Teneo '23 & ESG Series

The DNA of 2023 Australian Sustainability Reports

Teneo Insights / October 2023

Sustainability standards continue to develop globally and in Australia. Central to this discussion are stakeholder expectations and where the goalposts are for companies amid increasing scrutiny on commitments, ambition, performance and transparency.

Stating a commitment to a particular sustainability issue is no longer enough – stakeholders expect clear commitments across a range of ESG performance benchmarks, measurable targets and transparent reporting on progress on a regular basis. The focus on progress is becoming a focal point as many companies begin approaching some of their target deadlines.

Sustainability Reporting is Increasingly Central

Sustainability reporting is an increasingly important component of disclosures for companies in Australia, driven by heightened demands from stakeholders—including customers, investors, regulators and civil society organisations. This is further supported by the continued momentum behind corporate sustainability in international markets including the U.S. and the EU—despite the anti-ESG sentiment emerging in political debates in the U.S.

Standards around materiality assessments, the use of third-party assurances for reporting and well-recognised international frameworks are also increasing. The growing push towards a more centralised approach to reporting —spearheaded by the publication of the International Sustainability Standards Board's (ISSB) inaugural standards earlier this year—will also continue to guide corporate sustainability reporting.

Looking ahead, this will mean less flexibility in how companies disclose sustainability efforts, but far more clarity on reporting expectations—a relief for some after years of contending with conflicting, contradictory and time-consuming standards, frameworks and approaches.

In June, Australia's Treasury released the second of two public consultation papers outlining a proposed implementation of mandatory, standardised and internationally aligned requirements for climate-related disclosures in Australia starting as early as 2024 for large companies.

The next step in this process will be consultation on the draft law before that legislation is introduced to parliament. The government has indicated it is supportive of alignment to the ISSB's disclosure standards (IFRS S1 and IFRS S2), released earlier this year in June.

A Greater Role for Government and Regulators

The Australian Government has shown a growing interest in how companies report their sustainability efforts. Integrity is a central focus, both for government and regulators.

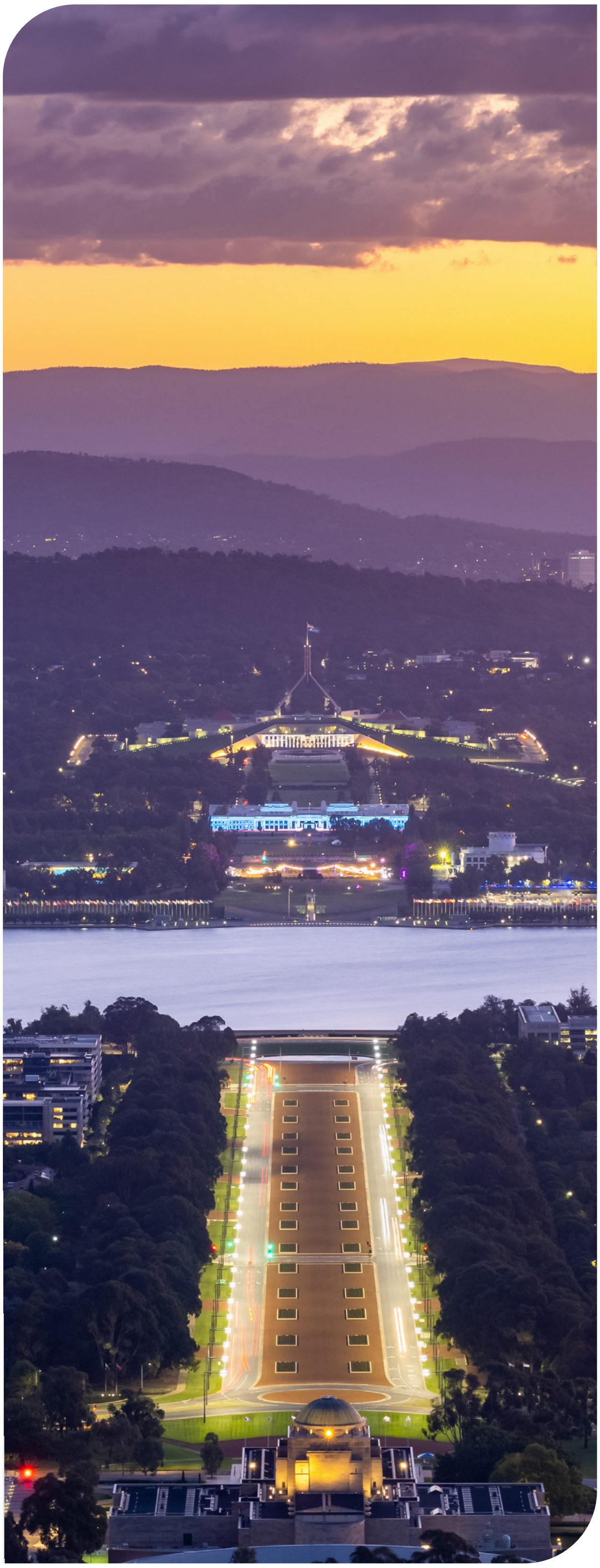
Regulators are increasingly active in the ESG landscape. This has seen some companies limit their public pronouncements on ESG in the hopes of sidestepping scrutiny – also known as "greenhushing."

The Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) have flagged greenwashing as a key focus. Companies are on notice to be careful when using terms like "carbon neutral," "clean" or "green," particularly in relation to investment products, as well as when setting net zero targets without a reasonable basis. Between July 2022 and March 2023, ASIC has made 35 regulatory interventions against alleged greenwashing activity in Australia.

The credibility of carbon credits has been another focus area, with some claims that they are being used to avoid more tangible emissions reduction action. Led by Professor Ian Chubb earlier in 2023, the review of Australia's carbon credits system concluded that the Australian Carbon Credit Units (ACCU) scheme was essentially sound but recommended changes to "clarify governance, improve transparency, facilitate positive project outcomes and co-benefits, and enhance confidence in the integrity and effectiveness of the scheme." The government has accepted the panel's recommendations and published a paper setting out its approach and timeline to implement the requirements.

The Australian Government has also permanently cancelled the controversial Kyoto carbon credits scheme that would have allowed Australia to carry over previous emissions offsets in order to meet Paris Agreement commitments.

This report contains an analysis of the most recent sustainability reporting of 100 companies from the ASX200.



Report format

98% of reports are in a PDF format

Average length **62 pages**

Data

54% include an ESG data table

96% have company-specific representation data

48% had data externally assured

Language

83% of reports used "sustainability" in the report title

The word "sustainability" appears **1.2 times per page**

"ESG" appears **0.6 times per page**

Key issues

91% mention a materiality assessment, **44%** of which were done in 2022

26% of reports include a materiality matrix

65% had a stakeholder engagement section

36% note that the company has a current Reconciliation Action Plan

58% mention their approach to providing employees with flexibility in work, including hybrid or remote systems

Goals

90% of reports mention measurable sustainability goals

70% of companies share their progress against these goals

59% had a section of the report dedicated to goals

91% have goals focused on environmental metrics

70% disclose net zero or carbon neutral targets – **41%** of which are net zero by 2050; while **45%** of reports mention science-based targets

83% of reports included social metrics

Reporting

56% of companies report against GRI

46% of companies report against TCFD

40% of companies report against SDGs

15% mention the ISSB

31% indicate the company adheres to 3 or more reporting frameworks

Governance

88% highlight that ESG is overseen by the board

93% contain a letter introducing the report – this is often the CEO **(52%)**, or jointly signed by the CEO and Chair **(26%)**

"Sustainability" vs "ESG"

The past 12-24 months have seen the rise of "sustainability" as the preferred phrase over "ESG." In many cases this represents a view that sustainability is a broader and more representative term that avoids the inefficient siloing of ESG's three components. The anti-ESG movement in the U.S. should also be considered a factor in the rise of "sustainability."

The majority (83%) of reports used "sustainability" in the report title, followed by 12% which used "ESG." Almost all reports are published in a PDF format (98%), with only 2% published in an online hosted format.

