Developing a Sustainability Strategy: drawing up an Environmental, Social and Governance ('ESG') framework for strategic decision-making

1. Executive Summary

Decarbonisation of the surface transport sector in the UK is gaining momentum, and though there remain significant barriers, the oil and gas industry faces an existential threat. Sustainability is climbing the agenda across government and boardrooms. The COVID19 pandemic has seen reports of conventionally high-performing companies suffer whilst those invested in good ESG practices have enjoyed relative stability in a crisis. With global recovery efforts geared towards 'building back greener', ESG considerations will increasingly dominate strategic planning, investor decision-making and media scrutiny.

In the downstream retail sector, for businesses ready and willing to adapt, there is opportunity not only to survive but to thrive. A robust and meaningful sustainability strategy can ensure that Ascona's growth serves to reinforce and build upon firm ESG foundations at every stage, managing risk, protecting our reputation, limiting our liability, improving efficiency and maximising existing and untapped value for all stakeholders. Without an effective and specific strategy, integrating ESG initiatives on an ad hoc basis and aligning them with business priorities will be challenging – and costly.

This paper outlines a proposal for the development and implementation of Ascona's Sustainability Strategy (**Strategy**), providing the Board with a framework to guide the business in making the right investment and operational decisions, with clear objectives to insulate the business against risk and maximise value in the short, medium and long term. The proposal includes the appointment of sub-committees for each of the three ESG 'pillars' to ensure that our collective focus is not side-tracked by zeitgeist or fixed on any discrete element of the sustainability landscape, but takes an intersectional approach to securing strategic objectives, corporate longevity and meaningful wider benefit.

2. The Governance Pillar: legal requirements and the direction of travel

Crudely, the Governance pillar of our Strategy will address our bottom line – legal and regulatory requirements – rather than a collection of 'nice to haves'. The level of regulation in the sector is increasing exponentially. As Ascona grows, so does our compliance burden:

- **EU Non-financial Reporting Directive:** Section 414C of the Companies Act 2006 requires disclosures covering environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards (in terms of age, gender, educational and professional background).

- **Accounting Regulations disclosures:** Accounting Regulation rules on climate-related disclosures were expanded through the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 for both UK quoted and unquoted companies and require the disclosure of:

Quoted companies	Large unquoted companies and LLPs
Annual global Scope 1 and Scope 2 GHG emissions (i.e. emissions from activities for which the company is responsible, including combustion of fuel and operation of any facility (Scope 1), and the annual emissions from the purchase of electricity, heat, steam or cooling by the company for its own use (Scope 2)	UK energy use (as a minimum gas, electricity and transport, including UK offshore area)*
Underlying global energy use	Associated greenhouse gas emissions
Previous year's figures for energy use and GHG	Previous year's figures for energy use and GHG emissions
At least one intensity ratio	At least one intensity ratio*
Energy efficiency action taken	Energy efficiency action taken
Methodology used in calculation of disclosures	Methodology used in calculation of disclosures*

* does not apply to companies which had a UK energy consumption of 40,000 kWh of energy or less.

These SECR requirements can be done on a group basis and are intended to increase awareness of energy costs and carbon emissions, ensure administrative burdens are proportionate and aligned with existing requirements, provide organisations with the right data to adopt effective energy efficiency measures and take opportunities to reduce their impact on the environment, and provide greater transparency for investors on energy efficiency and readiness for a low carbon/GHG emission environment.

- **Section 172 Statement:** The section 172(1) statement (**Statement**) within our strategic report must discuss how the directors have acted in the relevant accounting period in order to promote the success of Ascona Group, both in the short and long-term, for the benefit of all the company's members, and how the directors have had regard to other stakeholders including employees, customers, creditors, pension schemes, the community, the environment and shareholders, maintaining our reputation for good business conduct and acting fairly for all shareholders.

  The Statement should indicate the issues, factors and stakeholders the directors consider are material to their duty under Section 172, specifying how the directors have engaged with and for each principal decision taken, how they took the interests of the key stakeholders into account when making those decisions. The reporting requirement is intended to ensure that directors are routinely considering their section 172 duties rather than demonstrating a token measure at year end.

  Prior to listing, the Statement needs to be published on a website (though it does not have to be our main website).

- **UK Corporate Governance Code and TCFD Recommended Disclosures:** Looking forward to IPO, listed companies are already required to disclose how they have complied with the code, and explain where they have not.

  i. Principle A of the Code will require the Board "to promote the long-term sustainable success of the company". This is expanded upon in Provision 1, which provides that the Board "should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed the sustainability of the company's business model…". To ensure the "long-term sustainable success" of a company almost all boards will have to take into consideration climate change-related short, medium and long-term risks, and opportunities, which overlaps with aspects of the TCFD Recommendations Disclosures;

  ii. Principle M will require the Board to "establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions", which could be reflected in the governance disclosures in the TCFD Recommended Disclosures; and

  iii. Principle O will require that the Board should "establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives". Provision 28 goes on to require, a "a robust assessment of the company's emerging and principal risks" by the board, and confirmation "in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated".

