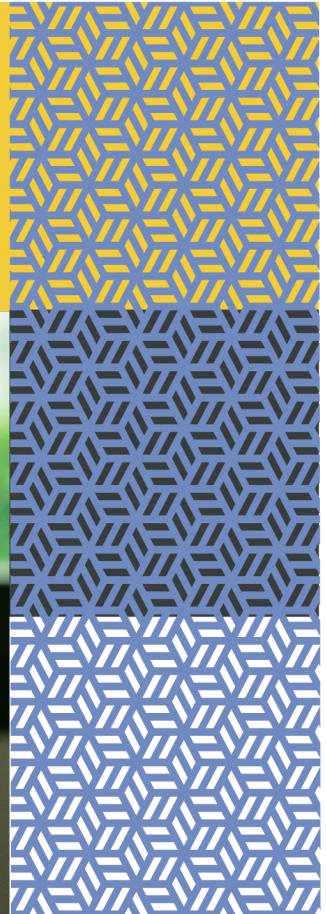
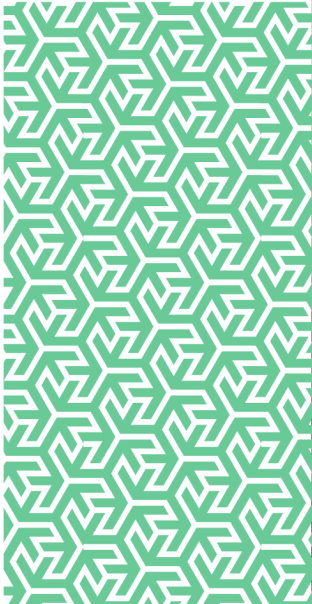


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ESG



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ESG

Background

ESG...Environmental, Social and Governance – but what does it actually mean? Broadly speaking ESG refers to the examination of an organisation's environmental, social and governance practices.

For public sector organisations, much of this is not new. The sector has operated under the guise of the [International Framework: Good Governance in the Public Sector](#) for many years. The aspects of 'Environmental' and 'Social' are however; more recent additions and guidance around the expectations of the sector here are still forming.

ESG first captured our attention back in 2005 when an unsponsored report – [Who Cares Wins: Connecting Financial Markets to a Changing World](#) argued that embedding ESG considerations into capital markets would lead to better societal outcomes.

Whilst the basis of this report was primarily concerned with ESG in relation to investments, the concept has grown exponentially, with organisations placing ESG front and centre of their strategic planning processes and board conversations.

The use of ESG ratings are becoming an increasingly common method of being able to progress and report on the improvements being made. In March 2023 the UK Government through HM Treasury launched a consultation process to consider whether regulation for providers of ESG ratings should be introduced and on the potential scope of a regulatory regime.

ESG is now big business and there are few organisations who have not yet considered ESG, its impacts and how it will respond to the increasing need to demonstrate positive action in this space.

What is ESG?

The three strands of ESG all focus on different elements of how an organisation operates but due to the interlinking nature of the elements there can be crossover and the focus of each organisation may be slightly different.

Environmental

In general terms, the focus here is to work to reduce your environmental footprint and make conscious choices about how you operate with the environment in mind. This element concentrates on how we drive environmental efficiency; minimising our carbon footprint and maximising the positive impact we have on our planet.

This strand could include - climate change, greenhouse gas emissions (GHG), biodiversity, pollution, water, waste, renewable energy, recycling, impact from travel.

Of key importance within the environment element is the journey towards Net Zero status. The term 'Net Zero' is now commonplace in our vocabulary the UK has set its own Net Zero target of 2050. UK organisations are now working to achieve this target by that date or earlier if possible.

The United Nations defines net zero as cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere, by oceans and forests for instance¹.

Social

The desire for organisations to foster an inclusive culture where people feel supported and stay connected to the communities that surround them at work and home. This element is concerned with organisations fostering a safe work environment and putting in place steps to nurture talent and futureproof their growth and sustainability.

This strand could include - customer relations, labour rights, occupational health and safety, supply chain, employee relations, sustainability and campaign initiatives, volunteering, mentoring and work experience, inclusion and diversity initiatives, mental health, wellbeing, leadership development.

Governance

Ensuring that as an organisation, you work to the highest standards of moral and ethical behaviour. This element is all about operating responsibly and making ethics, transparency and compliance a priority of the organisation and encouraging an open and honest culture throughout the organisation.

This strand could include - executive compensation, transparency, reporting and disclosure, supply chain management, industry collaboration, compliance, human rights, modern slavery, training.

When considered together, ESG provides an indication of the organisation's corporate culture and how ethically and sustainably it operates.

Why Does ESG Matter?

The aim is to take steps today to create a more sustainable and resilient tomorrow. It is all about working in a way that considers environmental, social and governance elements – focussing on conducting 'business' ethically in all three areas.

