



# Transition Plans: Moving beyond disclosure

Taking action for a Net Zero world



# Transition Plans will transform the way we look at businesses

With the pressure on tangible action on climate change and broader sustainability heating up, now more than ever businesses are feeling the pressure to understand what it will take to meet the targets they have set and ensure these commitments are backed by action.

In response to this challenge, companies are increasingly looking to develop and disclose transition plans as evidence of their ability to build a business that thrives in a Net Zero world. And it's not just about proving it to the market – a strong transition plan can unlock greater value and build resilience, opening your business to a world of opportunity and presenting a chance to reassess strategies and maximise the flexibility of your business model.

In this guide we'll be taking a closer look at the four key steps any business needs to take to develop a credible, robust, and valuable transition plan:



**Diagnose** your current business – understanding where you need to focus, where your peers are heading, and what is possible for your business ambition



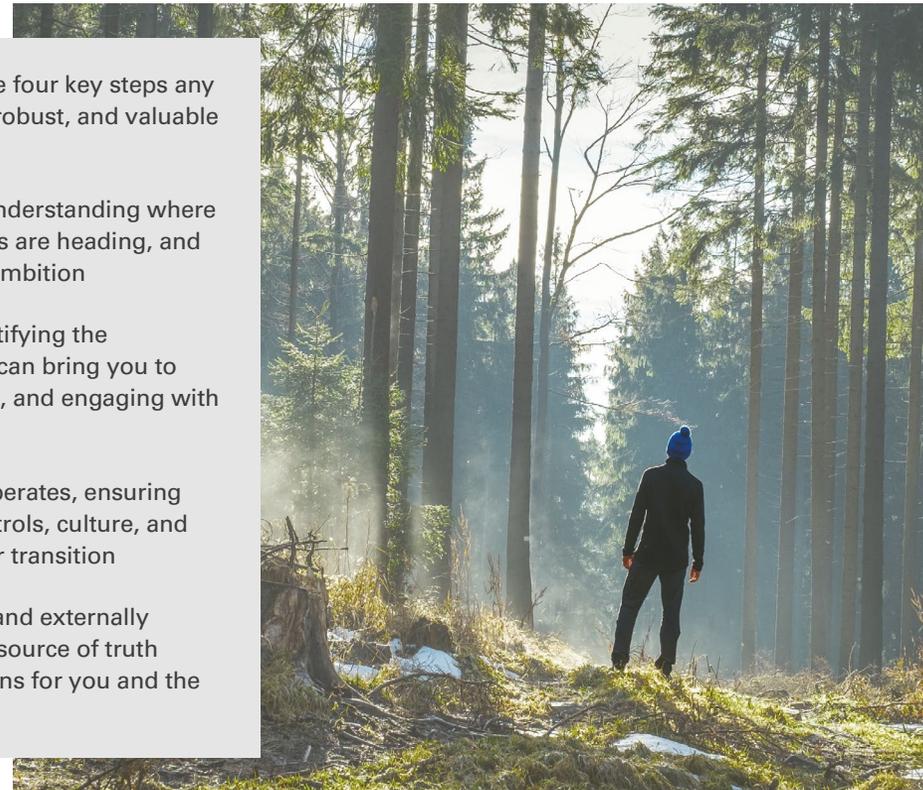
**Strategise** your path forwards, identifying the opportunities and investments that can bring you to your ambition, planning for success, and engaging with your value chain



**Transform** the way your business operates, ensuring you have the right governance, controls, culture, and ways of working to bring life to your transition



**Report** on your progress internally and externally with the right data, driving a single source of truth and enabling more strategic decisions for you and the market in future



While in combination these actions may seem expansive, in this guide we will give you the right tools to ask the right questions in your business. We will provide you with some areas to get started, how to stand out in your transition, and also the long-term value these actions can drive across your business.

With businesses, investors, and shareholders beginning to take note, being left without a map in a Net Zero world is not something which businesses can afford to risk.

# What are Transition Plans and do I need one?

The concept of transition planning has taken flight in recent years, building off regulation under the Taskforce for Climate-related Financial Disclosures (TCFD) which requires the largest UK companies to identify climate-related risks and opportunities. When updates were made to the TCFD recommendations to include transition plans, the [Financial Conduct Authority](#) subsequently adopted the updates, meaning listed and FCA-regulated entities must disclose transition plans on a “comply or explain” basis starting in 2023. Coverage of large private companies is likely to follow, with [recommendations released from the CCC](#) and consultation by the UK Government expected in the second half of 2023.

