Recommendations on standardising and regulating ESG performance and assessment, and defining impact in the UK

April 2022

This report is based on input to meetings of the APPG on ESG held between October and November 2021, case studies submitted by the group's sponsors and additional research by College Green Group. It is funded by the APPG's sponsors: CBRE Investment Management, KPMG UK, Simply Sustainable, The Gym Group, EDF Energy, Insig AI, Hatch and Severn Trent.

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Introduction

This report comes at a pivotal stage in the evolution of Environmental, Social and Governance. At COP26, global leaders and executives gave climate change and net zero renewed focus with important implications for ESG. The conference coincided with the establishment of the International Sustainability Standards Board (ISSB), which will become a major actor in propelling ESG reporting requirements. Meanwhile, the UK Government announced Britain's largest businesses would be subject to the Task Force on Climate-related Financial Disclosures (TCFD). Mandatory reporting comes into effect in April. In the coming year, the APPG on ESG expects the Government's Green Technical Advisory Group (GTAG) to also begin flexing its muscles.

Expectations are high that the Government will take global leadership in ESG, much as it did on climate change in Glasgow. While the European Union has introduced its own Sustainable Finance Disclosure Regulation (SFDR) and green taxonomy, this has become the subject of ferocious debate over the inclusion of nuclear energy and natural gas. The UK Government has an opportunity to take a cautious and ultimately more effective approach in considering reports such as this one and expanding disclosure frameworks into the oft-neglected S and G of ESG, a priority of the APPG. Quick fixes are not the answer to a long-term challenge, but the opportunity for Britain to take leadership, particularly on social and governance, should not be missed.

This report makes a series of recommendations for government intervention to support the private sector as both parties seek to make a positive impact; however the onus is on business to deliver. An important theme of this report is that in many instances, particularly with regard to global supply chains, businesses are uniquely placed to meet ESG objectives. It is therefore essential that frameworks and reporting requirements are designed with an eye on their own needs and challenges in order to encourage their participation.

The recommendations in this document are drawn from two roundtable discussions held either side of COP26. The first covered standardising and regulating ESG performance and assessment in the UK. The second roundtable explored impact, its definition and delivery. The events were highly complementary. On multiple occasions in both sessions participants raised issues in the context of the other discussion.

This report amalgamates those insights under ten headline topics: harmonising metrics, disclosure, international bodies and global corporations, materiality and standardisation, careful compliance, reporting overload, net zero, responsible divestment, social impact and modern slavery – the latter cutting across many of the previous nine topics. Each of the ten sections concludes with a key recommendation. Additionally, the main body of the report is interspersed with case studies providing a variety of insight into how ESG assessment and materiality can be improved in the future.

A common thread is the need for reporting to move in a more qualitative direction in order to meet social and governance objectives. Qualitative assessments are essential to fill gaps that quantitative data cannot. And as we shall see in section 4, 'materiality improving standardisation', a qualitative approach is often critical to bridging the divide between the constructed world of metrics and indicators and the less predictable material world where change needs to occur.

1. Harmonising ESG assessment metrics

Competing metrics, assessment frameworks and standards have held back ESG's progress. Without comparability, investors cannot adequately quantify exposure to ESG-related risks and evaluate opportunities. Furthermore, businesses are known to be more motivated to meet disclosure requirements when they are able to compare themselves against their competitors.

The imperative to harmonise metrics is greater than ever as new reporting frameworks arrive on the scene and metrics covering the S and the G begin to catch up with the E. But it is not simply a case of harmonisation; attention needs to be paid to what is being captured and how that information can drive change.

Markets function more efficiently when stakeholders have access to large volumes of accurate data. The same danger of misallocation due to weak or incomplete data applies in the context of ESG. Investors need access to granular information covering outputs such as greenhouse gas (GHG) emissions, land use, freshwater consumption, employee diversity, pay equality and health and safety.

In addition to working towards harmonised metrics, companies should be discouraged from developing their own, impairing comparability.

Recommendation

To work with the government to support attempts to harmonise ESG assessment metrics with a view to improving comparability, granularity and quality of data.

2. Mandatory disclosure

What gets measured gets done, which is why metrics and disclosures are such an important feature of ESG. Reporting requirements have expanded rapidly in recent years. The TCFD and SFDR have become central to this upward trend, and are soon to be joined by the International Sustainability Standards Board (ISSB). Disclosures are moving away from purely financial information. Board-level diversity and gender pay gap reporting, for example, are increasingly being framed through TCFD disclosures.