From 2022, all premium listed companies must also report in line with the TCFD Recommendations and TCFD Recommended Disclosures on climate-related reporting on a comply or explain basis and include a statement in the annual report to that effect.

- **The direction of travel:** A gradual shift towards consideration of a broader group of stakeholders, greater transparency and sustainability is gaining momentum. ESG and other non-financial disclosures are becoming commonplace, and anticipated regulatory developments in the near future include:

    i. the FCA plans to issue a consultation paper in 2021 on extending the application of the new Listing Rules to a wider scope of listed issuers. It is also considering consulting on strengthening the compliance basis (i.e. comply rather than explain);

    ii. the FCA also intends consulting on potential client-focused TCFD-aligned disclosures by UK-authorised asset managers, life insurers and FCA-regulated pension providers; and

    iii. BEIS plans to consult on including TCFD-aligned disclosure obligations in the Companies Act 2006 for certain UK-registered companies. Subject to feedback, BEIS aims to finalise its rules to come into force from 2022.

Increasing taxation and regulation around waste, carbon emissions and water consumption is inevitable. Competitor actions on sustainability are also driving behaviour and regulatory changes within the sector. Investors are increasingly using non-financial disclosures – both mandatory and voluntary - to inform investment decisions, and a sustainability strategy will likely be the second document they will ask to see. Public reporting done well will be essential in demonstrating to stakeholders that we are transparent, accountable and seeking to continuously improve.

Whilst the Board as a whole and individually should be addressing sustainability research and development within the context of primary fiduciary responsibilities, the Governance sub-committee comprising internal and external specialists in finance, compliance, law and ops will ensure rigorous data collection and reporting, greater transparency and accurate disclosures across the business. Such transparency and accuracy will also enable us to document sustained improvement over time.

3. The Environmental Pillar: Beyond EVs

Environmental considerations are at the forefront of the popular sustainability movement and are inextricably linked to our business model. Changes in the demand landscape are undoubtedly challenging for the industry, and forward-planning paired with a strong retail operation will be key to maintaining – and even increasing – profitability. The main changes directly affecting the downstream retail sector include:

- The bulk of the light transport fleet moving to EVs, with some hydrogen fuel cell vehicles and the balance using biofuels, LPG and CNG;
- Barriers to EV penetration are lowering, improving battery technology is reducing the cost of ownership and on the current trajectory, this cost will drop below that of equivalent ICE vehicles somewhere in the mid 2020s;
- The first electric-only charging service station with associated retail facilities and renewable generation has opened in Braintree with 100 projected over the next 5 years;
- Major oil companies are shifting their reliance on carbon-based fuels and are announcing plans to build their own EV charging networks;
- Changes in mobility models with shared mobility driven by penetration of autonomous vehicles and digitalisation;
- Ongoing efficiency improvements in the new ICE fleet over the next 15 years; and
- Changing attitudes from consumers around environmental sustainability.

Such changes present opportunities and costs. Our Environmental sub-committee will have sufficient delegated authority and resources to enlist internal and external expertise to capitalise on those opportunities whilst offsetting the costs. The sub committee's work will include considering trends and developments in the sector, researching and evaluating energy purchase premiums, carbon reduction opportunities and internationally recognised environmental standards, undertaking or instructing detailed carbon calculations (in respect of both operational and retailed energy) and measuring water usage, food miles, packaging and waste. They will consider the changing nature of competition for customer footfall, taking into account higher dwell time for recharging as well as geography and demographic.

Ultimately, our acquisition and development strategy will be closely informed by the Environmental pillar of our Strategy, with a sharp focus on viability and future-proofing of sites (rather than a short-term focus on attractive multiples brought about by incumbent complacence or inability to adapt). Regular reviews will be required as the landscape changes. By demonstrating that we accept the challenges of our industry, we will build confidence in our integrity and seriousness about managing environmental issues and can continue to build our business around them.

4. The Social Pillar: Internal and External

While start-ups all over the world are offering to undertake 'straightforward' carbon calculations and draw up comprehensive reduction and offsetting plans, there is no silver bullet securing sustainable social practices in a globalised economy - though legislative and regulatory developments are gaining momentum, driven in no small part by consumer appetite for transparency. The Social pillar of our Strategy will address our internal human resources and our external impact, relations and profile.

