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United Kingdom

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

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This country-specific Q&A provides an overview of environmental, social and governance laws and regulations applicable in United Kingdom.

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UNITED KINGDOM
ENVIRONMENTAL, SOCIAL AND GOVERNANCE

1. Climate – the law governing operations that emit Greenhouse Gases (e.g. carbon trading) is addressed by Environment and Climate Change international guides, in respect of ESG: a. Is there any statutory duty to implement net zero business strategies; b. Is the use of carbon offsets to meet net zero or carbon neutral commitments regulated; c. Have there been any test cases brought against companies for undeliverable net zero strategies; d. Have there been any test cases brought against companies for their proportionate contribution to global levels of greenhouse gases (GHGs)?

a.

Net zero has not been incorporated into law as an absolute target. However the TCFD requirement to report on double materiality has been incorporated as law through the Companies Act. This requires companies to disclose data relating to climate-related risks and opportunities from the perspective of strategy, risk management, governance and targets. In respect of emissions reductions, this includes reporting on any policy, law change, technology or reputational change which could present a risk to the company's operations through i.e. increasing the price of GHG emissions, requiring higher emission-reporting obligations, changing customer behaviour and preferences or the costs of transitioning to lower emissions energy. Additionally, and in the opportunities sphere, companies must report on the positive changes the company is making to contribute to climate change mitigation and adaptation including, i.e. use of lower-emission sources of energy, participation in renewable energy programmes, access to new markets and resource diversification.

b.

There is no express regulation of carbon offsets generated in the voluntary markets and their use to meet net zero or carbon neutral commitments. Regulatory regimes covering consumer protection or advertising standards may be relevant relating to unsubstantiated claims connected with carbon offsets, but these regimes do not directly regulate the use of offsets. Emissions monitoring and reductions achieved through mandatory schemes, e.g. the UK emissions trading scheme, are regulated by law (and are taken into account at national level in terms of the national net zero target).

c.

There have been some recent UK cases dealing with alleged corporate failures in relation to the carbon emission reductions. On 9 February 2023, a case was formally lodged by ClientEarth against the 11 directors of Shell relating to the company's approach to energy transition. The claim was supported by institutional investors of Shell who collectively hold over 12 million shares in the company. The lawsuit alleged that Shell's directors have breached their legal duties under the Companies Act 2006 by failing to adopt, or implement, an energy transition strategy that aligns with the Paris Agreement and the net zero transition. They argued that the failure to sufficiently manage the risks presented by the climate crisis means that directors cannot be undertaking their legal duty to 'promote the success of the company and to act with reasonable care, skill and diligence'. .

In July 2023, the High Court dismissed ClientEarth's request for permission to pursue the claim. The judge reasoned that ClientEarth sought to impose absolute duties on Shell directors which could conflict with their broader duties, was not acting in good faith and that the ClientEarth's minor shareholding indicated an ulterior motive of using the action to impose its own views. In November 2023, the Court of Appeal dismissed ClientEarth's request for permission to appeal and agreed that ClientEarth had failed to show a prima facie case against Shell directors. The Court of Appeal noted that while there is a prima facie case that Shell faces risks due to climate change, the court is ill-equipped to interfere with complex management decisions of a business of the size of Shell.

Another case is *McGaughey & Another v Universities Superannuation Scheme Limited & Ors* where the Court of Appeal dismissed an appeal by two pension scheme members who had applied for permission to bring a derivative action against the directors of the scheme's corporate trustee, alleging that they had breached their duties by continuing to invest in fossil fuels without an adequate plan for divestment. The Court of Appeal dismissed the appeal on grounds of lack of evidence to support the allegations and failure to show loss as a result of the director's approach to fossil fuel investment.

The UK Government has also come under scrutiny in the courts, particularly in relation to its Paris Agreement commitments. Broadly speaking the challenges launched against UK Government have achieved more success than those against private sector entities. The cases against Government have included ones which focus on Government decisions to support finance projects that would contribute to emissions increases. For example, in June 2018 a case was brought alleging that the Government's airport strategy – which included building a 3rd runway at Heathrow Airport – did not meet up-to-date UK climate targets. Although the Divisional Court initially dismissed this claim, the Court of Appeal overturned part of this ruling and held that the Government had failed to consider their climate change mitigation and adaptation obligations and that the Airports National Policy Statement (ANPS) was therefore of no legal effect. In December 2020, the Supreme Court ultimately overturned this decision and allowed Heathrow Airport's appeal, meaning that they could apply for planning permission to build the runway. Despite this, there has seemingly been little progress on the runway since then.

