ACCOUNTING FOR SUSTAINABILITY

ALIGNING TRANSITION PLANNING AND FINANCIAL PLANNING

A GUIDE FOR FINANCE TEAMS

BY THE A4S NET ZERO TASKFORCE

TOOL 2
LIAISING WITH BUSINESS UNITS

LIAISING WITH BUSINESS UNITS

Tool 2 can help you to set out what transition planning means for business units, and to consider the type of information that you might need to collect to support granular transition planning. It provides insight into how finance teams can engage with business units to ensure transition planning is integrated within business plans. There are two parts to Tool 2:

- Business planning transition constraints for business units
- Further considerations to support engagement with business units

BUSINESS PLANNING TRANSITION CONSTRAINTS FOR BUSINESS UNITS

To ensure business planning at business unit level is aligned with the long-term strategic transition plan, the central finance team needs to set out financial planning and transition planning requirements to business units. This will include both net zero constraints (such as a carbon budget or emissions target) and more traditional financial constraints (such as capex budgets, expected return on investment, IRR requirements). Use the illustrative business planning transition constraints below to help you.

Capex	Revenue	Opex	Financial institutions	Value chain
• Emissions or energy performance expectations for assets, eg new buildings required to meet certain Energy Performance Certificate (EPC) or Building Research Establishment Environmental Assessment Method (BREEAM) standards • Investment restrictions to avoid assets with high physical or transition risk exposure or locked-in emissions	• Revenue growth or reduction expectations for certain revenue streams or financed emissions (aligned with central understanding of required decarbonization trajectories) • Procurement expectations for goods and services (eg acquiring only low-carbon steel or concrete)	• Energy sourcing requirements (eg ensuring all new contracts are renewable energy contracts) • Emissions reduction expectations for transportation (eg moving from air freight to shipping) • Training requirements for business units on transition-relevant knowledge and skills, including necessary staff time allocation	• Expectations for financed or facilitated emissions • Requirements for integrating climate risk into pre-investment and due diligence procedures • Expected environmental and social criteria for new and existing investments • Resource allocation expectations for portfolio company or customer engagement on transition plans, including stewardship, financing solutions and decarbonization roadmaps	• Value chain engagement and performance expectations to ensure that each business unit actively drives change

FURTHER CONSIDERATIONS TO SUPPORT ENGAGEMENT WITH BUSINESS UNITS

The information gathered from business units will need to be enhanced to incorporate transition planning fully. This will enable the central finance team and transition plan owners to assess the organization's overall position from a top-down perspective and prioritize action at a central level.

As transition planning becomes more embedded in financial processes, significant training and upskilling may be required to help wider teams understand the types of information that will become increasingly important.

Area	Illustrative commentary to set out to business units why this information is being requested	Illustrative information requests for business units
Business plan activity and strategic alignment	Understanding what specific business activities are in place (or planned) enables us to assess if we're on track with the transition plan or need to adjust	○ List key activities supporting the transition plan that are planned or under discussion ○ Confirm whether listed activities align with the current strategic plan ○ Identify which activities do not align and explain why
Financial and non-financial resource requirements	Clarifying whether these transition activities are currently financially and operationally feasible helps us prioritize resource allocation across the business units	○ Provide estimated costs and savings associated with the identified activities (eg capex requirements, opex savings) ○ Confirm whether these can be delivered within current financial planning constraints (such as in-year capex budgets) ○ Identify additional resources (financial or non-financial) needed to deliver the activities (eg training for teams, new tools or systems, external consultants, skills development)
Anticipated financial return	Assessing financial returns enables us to consider whether the planned activities are within the risk tolerance of the organization	○ Provide projected financial returns (including time horizon and financial indicators such as Internal Rate of Return (IRR) or Net Present Value (NPV)) ○ Confirm whether the expected returns meet current investment or financial return thresholds ○ Adjust the IRR or NPV to incorporate projected carbon pricing (or other externalities) and set out the impact on anticipated returns ○ Set out whether other exposures to risks or opportunities could influence the financial return of the activity (eg increased flood risk, operational delays arising from disruption, exposures to enhanced regulatory risk)
Impacts, risks and opportunities	Evaluating how they minimize impacts and risks, and realize opportunities supports a central business case for these activities	○ Provide narrative on how the identified activities enhance organizational resilience (ie through mitigating risk or realizing opportunities) ○ Explain how these activities support delivery of the strategic plan and transition plan (where these are not yet integrated)
Impact on emissions reduction or adaptation	Quantifying the progress each activity makes on emissions reduction or physical climate risk adaptation provides a clear picture of their impact and the time frame over which benefits will be realized	○ Provide estimated emissions reductions and associated time horizon for each activity ○ Set out the anticipated reductions in exposure to physical risk and associated time horizon for each activity

Area	Illustrative commentary to set out to business units why this information is being requested	Illustrative information requests for business units
Wider financial, environmental or social impacts	Capturing broader implications for financial performance, workforce impacts, or environmental and social outcomes ensures we account for all significant consequences of planned activities, both positive and negative	• Identify any broader financial, environmental or social impacts associated with the activities (eg potential impairments, negative workforce impacts, environmental trade-offs)
Dependencies outside of operational control	Identifying where success depends on external actors (such as supply chains, industry partners or regulators) allows us to consider where we most need to collaborate	• Identify any areas where you need support from others to deliver on a specific activity (eg value chain partners, cross-sector collaborations, other external actors) • Describe the actions your business unit can take to enable progress despite these dependencies • Set out the financial or other (personnel) resources needed to make progress • Explain the anticipated benefits of collaboration when considering the current exposure to risk
Areas of top-down strategic plan which require further enablement	Highlighting areas where achievement of the transition plan is blocked or needs additional support (due to regulatory, technological or resource barriers) enables us to plan targeted interventions and allocate resources effectively	• Identify areas set out in the top-down transition plan that require further enablement • Explain why these are not yet feasible, eg because of current regulation, technological constraints, value chain or cross-sector dependencies, or insufficient resource allocation • Set out what needs to happen to make them feasible, and your estimate of when they could become feasible • Describe how the central strategic team can support efforts to close these feasibility gaps
Current decision-making methodologies which are not aligned with transition planning	Identifying such practices creates opportunities for improvement across the organization	• Identify current decision-making methodologies in your business unit that are not aligned with transition planning • Provide suggestions for how these methodologies or processes could be improved to support the transition plan