However, these frameworks need to be accompanied by appropriate resources to ensure relevant information is collected and disclosed. KPMG UK found that 68% of respondents to an audience poll conducted in early January 2021 said they did not feel that they were sufficiently prepared to deal with reporting requirements. The professional services firm cited the confusing web of acronyms and frameworks, some of which are compulsory, others not – see the case study below on KPMG's climate disclosures programme.

KPMG UK's climate disclosures programme

In 2021, the Financial Conduct Authority (FCA) issued new rules requiring larger firms to provide climate-related disclosures in their annual reports, starting in 2022. KPMG UK helped businesses understand the requirements by hosting an event in October 2021 featuring speakers from the FCA and the Climate Disclosure Standards Board (CDSB) to explain the new rules and guidance. The event is being followed by a series of sector focused roundtables intended to help raise the level of transparency in climate disclosures across the market.

More fundamentally, international organisations, national governments, agencies and regulators need to effectively convey how disclosures can serve as necessary and powerful drivers of change. Former governor of the Bank of England, Mark Carney, a pivotal figure behind TCFD, has been successful in communicating how climate change can pose real financial risks, strengthening the case for non-financial disclosures. Similar leadership with regards to social and governance, as well as other aspects of environmental, would be extremely welcome.

There are also methods of inviting executives to ask the right questions of their businesses, prompting greater demand and supply of ESG-related data. Asking investors to view potential risk through a pre-financial lens is an excellent way to encourage them to estimate future material risks and consequently pivot away from those outcomes by ensuring businesses provide a wider range of ESG-related metrics.

Qualitative analysis needs to be incorporated into the process too. A more granular level of understanding ESG failures enables companies to oversee effective internal reforms. An example shared with the APPG concerns gender balance on company boards. Businesses are often guilty of trying to improve diversity without offering any insight into how and why it is good for the company. This can descend into tokenism hidden behind a barrage of metrics. Deeper data is likely to indicate where reform is needed, helping to deliver change and ultimately impact – section 6 explores converting compliance into change.

Furthermore, information on gender balance is often contained within financial reporting, but rather than being consolidated into a single social report, it is scattered across several disparate documents. This underlines the need for support from agencies and regulators to pool and share best practices.

More broadly, frameworks like TCFD and SFDR need to be expanded or replicated to cover social and governance.

Recommendation

Support the efforts of independent, international bodies, such as the TCFD and ISSB, to enhance mandatory disclosure needed to improve investors' understanding of a company's ESG risks and opportunities.

3. International bodies and global corporations

As ESG becomes a more integral part of modern-day capitalism, it will be necessary for the Government to engage with the transnational nature of capital flows and acknowledge that global corporations are in a unique position to address major challenges beyond the capability of national administrations, particularly those relating to human rights abuses linked to supply chains.

Two frequently cited examples are conflict minerals and metals, and modern slavery (see section 10) in the textiles industry, a more recent and shocking example discussed by the APPG on ESG is the treatment of Uighur Muslims in Xinjiang province, China.

It is widely understood that Uighur forced labour is exploited for the manufacture of solar cells and panels. In such cases, the purchasing power of corporations can act as a powerful tool. Boycotting is an extreme measure; a more suitable approach may be for businesses to shift towards deliberate and thoughtful impact-based decisions with their future procurement and supply agreements. As we shall see in section 8 divestment should always be a last resort, necessary only in extreme cases, the mass selling of Russian assets following the invasion of Ukraine being the obvious example. It is a blunt instrument and means losing any influence on the ground.

Simply Sustainable's work with a leading UK-based aviation company

With the UK due to become the first G20 country to make it mandatory for businesses to disclose their climate-related risks and report against TCFD, the transportation sector, particularly in aviation, faces stricter targets. Consequently, this company has decided to apply TCFD recommendations ahead of schedule.

Simply Sustainable has crafted the group's CSR strategy and frameworks, conducting gap analysis and internal reviews of existing drafts under each element of the framework. The assessments have helped identify opportunities for improvement and have been circulated among senior management to gather additional information and redraft existing content with critical insights.

The resulting report satisfies current TCFD disclosure expectations in preparation for compulsory mandates this year. It also outlines the progress the company has made in understanding and managing climate risk, which in 2021 informed the board's decision to commit to a net zero target by 2038.

A perennial issue is that it is simply not known whether slave labour is involved in a given supply chain, global corporations are uniquely positioned to fill these information gaps. The challenge here is that executives are aware their companies will face severe reputational damage in lifting the lid on the extent of forced labour. Some will be unlikely to investigate and root out human rights abuses in their supply chains knowing their competitors will likely gain an advantage by remaining silent.