Show Me the Numbers

The average length of a sustainability report was 62 pages. The shortest was eight pages, and longest was 201 pages. The word "sustainability" was more common, appearing an average of 1.2 times per page across the reviewed reports, while "ESG" appeared 0.6 times per page.

As sustainability reporting becomes more and more quantitative, reports are increasingly containing more metrics, data and measurable sustainability objectives. Just over half of reports (54%) include a table assembling significant ESG data, often in the appendix.

Company-specific employee representation data was prevalent in almost all reports, with 96% including at least some data. The most common was gender data, sometimes broken down across business levels or functions.

Just under half of the reports reviewed (48%) had undertaken limited external assurance on at least some of the data included in the report, while 52% either do not mention assurance or clarify that they did not seek external assurance on the report. A small portion of those which did not have external assurance (6%) indicated that they were considering seeking assurance on sustainability data in the future.

Of those reports that did have external assurance, the majority (64%) included both environmental and social data in the assurance.

Figure 1: Report Title Keyword

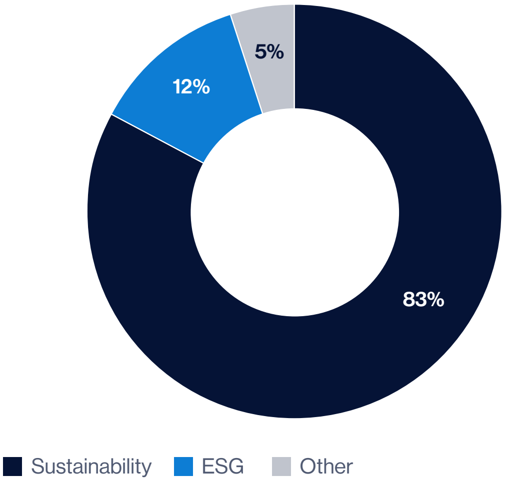
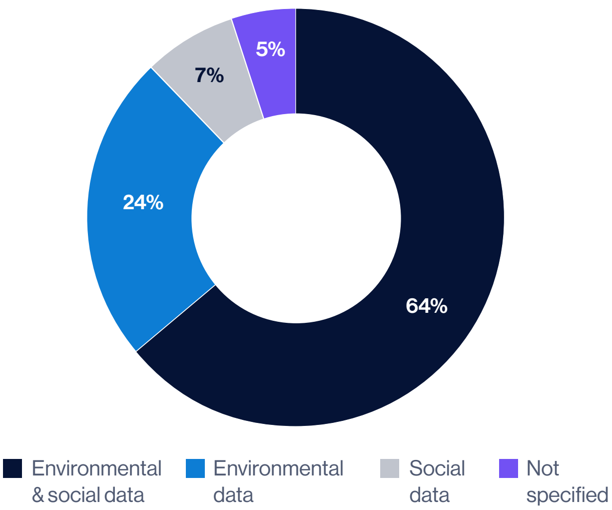


Figure 2: Type of Data Independently Assured



Environmental data includes metrics such as carbon emissions, energy use and waste. Social data includes metrics such as gender diversity and safety.

For most reports with assurance, a letter from the assuring entity is included in the appendix. The most common assuring entities were the Big Four (EY, KPMG, PwC and Deloitte), which combined provided assurance on 77% of the reports with assurance.

You Can't Win 'Em All

When it comes to sustainability, you can't be all things to all people. Aligning with corporate strategy and determining the most material issues where a company should concentrate the majority of its effort are essential. The materiality issues should be the areas in which the company has the greatest current negative impact or where it has the most potential to drive a positive impact, the issues which are most important to its key stakeholders and those which have the most potential to impact its own operations.

Almost all reports (91%) include a mention of a materiality assessment to identify the most critical sustainability issues for the company.