Looking inwardly, the Social sub-committee will explore ethical employment practices, including the Living Wage, gender equality, diversity, volunteering and wellbeing, demonstrated by comprehensive HR policies (that protect Ascona as much as our people). In turn, we can hope to benefit from employee loyalty, efficiency and morale, better customer service and an improved public profile. A clear Strategy will help to build buy-in amongst colleagues; investing in, maintaining and developing our human capital will pay dividends. Our business model undoubtedly benefits from the perception that we look after our staff – and as we grow, so will scrutiny of this (along with the potential for PR pitfalls).

Outwardly, and indeed globally, investors and the media are shifting their attention towards modern slavery, ethical supply chains and meaningful and accountable charitable investment. As the population changes, so too do behaviours, demand and our own target demographic. Consumer loyalty is an asset in itself and there is undoubtedly a premium payable for strong ESG performance. Consulting on and listening to stakeholder concerns about new and fast-rising issues will enable us to mitigate risk and adapt to changing expectations more swiftly. The Social sub-committee will monitor such trends, habits and preferences and consider the most worthwhile community investment to stimulate local support and repeat custom.

A sustainable business should have the support and approval of its employees, stakeholders and the community it operates in. Securing and maintaining this support comes down to being a good neighbour and community member, both locally and globally. A Harvard Business Review study recently reported that becoming an 'Employer of choice' and a 'Neighbour of choice' will be two key drivers of enterprise value going forward; Ascona's core values reflect precisely that. The sub-committee will test and stimulate our commitment to these principles and explore and manage external perceptions of Ascona Group.

5. Conclusion

In a year that has seen a drastic reduction in travel and a spike in convenience store demand, the risks and opportunities within our sector crystallised more rapidly than anyone could have expected. ESG risks manifest themselves over the longer term and tend to be beyond corporate control, hence the importance of making decisions to allow for adaptive strategies and long-term capacity building. The conventional wisdom that the only business of a business is profit is wavering; McKinsey has reported that the value at stake from sustainability concerns can be as high as 70% of EBITDA, and studies suggest companies with strong ESG performance and corporate responsibility reputations experience no meaningful declines in share price compared to their industry peers during crises (in an age where crises are coming thick and fast). Blackrock, one of the world's largest investment managers with over $7trillion invested, is exiting all investments with a high sustainability risk.

Developing our Strategy requires a wide angled view of Ascona Group and the context in which it operates. Involving a range of expertise can ensure that the right priorities are identified and approached in the most effective way. The issues to address, and potential solutions, are evolving day by day – driven by innovation, sentiment, politics, availability of resources and perceived harm/benefit. Our sub-committees will need to re-visit the Strategy year-on-year, reporting to the Board as necessary on an ongoing basis.

Our Strategy will not require major short-term investment but will effectively deliver a number of immediate benefits:

- A framework facilitating effective and focussed decision-making in targeting the right acquisition opportunities, optimal investment choices and operational changes.

- Enhanced current value in the business through demonstration of resilience to future changes.

- Embedded processes in the organisation for managing sustainability going forward (rather than reactive greenwashing).

- A mandate to invest in sustainable practices that are strategically important to the business without decisions seeming 'off piste' or contrary to the direction of travel.

The best strategies cut a clear path. As we grow and look towards IPO, the long-term value of a comprehensive and meaningful Strategy that aligns with our commercial objectives will drive revenue and ultimately enterprise value.

6. Actions/for approval:

- Appoint external co-ordinator as independent arbiter and steering lead.
- Appoint sub-committees for each of the ESG pillars, comprising internal and external contributors (for example, Keith Guppy is already advising on EVs, we have had early discussions with a carbon calculation and reduction expert, PWC offer support on conducting materiality assessments and drawing up strategies, while Mazars can support on data and intensity ratios and regulatory reporting).
- Workshop for key senior stakeholders at Ascona to kick off the preparation and implementation of the Strategy, drawing up terms of reference, exploring potential future business landscapes and sustainability solutions, aligning the group.
- Ascertain the vision, mission and values that will underpin our strategic objectives, corporate culture and direction. Our Strategy should provide a tangible framework for bringing these values to life.
- Undertake materiality assessment, with appropriate external support, of operational inputs and outputs, profit and loss sensitivity, regulatory risk, customers and competitors and brand positioning to identify areas where high financial impact aligns with high sustainability priorities, reviewing the same regularly.
- Develop and implement full Strategy, with sub-committees determining meaningful, measurable and consistent targets and KPIs, engaging in regular dialogue with stakeholders and implementing feedback in order to continuously improve the Strategy and better anticipate and respond to ESG developments as and when they arise.
- Board to actively review and approve outcomes and disclosures and effectively monitor goals and objectives on an ongoing basis rather than at year end (with authority delegated to sub-committees/third parties as necessary to allow sufficient time and resources to oversee and verify the process).