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Employers and the road to net zero
Making a difference in Reward,
Tax and Global Workforce programmes



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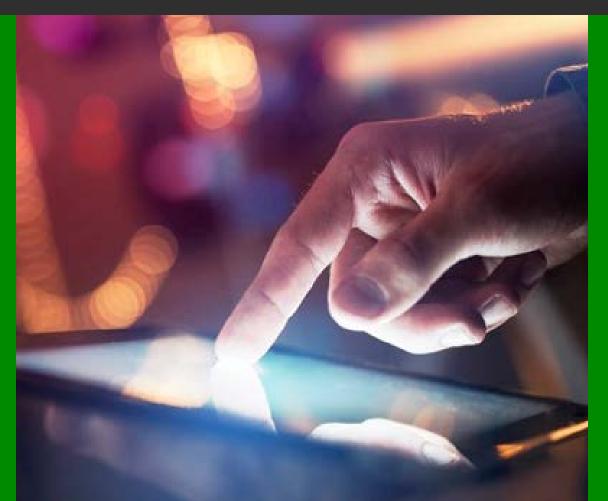


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# Incentive remuneration

# Designing incentive frameworks aligned with sustainability and climate goals

#### Through executive and wider employee incentive plans, companies are:

- Incentivising delivery of key climate and Environmental, Social and Governance (ESG) goals under annual bonus and long-term incentive plans
- Building balanced remuneration frameworks which reward long-term sustainability and business resilience
- Setting 'tone from the top' demonstrating importance of climate and ESG strategy to wider stakeholders including workforce, consumers, investors and wider stakeholders.



#### How are we working with clients in this area?



- Facilitating discussion with HR, Finance and sustainability experts to incorporate the Board's climate and ESG strategy under executive and employee incentive plans
- Considering time horizons, participation levels, weighting of metrics and design features (e.g. underpin, modifier, stand-alone measure)
- Cascading executive incentive frameworks throughout the wider employee reward offering



- Supporting organisations in setting performance targets at threshold and maximum level
- Considering approach to verification and assurance, and safeguards against 'rewards for failure'



TAX IMPACTS AND SUSTAINABLE GLOBAL MOBILITY

Liaising with investors on potential changes to executive incentive plans and use of climate/ESG performance measures





# Incentive remuneration

Case study: working with investors



Working with a large investment firm to consider how management teams are aligned to ESG goals in investee companies

- Stakeholder interviews to assess stakeholder perspectives and views on existing and potential approach to management incentive design
- Market review of ESG metrics used in global peers
- Development of potential design approaches

ESG goals in incentive plans - features of successful implementation



Link to strategy and material impact - the primary test for investors will be alignment to the wider strategic narrative. Any metric should focus on the most material aspects of the climate and sustainability strategy. This means a discussion should start at the board first, not the remuneration committee.



Quantifiable, transparent and verifiable - ESG measures should be quantifiable. For example, net zero goals set in line with the Science Based Targets initiative (SBTi) provide one route for boards in demonstrating that targets are aligned with the Paris Agreement and latest climate science.



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**Disclosure and communication -** Linking executive incentives to climate ambitions can send a powerful message to all stakeholders, so use internal and external communication tools to maximise your impact in this area.



# Engaging the workforce

# Engagement through effective communication



Impactful communications can help employees to engage with and take up sustainable rewards and benefits. They can:

- Help people to understand that employers care about sustainability and are doing something about it.
- Enable employees to understand what they can do to support the business's climate strategy and contribute to its success.

### What do good employee communications around sustainable reward look like?

- They directly link the reward or benefit to the company strategy so employees can understand how they slot into the bigger picture and are part of wider sustainability initiatives the company is taking.
- They clearly explain how the choices employees make will contribute to real, measurable change.
- They use messaging that is clear and accessible to help employees understand sometimes new or complex topics.
- Effective communications means being creative too. Link your sustainability messaging with your brand and purpose to create an emotional connection that resonates.

If you're looking for ideas on how to bring sustainable rewards and benefits to life drop <u>Vicki Wright</u> a line.