6% of materiality assessments were done in **2020 or earlier**

17% of materiality assessments were done in **2021**

44% of materiality assessments were done in **2022**

33% **did not specify the timing** of the latest materiality assessment process

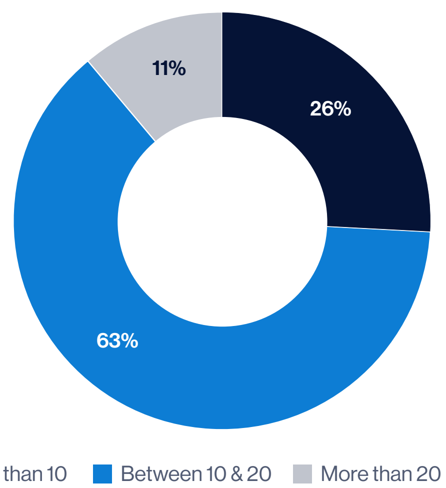
Several reports also mention the cadence of refreshing materiality – whether it is annual or every 2-3 years. Others mention that a materiality assessment has been reviewed and found to still be relevant since the last refresh. Most reports indicate between 10 and 20 material sustainability issues.

26% of reports include a materiality matrix, typically with the axes showing the importance to stakeholders and the impact on the business/significance of the sustainability impact externally.

Most reports (65%) also had a stakeholder engagement section, often required by sustainability reporting frameworks. Just over half (54%) specify a list of key stakeholders.

Of the companies that specify the number of stakeholders, 67% list between four and eight, while 33% list more than eight.

Figure 3: Number of Material Sustainability Issues



Setting Standards Around Setting Goals

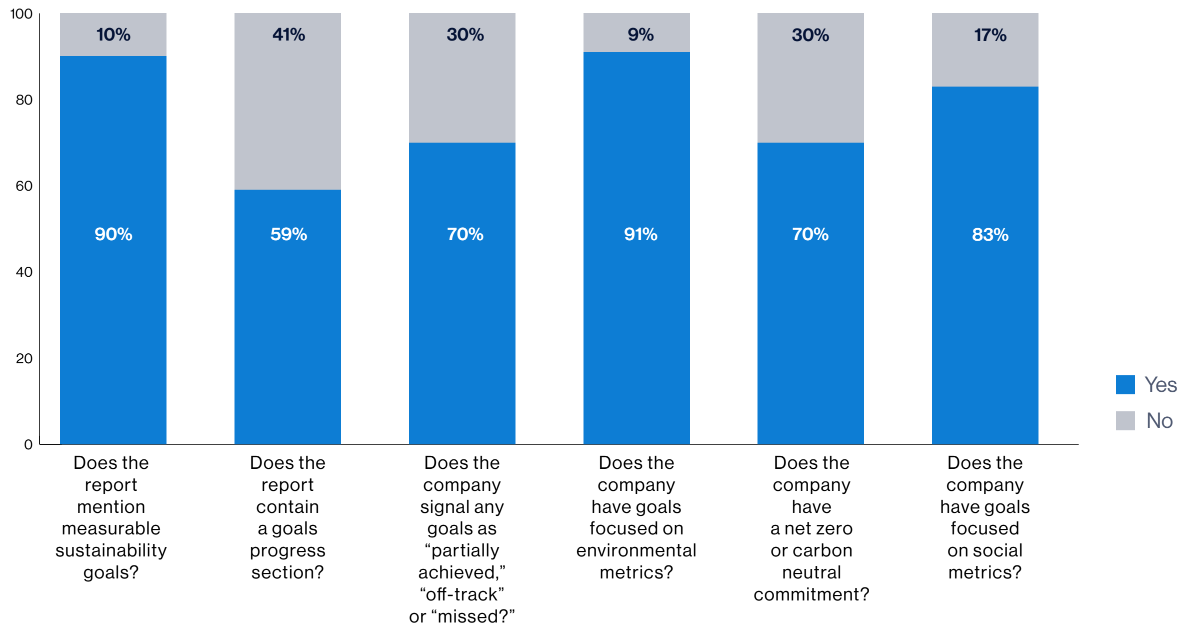
Increasingly, stakeholders expect companies to set specific, measurable and ambitious sustainability goals.

Almost all reports (90%) mention measurable sustainability goals. More than half (59%) had a section of the report dedicated to reporting progress against these goals. Alongside the growing expectation that companies set measurable goals, there is increasing scrutiny around the delivery against these goals—in particular, transparency and clear pathways are expected for longer term goals such as targets for carbon emission reduction.

70% of companies indicate progress against goals, typically by indicating those which are on track/in progress. Less common, but important for transparency, are admissions that goals are off-track and that a course correction is needed.