## So what is a transition plan?

At its heart, a transition plan is an action plan that clearly outlines how an organisation will pivot towards a Net Zero economy and meet their targets. This goes beyond just ambition, setting out key changes and investments, challenging where you can control outcomes or influence the market, interfacing your broader sustainability ambitions into your business strategy, and mapping your key sensitivities in a transition to Net Zero. Leading on what good looks like, the UK-based Transition Plan Taskforce (TPT) is developing a leading practice standard. With the TCFD recommendations being brought into the International Sustainability Standards Board (ISSB) standards [released recently](#), this guidance can continue to provide ongoing

structure that complements the ISSB requirement for transition plans.

However, transition plans are more than just a compliance exercise. Even if you don't fall into requirements for mandatory disclosure, you could still be impacted if you rely on large organisations for finance or interact with them anywhere along your value chain as suppliers

or customers. It won't be long before as part of their disclosures, they ask that you also disclose a reputable transition plan to Net Zero – and you don't want to be caught out. As a result, being proactive on transition planning is really about maximising the flexibility of your business and the opportunities you are open to in the market.



## The facts

All companies will face growing pressures to disclose a credible transition plan to Net Zero regardless of size – either due to regulatory requirements or due to pressure from your stakeholders.

Drafting a transition plan is an opportunity for businesses to take stock and reassess their strategy and business plan, as well as outline how they can approach the transition to a low-carbon economy as an opportunity.

A transition plan gives your customers and investors confidence that your business will succeed in the long term, and highlight areas where external stakeholders or governments can help contribute towards your goals.

A realistic transition plan can highlight a company's commitment to the environment whilst limiting any risk of greenwashing accusations by setting targets which are not achievable or which you aren't proactively seeking to deliver upon.

# Step 1: Diagnose

The first step in a transition plan is to understand where your business currently is relative to your ambitions. Taking stock helps you to understand and gain buy in for the task ahead, as well as provide insight on your business' position amongst your peers and how you see that evolving over time: Do you want to be a leader; a fast follower or sit comfortably in the pack? Any company seeking to grow into a leader in their sector will need a clear view of what that sector looks like over the next 30 years and what that means for their business now. This is how we define our ambition.

## Where do I start?

- 01** Undertake a readiness review against the Transition Plan Taskforce (TPT) guidance, which can show you where your business might be missing information, strategies, or governance processes against leading practice. This can also include similar benchmarking against your peers and sector to show you where your competitors might be pulling ahead.
- 02** Develop a robust GHG baseline<sup>1</sup> across your Scope 1, 2, and 3 emissions to understand priority areas to focus on. This will require you to understand not only what your business consumes, but for Scope 3 you will need to collect data on your suppliers' and customers' emissions, and for banks and financiers, your financed emissions as well.

- 03** Perform a comprehensive ESG materiality assessment for your business to identify the most material wider sustainability issues impacting your business in future, from both a financial and societal impact lens – known as double materiality.
- 04** Scenario analysis is a critical step to develop a list of risks and opportunities for your business once you have a good idea of your current position. This can guide strategic decision-making around your response to different directions of climate, policy, or societal trends and provides the basis for informing your transition plan as it develops.

## How can I stand-out?

- Use the most recent guidance from the GHG protocol Corporate Accounting and Reporting Standard to drive how you account for Scope 1, 2, and 3 emissions across your business.
- For Scope 3 emissions, engage your suppliers and customers and look for partnerships where you can support them to decarbonise while also helping to increase the integrity of your own baseline.
- For financial institutions, encourage and assist your portfolio companies to implement a transition plan – or develop your own view of their cost to transition to help inform where you need to focus attention.
- Broaden your purview to develop a mature view on the “S” component of ESG e.g. committing to a Just Transition, and measuring your impact on Nature & Biodiversity and your reliance on natural systems.
- Add quantitative rigour to your scenario analysis to assess what your risks and opportunities mean financially and inform the business case for action.



## The value for my business

- A clear understanding of what you need to focus on most in meeting any climate and sustainability targets, as well as the major gaps in what you say and do about climate and sustainability in your business.
- Valuable information on how you are performing relative to your peers which can guide discussions around ambition and risk.
- Better data on your operational activities and emissions which can drive stronger decision-making in future around asset performance and planning.
- Tangible risks and opportunities, allowing you to start identifying least-regrets pathways and mitigating actions that are critical inputs to a transition plan.

<sup>1</sup> The [GHG Protocol](#) is the industry standard guidance on inclusions and exclusions for carbon accounting.