This underlines the need for reporting frameworks to allow businesses of all sizes to highlight the social benefits they are delivering. This is a necessary measure in the short term that will help create a corporate environment inclined towards investigating and disclosing negative impacts in addition to the positive.

By incorporating labour disclosures into international frameworks, multinationals will be reassured that they are on a level footing. Only once it is accepted that any links between human rights abuses and supply chains are routinely reported, will there be systemic change with a material impact.

But in the lead up to this level of disclosure, this report emphasises the need for a soft and collaborative approach. In the short to medium term, businesses and investors should be encouraged to disclose more. Those relying on supply chains suspected of using slave or child labour should not be dissuaded from meeting other ESG objectives, including social, for fear of being accused of greenwashing. During the two APPG roundtable discussions that fed into this report it was noted that the accusation of greenwashing can be too easily levelled at businesses, which is counterproductive.

A technical consideration that the Government needs to feed into its sustainability disclosure requirements following the introduction of the EU's SFDR regime is how to categorise different investors. SFDR is known to have caused headaches for asset managers as they struggle to determine whether their funds fall under Article 8 ('promoting' ESG) or Article 9 (active reduction of negative impact) under the EU regulation.

Recommendation

Work with independent, international bodies, like TCFD and ISSB, to create ESG-focused guidance designed for global companies that leverages the power these companies have to transcend borders in ways governments cannot.

4. Materiality and improving standardisation

The emergence of international frameworks like the TCFD are pivotal towards bringing about wider and deeper reporting. Section 1 addressed the need to harmonise assessment metrics to facilitate disclosures, enabling the financial sector to successfully judge whether businesses are meeting common ESG standards.

However, a standardised approach to assessing risk will not meet sustainability objectives entirely, hence the need for a sectoral approach allied with qualitative analysis. Ignoring the sector in which a given business operates automatically disguises where it is causing the greatest material impact, which it should actively seek to address. For example, a professional services firm may choose to reduce its water consumption, but this measure has a far lesser impact compared to a bottling company doing the same. It is therefore essential that standards are accompanied by a sector-by-sector analysis of common ESG material impacts, which need to be monitored and reported.

The APPG on ESG recommends the establishment of a central register where stakeholders submit material ESG concerns specific to individual sectors – see KPMG's 'Our Impact' report as an example of what the register could look like. The central resource will help inform an ESG disclosure regime directly linked to addressing material externalities.

KPMG UK's 'Our Impact' report

KPMG UK's 'Our Impact' ESG report, first launched in September 2021, is an easily accessible and fully transparent report that brings together the firm's holistic ESG impact information. The site is updated year-round with data, commitments and case studies. Through this report, KPMG UK hopes to lead the way in encouraging the entire business community to move towards consistent, comparable and best practice ESG reporting.

KPMG UK has committed to voluntarily reporting against the World Economic Forum International Business Council Stakeholder Capitalism Metrics. Reporting against this framework has allowed the firm to demonstrate its successes (KPMG UK is the first UK firm to report socio-economic background pay gaps and set representation targets), but most importantly where it needs to go further.

The register will play an important role in rebalancing ESG frameworks in favour of social and governance. Building a stronger sense of what the material social and governance issues are in a given sector supports the adoption of new and superior sector-based standards such as those in the hospitality and aviation sectors.

A more accurate and differentiated understanding of impact promises to eventually boost double materiality reporting. This poses a challenge for businesses operating in sectors such as oil and gas that will always struggle to reduce their impact, which again highlights the need to counter greenwash shaming. Subdividing ESG according to sector helps to ensure businesses are treated in their proper context, meaning expectations are more likely to be set at the appropriate level.

Double materiality reporting confronts businesses with the ESG-related risks they face, enabling them to devise more robust KPIs. Thus ESG, rather than being a superficial add-on primarily functioning as a marketing tool – known often to be the case – holds the promise of becoming a fundamental part of company strategy as standards and qualitative reporting progress.

Natural England's biodiversity metric

The Environment Act contains a new biodiversity net gain condition for planning permissions. To meet this requirement, companies will need to measure biodiversity gains using Natural England's biodiversity metric.

The biodiversity metric is a habitat-based approach that can be used to calculate how a development, or a change in land management, will impact the biodiversity value of a site. It can be used for land and intertidal habitats, including hedgerows, rivers and streams. The metric consists of 'biodiversity units', which are calculated based on the size of a given habitat, its quality and its location.