Almost all companies (91%) have goals focused on environmental metrics with 70% disclosing net zero or carbon neutral targets. 83% of reports included social metrics such as gender diversity or safety targets.

Figure 4: Goal-Setting & Disclosure



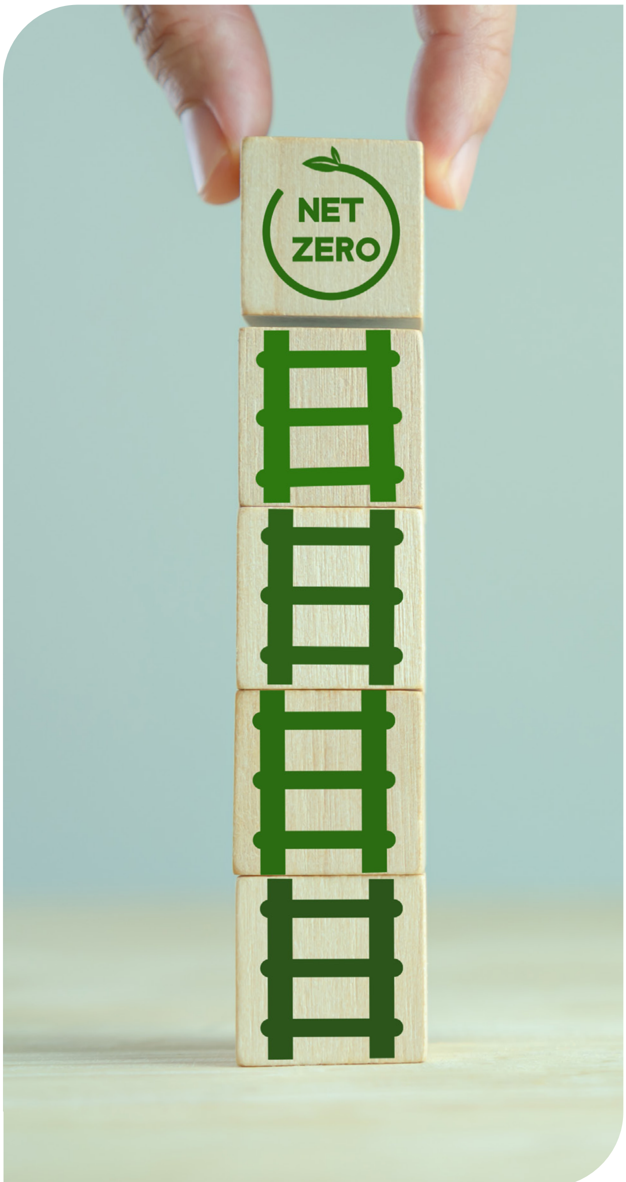
Carbon reduction goals varied – with the most common goal being net zero by 2050 (41%).

- **9% already carbon neutral / net zero**
- **3% net zero by 2025-26**
- **3% net zero by 2028**
- **14% net zero by 2030**
- **3% net zero by 2034/35**
- **14% net zero by 2040-42**
- **41% net zero by 2050**
- **4% carbon neutral by 2023-26**
- **3% carbon neutral by 2035**
- **2% carbon neutral by 2050**
- **4% other**

For some companies that do not have a net zero goal, there is an indication they intend to set one. Just under half of the reports (45%) note the setting of science-based targets, including in many cases where this is in connection to the Science-Based Targets initiative. Some of these mentions were from companies with interim reduction targets which are not for net zero – an increasingly common and credible option amid growing scrutiny on longer term net zero targets without a medium-term pathway or interim goals.

Just over a third (36%) of reports note that the company has a current Reconciliation Action Plan. Of those without a current Reconciliation Action Plan, a small number indicate plans to publish one.

More than half (58%) mention their approach to providing employees with flexibility in work, including hybrid or remote systems.



The Buck Stops Where?

The accountability for sustainability is increasingly for the board – because when things go wrong or proposed efforts don't meet expectations, it is the board that stakeholders want to hear an explanation from. Boards need to show they are engaged in ESG decision making and should be setting the sustainability direction, then receiving regular updates from the CEO and executive committee executing on the sustainability strategy.