Additionally, in September 2020, Friends of the Earth England and Northern Ireland (FoE) brought a case against UK Export Finance regarding their decision to help finance an LNG project off the coast of Mozambique. FoE argued that the decision to proceed with this financing, having concluded that the project and its financing were compatible with the UK's commitments under the Paris Agreement, was unlawful. The central issue in the case is whether UKEF had made an error of law in finding that the project was indeed aligned with the Paris Agreement. The claim was ultimately dismissed in both the High Court and the Court of Appeal.

The Government has however been successfully challenged in relation to its own Net Zero Strategy. The High Court ruled, in July 2022, that the Government's Net Zero Strategy breached the UK's own Climate Change Act 2008. The Court determined that the strategy was both inadequate and unlawful with regarding to meeting the UK's 2050 net zero ambitions. The Government confirmed that they would not appeal the decision and went on to publish a revised strategy in March 2023. This revised strategy was also successfully challenged by he same campaign groups in a High Court hearing on 3rd May 2024.

d.

There is no precedent for this basis of action in the UK at present.

2. Biodiversity – are new projects required to demonstrate biodiversity net gain to receive development consent?

The Environment Act 2021 has amended the Town and Country Planning Act 1990 to introduce a provision for grants of planning permission in England to be subject to a condition that the biodiversity gain objective is met, subject to certain exemptions. The biodiversity gain objective requires that the biodiversity value attributable to the development exceeds the pre-development biodiversity value of that site by at least 10%. If net gain is not achievable, the biodiversity gain plan will need to include off-site habitat enhancements or credit purchases through planning obligations or conservation covenants. This is a very significant development in planning law and it remains to be seen whether local planning authorities will find themselves adequately resourced to monitor and enforce these new provisions.

3. Water – are companies required to report on water usage?

There are no current mandatory requirements to report on water usage in the UK.

4. Forever chemicals – have there been any test cases brought against companies for product liability or pollution of the environment related to forever chemicals such as Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS)?

No test cases have been brought in the UK to date however there is increasing focus in the UK on PFAS, POPs and their dangers making such test cases increasingly likely.

5. Circularity – the law governing the waste hierarchy is addressed by the Environment international guide, in respect of ESG are any duties placed on producers, distributers or retailers of products to ensure levels of recycling and / or incorporate a proportionate amount of recycled materials in product construction?

Under the Producer Responsibility Obligations (Packaging Waste) Regulations 2007, any 'obligated packaging producer' (one which handles 50 tonnes or more of packaging material and has an annual turnover greater than £2m) must register as a packaging producer, join a compliance scheme and demonstrate that it has recycled or recovered a certain amount of waste. The specific quantities of waste to be recycled or recovered are set out in the packaging recycling targets published by the government and depend on the type of producer and material being recycled.

Additionally, a company that manufacturers or imports electrical or electronic equipment on a commercial basis may be subject to the Waste Electrical and Electronic Equipment Regulations 2013 (WEEE). The WEEE Regulations stipulate how waste electrical equipment must be managed in order to encourage its recycling, reuse and recovery and protect the environment.

The Batteries Directive 2006/66/EC and the Waste Batteries and Accumulators Regulations 2009 also impose specific requirements in relation to the waste management of batteries. The manufacturer or importer that first places portable batteries on the UK market must collect waste portable batteries for free from their final holders. Distributors and retailers that sell or supply more than 32 kg of batteries a year must also participate in the take back scheme.

The Environment Act, which passed into law in November 2021, also enshrines the principle of 'polluter pays' for producers of waste packaging. It includes enabling provisions that will extend producer responsibility to require producers to pay the full net cost of managing specified products and materials at end of life, to incentivise more sustainable use of resources. The UK Government is also in the process of tightening and enhancing the recycling, recovery and packaging design requirements on producers, known as Extended Producer Responsibility (EPR), and new EPR regulations, likely to take effect in 2025, have been published in 2024.