# Engaging the workforce

# Engagement through all-employee reward and electric cars

#### Through sustainable all-employee reward offerings, employers are:

- Attracting and retaining their environmentally-conscious workforce by offering sustainable choices;
- Decarbonising their workforce by supporting more sustainable lifestyles;
- Making a difference in society's transition towards sustainability; and
- Aligning the workforce's sustainability ethos with the organisation's.

### Established offerings

#### Flexible benefits choices

- Electric company cars
- Cycle to work schemes
- Subsidised season tickets for public transport

#### **Facilities**

- Showers to enable running/cycling to work
- Electric car charging points at work
- Opportunities for less waste green canteens, reusable cups
- Opportunities to volunteer with sustainable projects

### Emerging offerings

- Optional reward, discounts, loans or information relating to:
  - Sustainable changes at home (e.g. home energy reviews, insulation, solar panels, renewable energy tariffs)
  - Electric car charging points at home
  - Preferential parking for electric cars at work
  - Sustainable financial investment opportunities
  - Discounts for shopping locally



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What are employers offering?

Case study: Employee-wide electric car scheme

# Employee-wide electric car scheme

# Case study



The transition to electric cars is a key objective for government in the UK and globally. In the UK, substantial tax incentives are available when employers offer electric cars to employees. When employees sacrifice their taxable salary in return for an electric car, they make tax/NIC savings and employers save NIC too. Accessing the incentives and providing cars via salary sacrifice can lead to employee cost savings of up to 50%.

#### **Employers have an opportunity to:**

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- Make electric cars more affordable to many more people.
- Lead the way in society's transition to electric cars and decarbonisation.
- Optionally, make savings on their employment costs.

### Features of a successful implementation

- Choose the right provider for you consider taking independent advice on the car providers available.
- Identify the 'whole life cost' of the car, reflecting all costs and incentives available.
- Set the salary sacrifice amount at the right level to maximise take up, cover costs and contingencies, and build in employer savings if desired.
- Draft employee communications and configure payroll to comply with tax requirements.
- Provide information (and/or facilities at work) to support the transition to electric cars e.g. on journey distances and charging logistics.



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# Sustainable Pensions

# Sustainable Pensions investment choices

Climate change presents a major systemic financial risk to the long term sustainability of the c.£2.5 trillion of pension fund assets under management in the UK. At the same time, the transition to a climate neutral economy also presents significant investment opportunities.

Trustees and sponsors of UK pension schemes are increasingly looking to review investment strategies to ensure ESG factors (including climate change) are fully integrated into decision making and ongoing monitoring, including in:



#### The setting of net zero targets

Across the market, we have seen some schemes setting "Paris aligned" investment strategies to align their portfolios to the goals of the Paris Agreement, namely to achieve net zero carbon emissions by 2050.



### Active engagement and voting practices

There is increased pressure for pension schemes to influence investee companies through voting and engagement activities to encourage best practice in environmental, social and governance practices.



#### Incorporating views of pension scheme members

Members are increasingly expecting their investments to make a positive impact on the environment and society.

Our experience: Deloitte's workplace scheme In July 2021, Deloitte changed the default fund for its 35,000 Deloitte pension plan members within Standard Life's Master Trust to a fund that places a greater focus on sustainability.







# Sustainable Pensions

# Understand and comply with pensions regulation

The new pensions regulations are aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD") aimed at identifying, assessing, managing and disclosing climate related financial risks and opportunities.

The recommendations span four thematic areas:

01

#### **Governance**

Create a framework to ensure oversight of climate risks/ opportunities.

02

#### Strategy

Analyse and disclose impact of climate risks/ opportunities on scheme investment and funding strategy, including scenario analysis over relevant time horizons.

03

### **Risk Management**

How climate risks are assessed and managed.

04

#### **Metrics and Targets**

To assess and monitor climate risks/ opportunities.

### The regulations are being phased in as follows:

From 1 Oct 21

Applies to Defined Benefit (DB) schemes >£5bn of net assets, plus all authorised master trusts and authorised collective Defined Contribution (DC) schemes

From 1 Oct 22

Applies to DB schemes with >£1bn of net assets.

In 2023

Application to DB schemes smaller than £1bn will be reviewed.