The majority of reports (88%) highlight that ESG is overseen by the board. More than two-thirds of reports specify the Board Committee with responsibility for overseeing sustainability.

For 11% of companies this is the Audit & Risk Committee, and for 2% this is the Nominating & Corporate Governance Committee. 12% have a dedicated Sustainability Committee, while a further 22% others have a variation on a Sustainability Committee. 12% of companies indicate sustainability is overseen by all or multiple Board Committees.

Figure 5: Board Committee Overseeing Sustainability

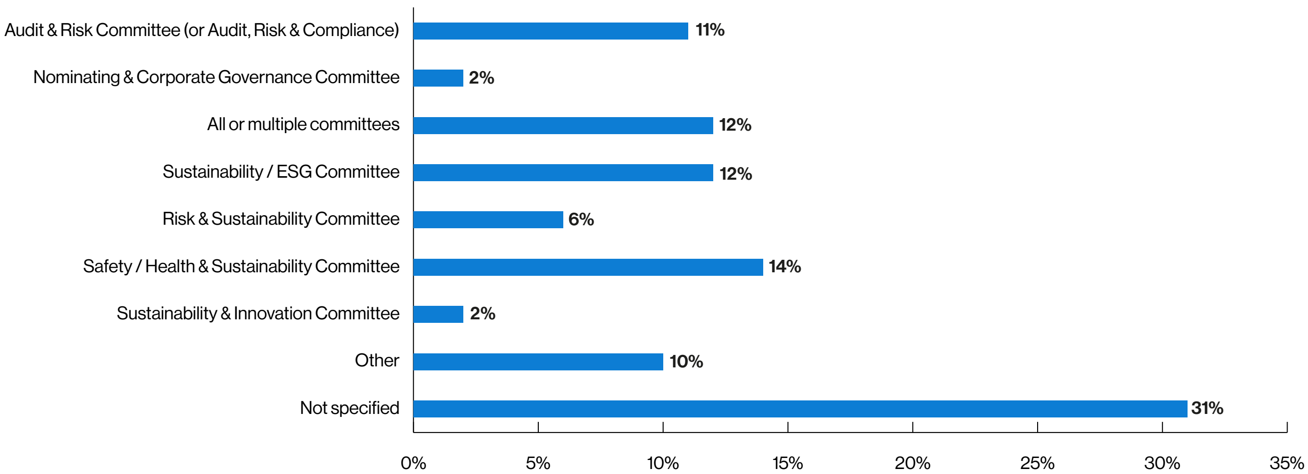
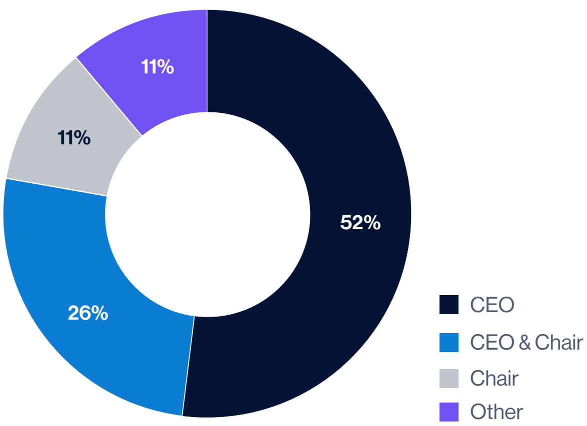


Figure 6: Signatory of Introductory Letter



Almost all sustainability reports (93%) contain a letter introducing the report. The CEO was the most common signatory (52%) of these letters, followed by letters jointly signed by the CEO and Chair (26%). Other signatories include board directors (such as the Chair of the Sustainability Committee) or executives with a sustainability-focused role.