The Scottish Government is currently in the process of preparing to launch a deposit and return scheme for single use drinks containers ("DRS") in October 2025. The DRS will require producers to bear full financial responsibility for the impacts of the packaging (bottles and cans) that their products are sold in, thereby incentivising the reduction of those impacts. It will capture plastic, aluminium and glass drinks containers, and require a redeemable deposit to be paid on each item by consumers at the point of purchase. Retailers will be obliged to operate a take back service for empty containers and to redeem deposits to consumers who return in scope packaging for recycling. It is estimated that the DRS will increase recycling of single-use drinks containers in Scotland from the current rate of approximately 50% to nearer 90%. The UK government has confirmed that they intend to introduce a similar scheme in 2027.

6. Plastics – what laws are in place to deter and punish plastic pollution (e.g. producer responsibility, plastic tax or bans on certain plastic uses)?

Under the UK Plastic Packaging Tax under The Plastic Packaging Tax (General) Regulations 2022 and The Finance Act 2021 (PPT) business in the UK that import or manufacture 10 tonnes or more of finished plastic packaging components (including in combination with other products for the containment of goods in the supply chain) and whose manufactured or imported packaging components contains less than 30% recycled plastic must register and pay PPT at a rate of £200 per tonne.

The Government has also recently announced new legislation (which will be introduced in due course) which will ban the supply of all single-use plastic plates, trays, bowls, cutlery, balloon sticks and expanded and extruded polystyrene food and drinks containers from October 2023.

7. Equality Diversity and Inclusion (EDI) – what legal obligations are placed on an employer to ensure equality, diversity and inclusion in the workplace?

There are both statutory duties on employers with respect to EDI, and also reporting requirements.

The principal duties for employers (and certain other categories of person) are contained in the Equality Act

2010. This legislation is very broad in its effect but includes obligations and duties for employers and people in control of buildings to avoid discrimination on the basis of specified protected characteristics (including race, disability, religion) and make reasonable adjustments to provide access for disabled persons.

With respect to reporting requirements, under the Companies Act 2006:

a. quoted companies must include separate entries in their strategic report which state the number of persons of each sex within a company who are, respectively, directors, senior managers (other than directors) and employees;
b. traded companies, banking companies, authorised insurance companies or companies carrying on insurance activity, each with more than 500 employees must include a nonfinancial and sustainability information (NFSI) statement in their strategic report. This statement must contain information relating to the company's employees to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity. The information must include a description of the policies pursued by the company in relation to employees and any due diligence processes implemented by the company in pursuance of those policies. If the company does not have such policies, the NFSI must provide a clear and reasoned explanation for the company not doing so;
c. companies with an average of 250 or more employees in each month during the financial year must include a statement in their director's report which describe the company's policies for: giving full and fair consideration to applications for employment made by disabled persons; continuing the employment of, and for arranging training for, employees who have become disabled while they were employed by the company; and the training, career development and promotion of disabled persons employed by the company.

There are also additional requirements for the director's statements of UK incorporated premium listed companies with either 2000 global employees and/or a turnover greater than £200million globally and a balance sheet of over £2 billion globally. These requirements include reporting on which of the corporate governance code the company applies and any reasons for departure or non-application of the code, which include some recommendations on diversity in board composition and senior management as well as details on company diversity and gender balance policies.

There are also rules under the Disclosure Guidance and Transparency Rules which require certain listed companies with transferable securities admitted to trading to produce a corporate governance statement which includes: a description of the company's diversity policies including aspects such as age, gender, educational and professional backgrounds, the policy's objectives, how the policy is implemented and the results in the reporting period. If the company does not have such a policy, then the statement must explain why this is the case.

Finally, under the Listing Rules, certain companies – UK and overseas companies with listed equity shares or certificates – must include the following in their annual reports: a comply or explain statement on whether they have achieved certain targets for women and ethnic minority representation on their board; and a numerical disclosure on the ethnic background and gender identity or sex of their board, and executive management team.