The tool assesses existing habitats and planned new habitats created by a development or land change. It can help design, plan and make land management decisions that take better account of biodiversity. The metric should be used in conjunction with ecological advice.

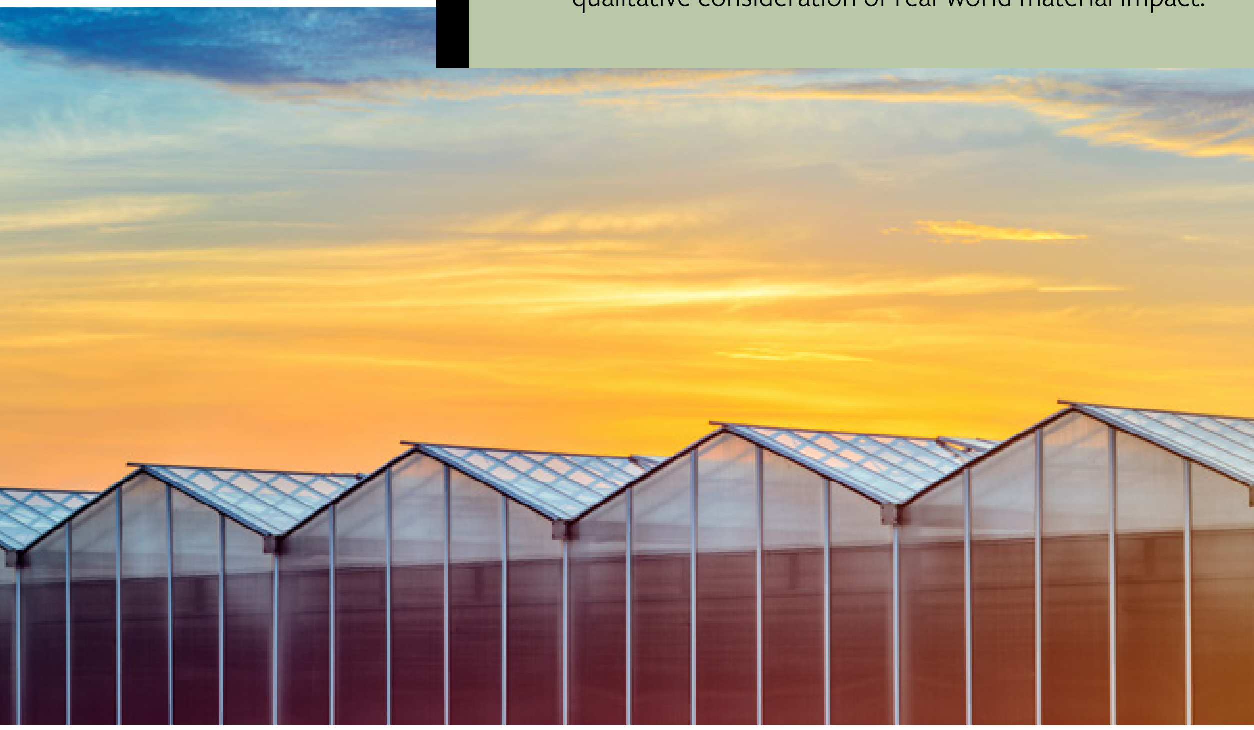
The user of the tool needs to submit the following information:

- The types of habitat, on-site and off-site
- The size of each habitat parcel in hectares – or kilometres if it is linear (rivers and streams, hedgerows and lines of trees)
- The condition of each habitat parcel

The proliferation of double materiality reporting would also be assisted by the development of new government metrics and methods of measuring impact, for example, Natural England's biodiversity net gain tool (see case study on the previous page). The APPG recommends that government departments and agencies develop similar instruments focused on various ESG issues. A toolkit to measure social value would be just one welcome addition.

Recommendation

Begin to address the tension between standardisation and materiality in ESG reporting by creating a government-led central register of material ESG concerns facing each sector, promoting qualitative consideration of real-world material impact.



5. Avoiding negative impacts through ESG compliance

This section explores ways in which we can help avoid measures that subtract negative impact on one ESG dimension, only to add on another – for instance, moving manufacturing from one country reliant on coal to somewhere greener, only to find human rights records are poorer in the new location.

Environmental Product Declarations (EPDs), which communicate the life-cycle impact of construction products (see case study below) enable manufacturers, purchasers and investors, to make informed decisions as they try and meet ever more ambitious ESG-related objectives.