ESG matters because:

1. It is often viewed as the more tangible aspect of Corporate Social Responsibility (CSR).

2. It refers to three key elements that affect the sustainability of an organisation – with the environmental aspect leading the charge
3. It is a set of standards of how an organisation operates with regards to the planet and its people
4. How an organisation 'performs' with its ESG journey could impact on partnership arrangements with others
5. It ensures the organisation is socially responsible, mitigates risks and generates sustainable strategic goals
6. It improves an organisations reputation and drives innovation.

Being able to demonstrate you have strong ESG credentials can have a positive impact on the culture within the organisation. This can create a happier workplace, positively influencing recruitment and retention and reflect well with your supply chain partners.

ESG and the Law

There is no single Act relating to ESG, but rather it is captured by a number of pieces of legislation each of which covers specific elements.

Of particular note are the following:

- The Climate Change Act 2008²
 - The Act mandates the reduction of carbon emissions and was updated in 2019 to commit the UK to achieve net zero status by 2050.
- The Public Services (Social Value) Act 2012³
 - This Act makes clear reference to ESG requiring public sector agencies when they are procuring to consider how the commissioned service could bring added economic, environmental and social benefits. This Act requires provider organisations to the public sector to include social value responses in their tender documentation.

The public sector has a significant impact on the environment given its size across the UK. It also has a dual role as a provider of essential services such as public transport and waste collection but these inevitably contribute to climate change. It is also a regulator and standard setter – putting forward a framework of environmental rules. This reality means that the public sector will be instrumental in meeting net zero targets.

In 2021, CIPFA commissioned '[Evolving Climate Accountability](#)' – which examined the practice of sustainability reporting in the public sector. This is a useful report in setting out both the expectations and the barriers to sustainability reporting⁴.

The ESG Journey

In embarking on your ESG journey, there is first a need to understand your baseline – what is your starting position? What do you have in place now? Where do you need to get to?

Planning is essential. Net Zero will not be achieved overnight and there will be a need to manage expectations of the board, senior leaders and elected officers that this is a long-term strategy for change and not a quick win.

Within each element of ESG activity, there will indeed be quick win solutions, but once the low hanging fruit has been picked, the hard work will begin.

Everyone is on the same journey and this can help to share plans, direction of travel, initiatives and learn from others.

As with any large programme or transformational change project, there is a need to identify, analyse and manage risks that could impact on the achievement of objectives.

In addition, steps taken to make ESG improvements could create new risks to existing processes that may subsequently need to be managed. The Risk Manager in the organisation needs to be involved in the process, supporting and guiding to ensure risks are not missed.

ESG Risk Management

An ESG programme is in itself a form of risk management. ESG data which includes scores and ratings is used to assess the ESG profile and level of ESG risk exposure. ESG rating providers use different methods and question sets to rate organisations, but all will be helpful in highlighting gaps in ESG risk management.

Integrating ESG elements into decision-making processes is good risk management. It should be part of your standard risk processes and built into your risk management framework⁵.

ESG risks are effectively the strands highlighted earlier for the elements environmental, social and governance.

These could include:

- Carbon footprint
- Water usage
- Greenhouse gas emissions
- Deforestation
- Wage equality
- Supplier practices
- Data privacy
- Human rights violations

- ESG disclosures
- Corruption and fraud prevention.

Embedding ESG Risk into an ERM Framework

Building an effective enterprise risk management framework will help you assess your ESG risks and develop strategies to manage and control them.

Six key steps to consider are:

1. Coordinate all responsible parties
 - a. ESG needs collaboration across the organisation.
2. Prioritise and rate your ESG risks
 - b. Focus on the most impactful ESG risks for your organisation and then the others will follow.
3. Determine your risk tolerance
 - c. Allocate budget and resources in accordance with your risk tolerance levels.
4. Define and set your sustainability development goals (SDGs)
 - d. Know your organisations ESG management objectives. Will you change environmental practices? Set achievable goals with a defined timeline and metrics so that you can track progress and measure success.
5. Align internal and external communications
 - e. Be sure to share your journey!
6. Monitor and adjust risks as needed
 - f. As you move through your journey, ESG will also move forward and so your risk process needs to be fluid and live to flex as your risks and requirements change⁶.

Summary

Requirements to improve the ESG risk profile and work towards a net zero target continue to become more formalised. Much of the guidance remains non-mandatory, but the UK Government is stepping up its efforts in shifting corporate responsibility by making non-mandatory guidelines mandatory. This is particularly so in respect of climate change issues. We will likely see more ESG conscious procurement exercises being run and a growing importance place on social value⁷.

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Further information

For access to further RMP Resources you may find helpful in reducing your organisation's cost of risk, please access the RMP Resources or RMP Articles pages on our website. To join the debate follow us on our LinkedIn page.

Get in touch

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