8. Workplace welfare – the law governing health and safety at work is addressed in the Health and Safety international guide, in respect of ESG are there any legal duties on employers to treat employees fairly and with respect?

There are currently no specific ESG legal duties on employers to treat employees fairly and with respect.

9. Living wage – the law governing employment rights is addressed in the Employment and Labour international guide, in respect of ESG is there a legal requirement to pay a wage that is high enough to maintain a normal standard of living?

There is a requirement for all employees in the UK to be paid the National Living Wage for 23+ and National Minimum Wage for 18+.

10. Human rights in the supply chain – in relation to adverse impact on human rights

or the environment in the supply chain: a. Are there any statutory duties to perform due diligence; b. Have there been any test cases brought against companies?

a.

Unlike the position in Europe, there are currently no statutory duties to perform due diligence on the supply chain relating to human rights, but the law in UK is developing in this area and changes are imminent, for example with respect to forest risk commodities (see below). The current Modern Slavery Act (2015) requires large businesses (with a turnover of £36m or more) to produce a statement each year setting out the steps they have taken to ensure their businesses and supply chains are slavery free or a statement that they have not done this but does not mandate due diligence. Tightening of this legislation has been proposed for some years now and a draft amendment of the regime is currently before Parliament.

In relation to forest risk products, the 2021 Environment Act provides a framework for due diligence on the supply chain. This will apply to large businesses with a turnover over a specific threshold, which will be set out in further legislation. The new regulations prohibit large businesses using any forest risk commodities or any products derived from those commodities in their UK commercial activities unless relevant local laws on that commodity have been complied with. The regulations will also require those businesses to establish and implement a due diligence system for any forest risk commodity or a product derived from it used in their UK commercial activities, and report annually on their due diligence. Secondary legislation is required to activate the regime which could be brought forward this year.

b.

Dyson (UK) – Workers at a factory owned by ATA Industrial in Malaysia where Dyson products are made submitted a claim against Dyson alleging violations of labour rights. The claim alleged Dyson had sufficient knowledge of the unlawful conditions and was unjustly enriched as a result. The claim alleged an assumption of responsibility (and therefore an 'assumed duty of care', Vedanta v Lungowe) by Dyson based on public statements made in its policies relating to responsible sourcing. Though the High Court ultimately declined jurisdiction over the claim, the case would appear to have had the potential to cause Dyson significant reputational and financial harm.

Boohoo (the fast fashion retailer) commissioned an independent review into its labour practices in 2020 after findings that employees in their Leicester factory were being paid as little as £3.50 an hour. The review found that the allegations as to poor working conditions and low rates of pay were well-founded and that there was weak corporate governance resulting in inadequate oversight of factory conditions in Leicester. Boohoo accepted the review's recommendations for change and pledged a number of reforms to their supply chain, including implementing an "Agenda for Change" programme. However, a subsequent BBC Panorama investigation into the programme alleged that undue pressure was being placed on suppliers to reduce prices after orders had been agreed. More recently, an investigation was conducted by the Competition and Marks Authority into the green claims of Boohoo, ASOS and George at Asda, following which all three fashion retailers signed undertakings committing to clear and accurate green credentials. The public coverage of these ESG failings has, we expect, been extremely costly for Boohoo, both in terms of the impact it has had on its share price but also on its reputation and profit margins.

In August 2022, 60 Ghanaian children aged 5-17 years old took the first steps in legal action against Olam (which supplies Cadbury (Mondelez), Nestle, Ferrero, Lindt and Starbucks) by sending a letter before action. The claimants allege that the company is negligent as a result of the unlawful, exploitative and dangerous conditions in which the children work and has been unjustly enriched at their expense. Any legal claim would be brought under Ghanaian law in the English courts against the UK global headquarters for their cocoa business which is UK based. Although this case has not yet gone to court, it is an example of the growing body of litigation against UK companies for the actions of their group companies abroad and the importance of monitoring your supply chain.