# Step 2: Strategise

Once you are confident in where you are, the next step is to understand what you could do from here. While it might be tempting to begin with setting targets for your business, this can be dangerous without firstly gaining some level of certainty over what it would take to meet them. This doesn't just mean identifying new technologies and switching out assets or products; it also means a mature view on how you will financially plan for these activities as a business, engage with your wider environment as you do so, and turn blue sky into here and now.

## Where do I start?

- 01** Using your emissions baseline, map the impact that current initiatives or changes in business plan will have on your future emissions, and then identify current and emerging decarbonisation levers in your emission hotspots across Scope 1, 2, and 3 to bring you the rest of the way.
- 02** Prioritise these levers by developing a view of their costs and savings, their climate and sustainability benefit, as well as what is achievable in your organisation in terms of the time and complexity different initiatives.
- 03** Develop an external funding strategy and understand the role of green and sustainable finance, allowing you to test different potential roll-out scenarios on your cashflow position, asset valuations, and capital allocation.
- 04** Set clear climate and sustainability targets with this information at hand and ensure that you understand the implications of those targets, as well as what it would take to align with leading practice such as the Science Based Targets initiative (SBTi). This will also need to define the metrics to track against this target over time in your business.
- 05** An engagement plan will then help to drive accountability and action across your priority levers, helping to build relationships with potential partners including governments who may be critical in meeting your goals.

## How can I stand-out?

- Set strong interim (including short-term) targets which show commitment prior to 2030 on sustainability and climate.
- Develop climate-linked scenarios of how the cost and efficiency of different technologies are evolving, helping you understand the best time to make a given change or investment.
- Consider the interdependencies between levers which target carbon and their impact on other critical sustainability metrics such as biodiversity and social outcomes.
- Publicly disclose a Marginal Abatement Cost Curve (MACC) which highlights your list of levers alongside their cost and their abatement potential, driving transparency in why you chose a given roadmap.
- Use your peers and your supply chain to drive investment which can benefit the whole industry and solve common challenges, such as aggregated Power Purchase Agreements (PPAs) or funding into new technological innovations.
- Ensure that your strategy and any targets you set align with the assumptions you have made in your financial accounts and statements, particularly around asset valuations.
- Align your carbon credit usage to recommendations of frameworks such as the SBTi and VCMi, and consider upstream investment in carbon offset projects in order to have greater operational oversight over their integrity.

## The value for my business

- A shared vision and roadmap of short-, medium- and long-term actions which your business will pursue to reach your targets.
- New perspectives on where in your business you can save emissions as well as costs through new measures and procurement practices.
- Targets which are based on tangible plans and actions which don't hamper your business growth but are embedded within it.
- A framework through which to confidently allocate capital and undertake projects which you know contribute to your business ambitions and growth.



# Step 3: Transform

Successfully implementing your transition plan requires a closer look at how your business lives and breathes sustainability in its everyday operation. Sustainability can no longer be a bolt-on to an organisation, a separate team or an employee – every division within the organisation will need to incorporate the transition your business will face in the way they function. The businesses which will succeed in this space are those which can understand how to build climate and sustainability into finance and make sure the two speak the same language. This is especially true at senior executive and Board levels, where climate and sustainability will need to be fully integrated in strategic decision-making.

## Where do I start?

- 01** Understand the way your organisational and corporate/legal structure is setup, which can then help you diagnose the gaps to what a “transition plan ready” operating model looks like and where you might need to rethink roles, responsibilities, and reporting lines to drive more integrated thinking.
- 02** Develop a non-financial reporting governance structure for your organisation, assigning responsibilities to your key risks and opportunities, metrics and targets, and sign-off on the transition plan over time – particularly roles at a Board and management level.
- 03** Assess the level of knowledge on climate and sustainability across your organisation including at executive and Board-level and develop appropriate training programmes to upskill. This will be key to ensuring that your business is being transformed from within.
- 04** Finally, an internal funding and incentive strategy brings in imperative to invest to life. While an Internal Carbon Price (ICP) is one option, there are many ways to drive investment into sustainability-positive projects which align with your target and help embed into operational decision-making.

## How can I stand-out?

- Ensure that your internal investment frameworks go beyond valuing carbon and assign similar value to other sustainability metrics based on your target and potential fiscal impacts, as well as driving strategic decisions around investments which may drive transformational opportunities down the line.
- Link sustainability and climate-related metrics to remuneration to ensure accountability and help include climate considerations in senior leadership’s day-to-day decision-making.
- Leverage employee knowledge and drive a culture of innovation within your business to drive new efficient solutions tailored to your business.
- Encourage the creation of steering groups or conduct workshops with members of each business unit to facilitate cross-functional collaboration.
- For those looking to acquire new businesses as they grow, develop an integration playbook which defines how you will incorporate new entities into your transition.