Under these requirements, an annual TCFD disclosure report is to be produced and be made publicly available.

#### **FCA Roadmap**

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The FCA has a roadmap to make TCFD-aligned disclosures mandatory for listed companies, asset managers, life insurers and FCA regulated pension providers between 2021 and 2023. There are a number of consultations ongoing and this will impact contract-based pension schemes in due course.







# Tax impacts and sustainable global mobility

# Tax impacts

Organisations are increasingly focusing on purpose, with ever greater focus on Environmental, Social and Governance (ESG) principles. This places climate response and the road to net zero at the core of business strategy, and those with responsibility for tax in organisations will need to consider how their teams can contribute positively to these changing business priorities and wider social purpose.

For many organisations, climate change will have a profound impact on business operations. As with any business transformation, there will be tax consequences as a result of business model and supply chain change. For example:



As businesses look to change where, how and when their workforce perform their duties in order to make their processes more sustainable, are they ready to track where remote working employees are in the world and whether any new regulatory obligations could arise? Will employees be provided with any new technology or facilities in order to enable this, and are there tax consequences associated with that provision?



To the extent that new business facilities need to be constructed, or modifications are needed to existing premises, have any tax compliance requirements been considered, for example under the UK's construction industry scheme? Does the business have the resources and controls in place to enable them to comply?

Tax teams, and other teams responsible for making tax decisions such as payroll and HR, need to be ready to respond and potentially contribute to the policy environment, ensure that tax decisions are integrated into business decision making, and have the right skills and resources to react to the emerging business opportunities and challenges.

### Achieving net zero goals means those responsible for tax need to adapt

As the response to climate change becomes embedded in organisations, the role of the teams responsible for tax will evolve. We are already seeing a greater emphasis on risk management in response to broader, economic and social developments. Climate change is another driver, and accelerator, of change. Teams with responsibility for tax will need to be equipped with the right information, skills and resources to allow them to support their business on the road to net zero.





# Tax impacts and sustainable global mobility

# Sustainable global mobility

People are looking to corporations to uphold ethical and environmental values. This extends to an organisation's Global Mobility program which can create a large environmental footprint. There are three core areas where Mobility programs can support the climate agenda.

#### **Reduce carbon footprint**

Many organisations are working to decrease their carbon footprint, and travel is a major contributor to the challenge.



#### **Waste less**

Moving can generate significant material waste, much of which can be avoided with appropriate planning.



### **Demonstrate impact**

Mobility programs looking to make high-impact changes may need to re-evaluate talent strategy, vendor selection, and program policies.



How can your organisation respond? As a first step, we would recommend that you seek to better understand the current state. For example, you may wish to:

- Partner with internal teams and vendors to establish levels of maturity across sustainability areas, with respect to reward, global mobility assignments and business travel; and
- Engage with HR and the business to explore any wider initiatives and the appetite for change.

Armed with a more in depth understanding of the status quo and a plan of action, there may be an opportunity to seek leadership buy-in to specific sustainability goals, to act as a catalyst for the change agenda.

#### Indicative global mobility programme actions

- Virtual reality preview trips in lieu of traditional trips
- More local 'home leave trips' by providing cash in lieu of airfare
- **Increased transportation stipend** if used for public transit
- **Destination Services** support to find housing within walking or biking distance to the office
- **Virtual Assignments** where a physical move is not deemed essential

- Furniture allowance to lease second-hand furniture in lieu of a shipment
- 'Discard and donate' program for employees to responsibly dispose of goods and ship less
- Recycling or donation program reimbursement for costs associated with gifting cars or household items
- **Supply chain review** of vendors with sustainable practices
- **Vendor reporting** to measure and report on carbon footprint
- Travel / relocation policies that reduce environmental impact
- **Assignee communications** to encourage environmentally conscious decisions

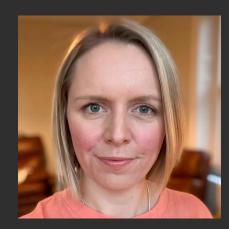




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# GES Sustainability Core Team

Contact the GES sustainability team or your usual Deloitte contact if you would like to discuss how we can support in these areas.



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