Environmental Product Declarations in the construction sector

The world's building stock contributes to over a third of greenhouse gas emissions. However, as buildings become more efficient, embodied carbon occupies a large percentage of their carbon footprint.

Within the construction industry, EPDs support carbon emission reduction by making it possible for architects, engineers and designers to compare the impacts of different materials and products in order to select the most sustainable options. Meanwhile, manufacturers are able to optimise the impact of their products.

EPDs in the construction sector are voluntary. However, their use is rapidly growing in line with awareness of environmental impacts. EPDs are in increasingly high demand among public and private stakeholders in other sectors.

The APPG on ESG recommends the Government seeks to roll out the application of EPDs to a wider range of sectors. Additionally, over time, EPDs should be expanded to include social and governance data in order to obtain a comprehensive picture of a given product or service's ESG impact.

Blockchain-type technology will be one driver of this transformation, enabling participants at every link in a given supply chain to record a diverse range of metrics that are then aggregated.

Simply Sustainable's work with a UK-wide private landlord

Simply Sustainable assessed a nationwide landlord's current ESG performance against best practice and provided an ESG roadmap with detailed recommendations for improvement.

By identifying areas for improvement for ESG scores, the team conducted a scanning exercise of emerging topics and legislation. This process identified material issues with respect to long-term industry vision and created the outline of a bespoke ESG tool for delivered optimisation.

The evaluation formed the basis of the recommendations given to the company to improve its overall approach concerning performance and ESG disclosures. Most notably, the ESG Roadmap delivered greater ESG optimisation and reputational value by integrating sustainability into the company's culture, objectives and policy.

Distributed ledger technology used in this way can assist efforts to give supply chains covering numerous countries much greater transparency, and again highlights multinationals' unique position in being able to expose environmental degradation and human rights abuses in countries across the globe, provided that they are able and willing to access that information.

To quote one participant at an APPG roundtable, "Apple and Google are almost East India-style companies and operate at the scales of some countries". On that basis, these massive corporations and other multinationals should be empowered to launch life-cycle analyses for their products.

Recommendation

In instances where progress is made on one element of ESG, regulation should require companies to demonstrate that this does not result in negative impact elsewhere.

6. Supporting businesses facing numerous reporting frameworks

Businesses face ever-increasing reporting requirements, as previous sections of this report have highlighted, that trend needs to continue. But already, compliance officers find themselves overburdened with a confusing array of metrics, standards and frameworks. It is not unknown for companies to develop their own metrics, confusing the picture further.

The starting point is for government agencies to offer assistance so that businesses, particularly smaller enterprises, can meet their reporting requirements. And as compliance moves further into the S and the G with a focus on qualitative assessment, businesses will need even more sector-specific guidance in accordance with the recommendations in section 4. Stakeholders should also be encouraged to share best practice. Government agencies should then feed insight from best practice submissions back into their guidance.

New frameworks need to be simplified as much as possible to make ESG reporting more inclusive and accessible for smaller companies. An important bottleneck to address is the lack of staff with the necessary skills to fulfil reporting requirements. Companies are likely to need support with upskilling, which the Government will need to help address.

The APPG on ESG is also conscious that compliance can easily turn into a box-ticking exercise rather than a force for transition. Change comes from the top so company boards need to be continuously engaged with ESG both on the performance and assessment side, as well as impact. However, executives, much like their staff tasked with preparing the disclosures, will not feel empowered to further ESG objectives without greater clarity.

Recommendation

Ensure the increasing number of reporting frameworks do not hinder ESG performance by creating resources to support businesses in addressing the question of which is right for them.

7. Encouraging businesses to help reach net zero

Participants in successive APPG on ESG roundtables agreed that the UK's forthcoming green taxonomy should be broadly aligned with the EU's to avoid yet further confusion for businesses and investors. Similarly, the distinction between green and impact funds contained within the EU's Sustainable Finance Disclosure Regulation (SFDR) was largely viewed as a valid model to replicate in order to direct capital towards business models built around reversing environmental impact, rather than simply reducing it.

The task at hand is to encourage the vast majority of businesses to transition towards net zero, along with other sustainability and social objectives, with ESG as their guide. As one roundtable participant put it, Article 9 – the title under SFDR that classifies impact funds – "isn't an excuse to let other ESG criteria slip".