## The value for my business

- A shared language between sustainability, strategy, risk and finance which means that climate and sustainability are integrated in the way you make decisions about business growth and investments.
- A clear view of what roles and responsibilities you need to develop or assign to drive better decision-making and reporting efficiency.
- A culture of sustainability which increases the likelihood of meeting any targets you have set in the market.
- Ensuring that growth or acquisition enhances your transition rather than impeding its progress.



# Step 4: Report

While you may now have a plan for your ambition and how your business needs to change to get there, this is only the start of your journey. Implementation is an ongoing process, spanning the life of your roadmap and driving new decisions in your business – however, there are two key steps your business needs to take at the start to help kick-off this journey. Data and how you track your progress on an ongoing basis is one such step, allowing you to rely on accurate and verifiable data to inform your decision-making and make adjustments to your transition plan as you go. The other step is disclosure. We noted at the start of this guide that transition planning is more than a compliance exercise – nevertheless, driving a culture of reporting and accountability can make sure you are motivated to transition and also show the market you know what it takes to succeed.

## Where do I start?

- 01** Set metrics and targets against the seven cross-industry metrics recommended by the TCFD<sup>2</sup> to help you track progress in the key areas where change is needed as a starting point before looking at broader metrics that can improve your visibility.
- 02** Tackle non-financial reporting by mapping out your current data flows across your business, highlighting gaps in your data technology and processes when compared to what your material climate and sustainability risks and opportunities are in your business. This can then inform key steps to close the gaps such as investing in new platforms or internal controls.
- 03** Develop a reporting strategy in terms of what information will be disclosed and how it will be communicated to the market. This can help increase your efficiency when updating your transition plan, inform the data you need to be collecting, and help you engage with others on your transition and solve common challenges to your industry.

2 1) GHG emissions

2) Assets or business activities vulnerable to transition climate risks

3) Assets or business activities vulnerable to physical climate risks

4) Business activities aligned with climate-related opportunities

5) Capital deployment towards climate-related risks and opportunities

6) Internal Carbon Price

7) Remuneration linked to climate-related targets and metrics

## How can I stand-out?

- Review and update your targets and progress regularly, ensuring those relating to your transition feature alongside your financial reporting in shareholder and Board meetings.
- For each risk and opportunity you identify in your business, ensure a metric is tracking its impact and influence over time and if possible link to financial performance of the organisation.
- Embed non-financial data (such as climate-related data) into the same internal processes and control procedures as financial data and develop a roadmap to prepare yourself for assurance of these metrics.
- Timing the update and release of your transition plan alongside your typical annual reporting cycle can help to drive the conversations to happen at the right time and across the right people.
- Consider industry-specific guidance when developing a framework for metrics and targets, and engage with your value chain and peers to inform consistent methods of estimating emissions.

## The value for my business

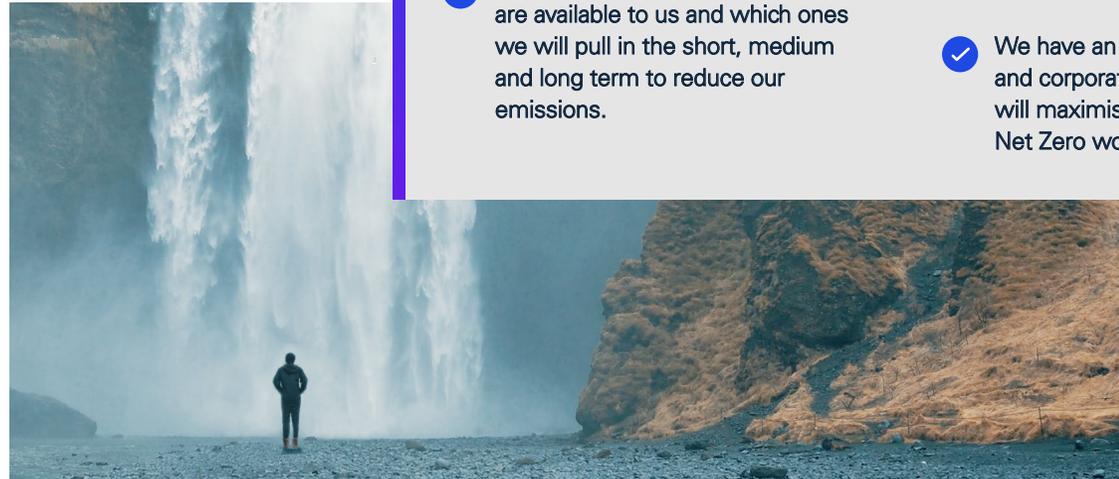
- A robust framework for updating and tracking your transition plan over time, informing better decision-making for your organisation based on your progress and any new risks or opportunities.
- A document to engage and communicate with your stakeholders in climate action, and demonstrate progress against your commitments.
- Informative metrics through which to understand how your risks and opportunities are evolving over time in relation to your financial performance.
- New data reporting methods and platforms which can make it easier for your business to track its ongoing exposure and performance and redirect focus if needed.