Another such example is the case of *Milasi Josiya and others v British American Tobacco plc and others* . The claimants, being 7,263 Malawian tobacco farmers, allege that the two defendant companies operating in the tobacco sector and certain overseas subsidiaries are liable in tort and have been unjustly enriched as a result of unlawful working conditions amounting to forced and child labour. In their annual reports, British American Tobacco (BAT) and Imperial Tobacco Group stated they could trace the tobacco in their products to farm level. BAT and Imperial do not own the farms where the alleged torts took place. An application by the defendants to strike out the claims was rejected by the High Court in June 2021, and the case is now expected to proceed.

11. Responsibility for host communities, environment and indigenous populations – in relation to adverse impact on human rights or the environment in host communities: a. Are there any statutory duties to perform due diligence; b. Have there been any test cases brought against companies?

a.

Under the UKTimber Regulations, there is a prohibition on placing illegally harvested timber or timber products derived from such timber on the GB market. There is also a requirement to follow the mandatory due diligence system set out under those regulations including ensuring traceability through their supply chain, maintaining and regularly evaluating the company's due diligence system and retaining such information for five years. As noted above, there is also a new statutory framework for regulating forest risk commodities introduced by the Environment Act 2021, though the detailed regulations have yet to be established.

There is currently no UK legislation regarding the import of conflict minerals, however, the UK government has issued guidance that it expects all companies importing 3TG (tin, tantalum, tungsten and gold) into Great Britain to comply with The OECD Due Diligence Guidance for Responsible Supply Chains. This guidance provides a five-step framework to govern the due diligence process for the responsible mining of minerals. It specifically aims to ensure that minerals are responsibly sourced from conflict-affected and high-risk areas, and it provides a model supply chain policy for companies in compliance.

b.

Okpabi and others v Royal Dutch Shell Plc and another – the English Supreme Court ruled in February 2021 that group claims made by Nigerian claimants against Shell's UK domiciled parent company for damage caused by oil spills could proceed in England. This was because there is a real issue to be tried in relation to how responsibility for environmental compliance was delegated between Shell UK and Shell's Nigerian subsidiary. Since that decision, a large number of additional claims have been added.

Jalla v Shell International Trading and Shipping Company – In May 2023, the Supreme Court held that an oil spill off the coast of Nigeria amounted to a one-off event rather than a continuing nuisance, with the effect that the claim brought by two Nigerian citizens was time-barred and could not proceed.

Município de Mariana and others v BHP Group (UK) Ltd and another – the Court of Appeal has overturned a lower court's decision to strike out a claim of some 200,000 (now more than 700,000) Brazilian claimants and allowed it to proceed. The claim is in respect of damages for physical and psychological injury caused by the collapse of the Fundão Dam in Brazil which released high levels of toxic mining waste, killing 19 people and resulting in widespread environmental harm. The dam was used to store waste from the mining activities of a joint venture between BHP and Vale, a Brazilian mining company. BHP's application for permission to appeal the Court of Appeal's decision was refused by the Supreme Court, and a first stage trial to determine threshold liability issues has been fixed for October 2024. BHP and Vale are also facing similar claims in other jurisdictions in respect of the dam collapse.

Hamida Begum (on behalf of MD Khalil Mollah) v Maran (UK) Limited (Maran) – Mr Mollah was a shipbreaking worker in Bangladesh, who fell to his death whilst working on a ship. The ship's sale for demolition had been orchestrated by Maran, a UK domiciled shipping agent. Mr Mollah's wife brought a case against Maran alleging that Maran owed Mr Mollah (and the other such workers) a duty of care to ensure that ships are dismantled in an environment where ethical working practices were in place given the well-known dangers of shipbreaking in Bangladesh. In 2021, the Court of Appeal upheld the High Court's judgement that Maran could owe Mr Mollah a duty of care and refused to strike out the claim. The proceedings have since been discontinued.

12. Have the Advertising authorities required any businesses to remove adverts for unsubstantiated sustainability claims?

