach out to Royal Bank and Cogo for further information.

cogo

Royal Bank of Scotland