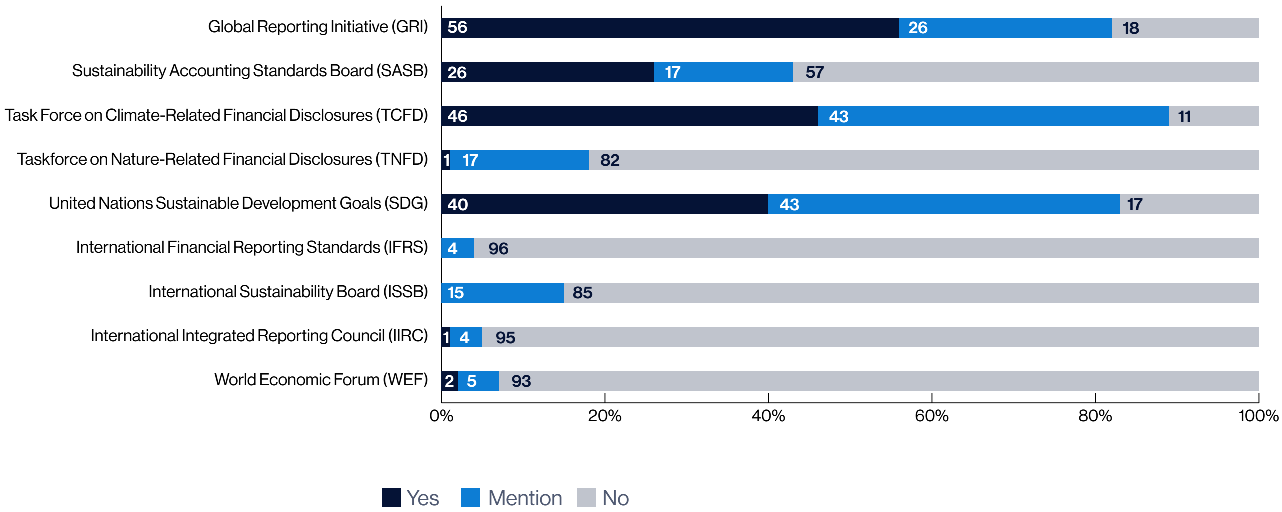
Only 15% of reports had a second letter, two-thirds of which were by the CEO in cases where the initial note was by another individual.

Companies Embrace Sustainability Reporting's Alphabet Soup

- **56% of companies report against GRI**
- **46% of companies report against TCFD**
- **40% of companies report against SDG**
- **15% mention the ISSB**

The growing focus on sustainability reporting frameworks can be seen in the reports reviewed. Many companies adhere to multiple reporting frameworks to cover the distinctions between the approaches of each framework—just under a third of reports (31%) indicate the company adheres to three or more reporting frameworks.

Figure 7: Adherence to/Reference of Sustainability Reporting Frameworks



The Global Reporting Initiative was the most commonly used, with 56% of companies reporting against the framework and a further 26% mentioning that the framework was considered or guided their reporting in some way.

This was followed by the Task Force on Climate-Related Financial Disclosures (TCFD), used by 46% of companies—although almost all companies at least mention the TCFD, with a further 43% mentioning the TCFD and only 11% not including any mention of the framework.

The United Nations Sustainable Development Goals (SDG) were also very commonly used—with 40% of companies specifically outlining how their efforts align with the goals and a further 43% mentioning the goals. A small number of companies (15%) also mention the International Sustainability Standards Board (ISSB) despite the standards not having been released when these reports were published.

Authors

Rhea Brennan
Senior Vice President, Strategy & Communications
rhea.brennan@teneo.com

James Aimer
Associate, Strategy & Communications
james.aimer@teneo.com

Contributors

Layla Li
Strategy & Communications
layla.li@teneo.com

Teneo
The Global CEO Advisory Firm

Teneo is the global CEO advisory firm.

We partner with our clients globally to do great things for a better future.

Drawing upon our global team and expansive network of senior advisors, we provide advisory services across our five business segments on a stand-alone or fully integrated basis to help our clients solve complex business challenges. Our clients include a significant number of the Fortune 100 and FTSE 100, as well as other corporations, financial institutions and organizations.

Our full range of advisory services includes strategic communications, investor relations, financial transactions and restructuring, management consulting, physical and cyber risk, organizational design, board and executive search, geopolitics and government affairs, corporate governance, ESG and DE&I.

The firm has more than 1,600 employees located in 40+ offices around the world.

teneo.com