There are many examples of the Advertising Standards Authority (ASA) removing and banning misleading adverts under the CAP Code[1], some examples include:

a. in December 2023, the ASA banned adverts from Etihad Airways, Air France and Lufthansa for making misleading claims about the airlines' environmental impacts. The ASA ruled that the adverts overstated the environmental contributions and did not show the impact airlines have on climate change. This is not the first time airlines have accused of greenwashing by the ASA. In February 2023, the ASA banned a different advert by Lufthansa for making misleading claims about its environmental impact. The ASA ruled that the Code requires that absolute environmental claims must be supported by a high level of substantiation, which they did not believe was the case here;

b. in October 2022, the ASA banned two of HSBCs Ads because it was held that they omitted significant information about HSBC's contribution to carbon dioxide and GHG emissions. ASA also told HSBC to ensure that future marketing communications featuring environmental claims were adequately qualified and do not omit material information; and
c. a decision in January 2022 to ban four of Oatly's adverts for unsubstantiated environmental claim. ASA also told Oatly that in future they must ensure that the basis of any environmental claim is made clear, including what parts of the life cycle had been included and which excluded, and to hold adequate evidence to substantiate environmental claims made in their ads.

Footnote(s):

[1] https://www.asa.org.uk/codes-and-rulings/rulings.html

13. Have the Competition and Markets authorities taken action, fined or prosecuted any businesses for unsubstantiated sustainability claims relating to products or services?

In July 2022, the CMA launched investigations into Boohoo, Asos and Asda scrutinising their environmental claims about their fashion products, including clothing, footwear, and accessories. The CMA are examining several aspects of the claims, including whether: the statements and language used by the businesses are too vague and/or broad thereby falsely creating the impression that the clothing collections are more environmentally sustainable than they actually are; items included in the collections do not meet the criteria claimed; and statements made about i.e. fabric accreditation schemes and standards are misleading. The review is still ongoing.

Additionally, in February 2023, the CMA announced that it is set to examine potential greenwashing in the sale of food and other household essentials such as shampoo and toothpaste, expanding a crackdown that follows a proliferation of products sold as "kinder to the environment". It has said that it will focus on issues including "vague and broad eco-statements" and "entire ranges being incorrectly branded as 'sustainable'."

14. Have there been any test cases brought against businesses for unsubstantiated enterprise wide sustainability commitments?

There is no precedent for this kind of case yet in the UK.

15. Is there a statutory duty on directors to oversee environmental and social impacts?

Under Section 414A of the Companies Act, directors of UK companies must publish a strategic report. Different requirements in terms of the extent of the reporting will apply depending on whether a company is defined as a small, medium or large company, with small companies being exempt from the requirement to publish a strategic report.

The strategic report published by large companies must include: a review of the business and a description of the principal risks and uncertainties facing the company; an analysis that includes reference to key performance indicators, which specifically include environmental (GHGs, water, waste, resource efficiency, biodiversity and emissions) and employee matters; and a "Section 172(1) statement" that sets out how the directors of the company have had regard to matters including the impact of the company's operations on the community and the environment. The Bank of England has specifically identified physical, liability and transition risks from climate change as key risks that may impact a business' financial stability.

16. Have there been any test cases brought against directors for presenting misleading information on environmental and social impact?

There is no precedent for this yet in the UK. In January 2024, the High Court dismissed ClientEarth's application for permission for judicial review of the Financial Conduct Authority's (FCA's) decision to approve the prospectus of UK oil and gas company, Ithaca Energy plc. ClientEarth argued that Ithaca did not explain how climate change risks to the oil and gas industry in general affect Ithaca's business specifically, or how significant these risks are for the company and that therefore the FCA is in breach of its duty to protect investors. However, the court disagreed and made it clear that it was not the FCA's role to evaluate the extent of climate change mitigation and net-zero targets being promoted in prospectuses and in any case would respect the independent decision-making and discretion of the FCA as a expert regulator.

17. Are financial institutions and large or listed corporates required to report against sustainable investment criteria?

Under the Disclosure of Climate-Related Financial Information (Asset Manager and Asset Owner) Instrument 2021, in scope firms have to make disclosures consistent with the TCFD's recommendations. These rules are introduced in an ESG Sourcebook to the FCA Handbook. The new rules came into effect on the 1 January 2022, for the largest firms with more than £50 billion in assets under management (or £25 billion assets under administration for asset owners). The first set of reports for these firms was due by 30 June 2023, reflecting the 2022 calendar year. Other firms with assets greater than £5 billion (such threshold to be reviewed after three years of disclosures), were subject to the new rules from 1 January 2023, with reports for calendar year 2023 due by 30 June 2024. Broadly, the rules require in-scope firms to publish on their website: an annual TCFD report which sets out how they take climate-related matters into account in managing or administering investments on behalf of clients and consumers; and disclosures on the firm's products and portfolios (including a core set of climate-related metrics).