CBRE Investment Management Brindley Place

Brindley Place is an office building located in Birmingham city centre. The major refurbishment and repositioning project has provided an opportunity to significantly improve the ESG performance of the building through sustainability features. These include:

- A target to achieve a minimum BREEAM rating of Excellent and EPC rating of B
- 100% construction waste diverted from landfill
- Structural frame maintained to save on embodied carbon compared to new development
- All electric systems powered by green energy
- 840 sq ft of on-site solar PV
- 65% annual energy savings compared to a typical office
- 100 cycle spaces and 24 EV charging bays
- The first Fitwel building in Birmingham
- A climbing wall and wellness studio

Additionally, the project has a social plan which aims to add 5% social value to the community. This is assessed using a platform called MiSocial, developed by construction firm Willmott Dixon. Social targets have been agreed with Birmingham City Council relating to the following outcomes:

- More opportunities for disadvantaged people
- Improved skills
- Improved employability of young people
- More opportunities for local MSMEs and VCSEs
- Improved staff wellbeing and mental health
- Crime reduction
- More work with the community

Diversity targets are set to ensure equal training and work experience opportunities are offered to local residents.

Section 4 on materiality and standardisation showed how reducing impact requires a qualitative approach. How for instance can a new net zero development be justified in the place of a building containing thousands of tonnes of embodied carbon? The new net zero building will take more than a decade to reclaim the emissions embedded in its bricks and mortar. In this scenario, surely the more sustainable option would be to retrofit the existing building? This cannot be answered without a much deeper qualitative understanding of the developer's decision-making process.

Bridging the gap between standardisation and materiality also demands context, a basic principle behind sustainability. Returning to the building example, it is impossible to judge whether a new net zero carbon building will truly contribute to reaching net zero without an appreciation of the size of the building, its purpose, its power consumption and so forth. Social considerations should also be incorporated; for instance, is the building in a deprived area? See CBRE Investment Management's Brindley Place case study above.

From the micro to the macro, taking commercial enterprise to net zero also requires leadership and engagement – for an example of the latter see KPMG UK's climate disclosures programme on page 6. The question over coal being phased down rather than being phased out at COP26 should not detract from the event's historical significance of hundreds of governments and businesses pledging to reach net zero over the coming decades.

The global target is 2050, but businesses will be aiming to get there much earlier – the case study featured on page 8 references a UK aviation company aiming to reach net zero by 2038. Between now and then UK leaders must continually show their commitment to the cause and engage with business leaders who are for the most part tasked with the transition.

Recommendation

Encourage businesses to play their part in reaching net zero by ensuring UK ESG policy incentivises businesses to state how they are bringing operations in line with the UK's net zero commitments.

8. Responsible divestment

A priority for disclosure frameworks is to close off greenwashing loopholes through divestment. A well-known example is BP's sale of its petrochemicals division in 2020. From a disclosure perspective, the oil and gas giant immediately improved its ESG credentials, but the effect was zero as the polluting asset was still active.

Divesting ESG-unfriendly assets is likely to have a negative net impact if the investors have a track record of flouting regulations. The Government and independent regulators like the Financial Conduct Authority (FCA) have a difficult balance to strike, as they cannot force companies not to divest, however raising environmental regulations too high risks capital flight and divestments to undesirable new owners and jurisdictions. Moreover, divestment completely removes the opportunity to improve the asset's social and environmental footprint.

The BP example is just one of the more recent in a long tradition of corporations working around the rules to suit their interests. Disclosures need to be more sophisticated and not allow for incentives to align in the way they did for BP and its investors. Wider consultation is certainly needed as there are no quick fixes. It is essential that the Government engages with businesses and helps them manage the transition, or in BP's case, phase-out.