# Bringing your Transition Plan together

With a clear strategy in mind for how your business goes from now into the future, your transition plan can serve a number of purposes for your business. This could be:

- A source of shared vision and drive for your collective future and culture,
- A document through which to market yourself to the world and stand-out around your commitment to act on climate and sustainability,
- A financial planning tool to drive the case for change and a new way to value investments and projects,
- A new data and reporting framework which drives new strategic decision-making on your performance, your suppliers, and your ambitions, or
- All of the above.

Regardless, by going through the steps to reach this point, the real benefit for your business comes in a more holistic and comprehensive view of its role now and down the road, allowing you to remain sustainable, valuable, and flexible no matter what the Net Zero future holds.



## Checklist

- ✓ We have a clear understanding of where our Scope 1, 2, and 3 emissions are as a business.
- ✓ We know where the biggest climate and sustainability-related risks and opportunities lie and have a plan to respond.
- ✓ We have clear plans on what levers are available to us and which ones we will pull in the short, medium and long term to reduce our emissions.
- ✓ We are confident that we know the financing opportunities open to us for sustainable investments and the impact our transition will have on our balance sheet.
- ✓ We are regularly engaged with our supply chain, customers, and investors on climate and sustainability.
- ✓ We have an operating model and corporate structure which will maximise our flexibility in a Net Zero world.
- ✓ We have clear roles and responsibilities on delivering, tracking, and reporting in our business on our climate and sustainability progress.
- ✓ We have climate and sustainability embedded into all of our finance systems, operations, and ways of thinking and investing.
- ✓ We have reliable and accessible data on our carbon emissions as well as other metrics to track our biggest risks and opportunities.
- ✓ We know what it takes to transition our business to hit our climate and sustainability ambitions and how to show that we are proactively taking action.

# How we can help

All businesses will be impacted by transition plans and taking steps to understand how you are impacted and how you can participate can open your business up to new opportunities now and into the future.

We have extensive experience supporting clients both large and small with understanding, developing, and disclosing transition plans to the market, as well as broader climate and sustainability advisory work. Our work has spanned from advising large multinational banks on how their investments will transform over time under climate scenarios, through to unlisted industrial start-ups wanting to know more about what sustainability means for them.

Working with KPMG means access to global expertise across every sector of the economy, and end-to-end advisory on how your business can capitalise on sustainability and stay ahead of the curve. Not only is this equipping these organisations for mandatory reporting requirements, but moreover it's helping to shape their overarching business strategy.

Our highly skilled and diverse team is working across sectors from industrial and energy, to banking, life sciences and infrastructure and we can support you to develop a globally leading transition plan, regardless of where you currently sit on the journey towards the low carbon economy.



If you'd like to discuss any of the topics covered in this guide or how KPMG can support your organisation in developing a transition plan for your future, please get in touch with us:



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# Our approach

Our approach follows the very same guidance we have laid out in this guide, which is based on our experience of what works best.



## Diagnose

We work with you to baseline your current climate and sustainability position, risks and opportunities to understand the size of the challenge.

### You might be here if you're asking:

- Where are my emissions hotspots in my business?
- What are my competitors doing to meet their targets?
- Where should I be focusing my efforts for Net Zero?
- What does best practice look like?



## Strategise

We help define and set your decarbonisation ambition and develop a strategy and set of levers and scenarios to achieve it.

### You might be here if you're asking:

- What is a sensible target to set for my business?
- How much is it going to cost to get to Net Zero?
- What levers should I pull to decarbonise my business?
- Where are quick wins I can action in the short term?



## Transform

We design and implement the right operating models, governance processes, and valuation frameworks to execute and track your transition.

### You might be here if you're asking:

- Is my operating model prepared for Net Zero?
- How should I be governing the transition of my business?
- What internal incentives and levers can I use?
- Who should be responsible for what in my business?



## Report

We support you in working across your organisation to get the right data to feed into your reporting strategy and public transition plan as well as getting your message out to the market.

### You might be here if you're asking:

- How do I implement non-financial reporting in my business?
- How do I collect the right data across my organisation?
- What metrics should I be reporting on publicly?
- What does a good public disclosure look like?



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