18. Is there a statutory responsibility on businesses to report on managing climate related financial risks?

Under the Companies Act 2006, large UK companies that have more than 500 employees and are either traded companies, banking companies, authorised insurance companies, companies carrying on insurance market activity, AIM companies or high turnover companies (with more than £500 million turnover) must produce a non-financial and sustainability information statement within their annual report, in relation to financial years beginning on or after 6 April 2022. This was introduced by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022, which made it mandatory for the UK's largest businesses to disclose their climate-related financial disclosures (CFRD), broadly in line with the TCFD recommendations. The TCFD is an industry group that has published a framework for disclosing data relating to climate-related risks and opportunities from the perspective of strategy, risk management, governance and targets.

Climate-related risks covered in the report need to cover transition risks (such as risks relating to policy and law change, technology and reputation) and physical risks, which may be event driven acute risks, or longer-term chronic shifts in climate patterns. Both may have financial and reputational implications. Climate-related opportunities are any positive impacts of, for example, an organisation's effort to mitigate and adapt to climate change. These may include resource efficiency and cost savings, development of new products and services, access to new markets and building resilience along the supply chain. The TCFD-aligned disclosures are currently mandatory for listed companies and many large companies already, however, TCFD reporting is due to become fully mandatory for businesses across the UK economy by 2025. In the meantime, the FRC is encouraging companies in the UK to report voluntarily against the TCFD's recommended disclosures.

19. Is there a statutory responsibility on businesses to report on energy consumption?

Under the Streamlined Energy and Carbon Reporting requirements (SECR) certain companies must carry out enhanced reporting in relation to emissions and energy use. SECR applies to large companies that meet two of the following criteria: turnover greater than £36M, balance sheet total greater than £18M and 250 employees or more. In scope companies must report their energy use, GHG emissions, and at least one emissions intensity metric for the current and previous financial years in line with the GHG Protocol. The information reported must be set out in the company's directors' report and include a description of measures taken to improve the business' annual energy efficiency, including energy saving. UK government guidance strongly recommends reporting on Scope 3 emissions in addition to Scope 1 and 2.

Under the Energy Savings Opportunity Scheme (ESOS), organisations which meet the large undertaking qualification criteria must carry out ESOS assessments every 4 years and report on these assessments to the regulator. A large undertaking is one which either employs 250 or more people or has an annual turnover in excess of £44M and an annual balance sheet total in excess of £38M. The assessments involve an audit of energy used by a business' buildings, industrial processes and transport in the UK (plus international air travel in limited circumstances), and identification of cost-effective energy saving measures. There is however no legal requirement to implement the energy saving measures identified. The Government has responded to a consultation on strengthening ESOS and stated that it intends Phase 4 (compliance year 2027) of ESOS to cover both energy efficiency and net zero with the requirement of a separate net zero audit.

20. Is there a statutory responsibility on businesses to report on EDI and / or gender pay gaps?

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires large private companies (with more than 250 employees in the UK on 5 April each year) to report and analyse gender pay gap information. Employers must publish: their overall gender pay gap figures for relevant employees; the proportion of men and women in each of four pay bands based on the employer's overall pay range; information on the employer's gender bonus gap; and the proportion of male and female employees who received a bonus in the same 12-month period. Quoted companies with more than 250 employees are required to report on the ratio between their CEO's pay and the average pay of the workforce. Failure to comply with these obligations may lead to enforcement action, which can require the person to take specific action to remedy the breach.

21. Is there a statutory responsibility to report on modern day slavery in the supply chain?

Under The Modern Slavery Act (2015) large businesses (which includes all those with a turnover of £36m or more) must produce a statement each year setting out the steps they have taken to ensure their businesses and supply chains are slavery free or a statement that they have not done this. A draft amendment of the regime is currently before Parliament.

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