Recommendation

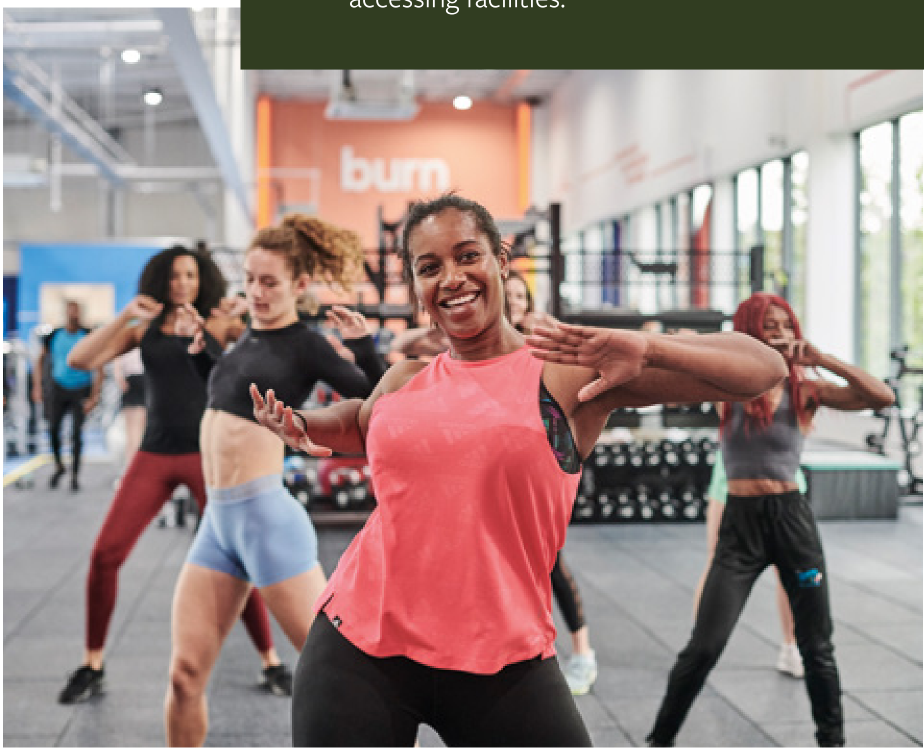
Develop frameworks for responsible divestment that can be used across markets and tie into current ESG reporting.

9. The S in ESG and impact

Not every enterprise can create social value in the nature of its business, but most can by virtue of employing staff and operating within a community. Many businesses incorporate local initiatives into their day-to-day operations – see CBRE Investment Management's Angel Centre case study underneath this section.

The Gym Group and Sheffield Hallam University's Social Value Calculator

The Social Value Calculator (SVC), based on research conducted by the Sports Industry Research Centre at Sheffield Hallam University, has been used by The Gym Group – a national operator of over 200 low cost gyms – to measure the social value their private-sector gyms generate through their membership. The SVC allows the group to see the impact of its organisation on health, mental well-being, individual development and social and community development. It is a measurement of the individual and societal benefits resulting from physical activity and the value it creates for the community. Figures were obtained by considering the number and frequency of individuals exercising, demographics and other socio-economic factors. Calculations show that The Gym Group's venues generated £2.5 billion in social value since 2017, with each gym generating an average of £4 million in social value in 2019. This represented a growth in social value over the preceding years before the pandemic prevented members from accessing facilities.



The emergence of more comprehensive social reporting frameworks will provide businesses with opportunities to explore ways in which they can continually benefit the community.

As things stand, disclosures with little qualitative input are limited in facilitating material gains. Returning to the example of gender reporting, a company may disclose a higher number of women on its board and among senior managers, but the real impact relates to how having more women in higher positions has shifted opinions and perspectives with positive knock-on effects for the company over time.

Quantifying these outcomes need not be imprecise. Sheffield Hallam University devised a 'Social Value Calculator' (see case study on the previous page) to estimate The Gym Group's added value to the communities around its fitness centres spread across the UK. The exercise broadened the fitness chain's understanding of the social benefits it routinely creates with the potential to align future business strategy with S material gains.

Recommendation

Promote an understanding that companies have a societal responsibility that extends beyond their own operations.

CBRE Investment Management's Angel Central

In August 2021, the Angel Central shopping centre in Islington, London, organised a four-day-long summer fête for tenants and the surrounding community. The event was designed to celebrate the completion of the £16m refurbishment of the centre and focused on activities for the local community.

During the long weekend, Angel Central added to its alfresco dining area and introduced space for new sustainable initiatives. Angel Central's Green Market featured a selection of sustainable London-based crafters, and a local urban beekeeper was on-site to educate children on how to protect the UK's bee population. The fête also included free family entertainment, exclusive evening shows at the Angel Comedy Club, early morning yoga, outdoor fitness classes and free children's workshops at the Little Angels Club.

The refurbishment work demonstrated a multi-faceted approach to ESG. It included a reconfiguration of retail and leisure space, redevelopment of a pedestrian link bridge, enhanced public space, and the installation of various energy efficient technologies such as smart metering and controlled LED lighting. A BREEAM Excellent certification was awarded for the refurbishment and Angel Central also became one of only three shopping centres globally to achieve a 2 star Fitwel wellbeing rating.

10. Modern slavery

At the heart of the issue of modern slavery is businesses' reluctance to stick their heads above the parapet to launch their own investigations into potential abuses, handing competitors an advantage as they potentially suffer severe reputational damage. Nike's investigation into its supply chains (see case study below) is an exception. Furthermore, supply chains are often long and transnational. Exposing human rights abuses spread across multiple countries – many of them under-regulated with high rates of corruption – along numerous layers and links in the supply chain is far easier said than done.

It is incumbent upon all stakeholders to seek greater transparency. The starting point is to introduce a disclosure framework for modern slavery along the lines of the TCFD. Such a measure will place all operators under the same obligations to report on their supply chains and provide them with a roadmap towards a more ethical business model. A new disclosure framework would have to incorporate new metrics covering workforces and locations to appropriately assess risk.

However, metrics will not capture the entire picture. The new framework needs to encompass qualitative reporting and take a sectoral approach. The garment industry is far from the only sector known to exploit forced labour and the circumstances of each are different.

Better reporting will help investors as they try to navigate around risky assets, but there also needs to be an element of dissuasion. This report recommends expanding the scope of the Modern Slavery Act to encompass investors as well as supply chains.

Nike and child labour

In the 1990s, Nike was plagued with damning reports that its global supply chain was being supported by child labour in South East Asia. The reports showed that minors were stitching footballs and other products as many as seven days a week for up to 16 hours a day. Meanwhile, minimum wage and overtime laws were being flouted on a regular basis. After the practices were exposed, Nike's reputation became severely damaged and sales plunged.

The US sports apparel manufacturer reacted by overhauling supply chain oversight – 9,000 young workers were interviewed in Indonesia alone. It introduced independent monitoring, released the names and locations of factories, changed workplace practices and began publishing regular progress reports.

Nike's public commitment to ethical supply chains continued into the next decade. When Saga Sports, Nike's supplier for the 2006 World Cup was shown to use child labour, the company recalled all equipment at a cost of $100m. Sweatshop scandals involving Nike and other manufacturers have continued to break, highlighting the depth of the problem that one brand acting alone will not be able to resolve.

Businesses will require support as they comply with more demanding disclosure requirements. This report recommends an amnesty period for companies reporting and actively combatting slavery in their supply chains. Currently, the penalties are harsh, and the Government needs to recognise that transparency will be hard-won without greater initial leniency.

As discussed, multinational corporations typically have significantly greater reach globally, however, governments are often better informed on human rights abuses linked to supply chains and certain products manufactured using forced labour. Government departments should play an advisory role in supplying this information to businesses. This report recommends the formation of a government taskforce to support British businesses in identifying and addressing modern slavery.

One of the taskforce's obligations will be to counter social washing or 'bluewash' shaming. This will be a major priority, otherwise, human rights abuses are likely to continue to go under-reported in a climate of fear. This report strongly recommends the taskforce engages in constructive dialogue with charities and pressure groups that typically level accusations of greenwashing.

Recommendation

Encourage more transparency in reporting on modern slavery by implementing amnesty periods for companies to address reported modern slavery in supply chains, and by creating a taskforce to support British businesses in identifying and addressing the issue of modern slavery.

Conclusion

This report constitutes a collection of recommendations expressed by a diverse group of experts who attended the APPG on ESG's roundtable discussions in October and November 2021. Several overlapping themes emerged from these discussions; the most prominent being the need for greater qualitative analysis and reporting as ESG progresses, particularly in S and G. Qualitative assessments enable stakeholders to appreciate the underlying issue, providing a platform for change and eventually delivering reduced or even reversed impact.

A related priority is for sectoral analysis to become a more common feature of ESG to assist reporting, define impact, optimise internal operations and facilitate the sharing of best practice.

The APPG on ESG hopes that more intelligent, user-friendly, and expansive reporting frameworks covering all three pillars of ESG will be much better adapted to tackling environmental issues and human rights abuses embedded within supply chains that are in urgent need of addressing.

It is essential that businesses and investors are empowered to meet more ambitious reporting requirements and deliver material gains. And while the onus is on these stakeholders to deliver change, it is imperative the UK Government takes leadership in driving through the recommendations outlined in this report and engaging with the commercial sector to maintain momentum.

Glossary

CDSB	Climate Disclosure Standards Board
COP26	26th Conference of the Parties to the United Nations Framework Convention on Climate Change
ESG	Environmental, Social and Governance
FCA	Financial Conduct Authority
ISSB	International Sustainability Standards Board
SFDR	Sustainable Finance Disclosure Regulation
TCFD	Task Force on Climate-related Financial Disclosures