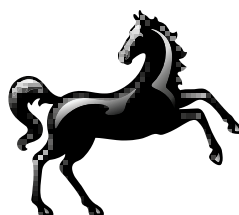


CORPORATE & INSTITUTIONAL

Credible Transition Plans: Reporting vs Reality

A study of UK corporates and institutional investors on the role credible transition plans are playing on the journey to net zero



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Foreword

The UK's ambitious target to achieve net zero greenhouse gas emissions by 2050 demands an unprecedented economic overhaul akin to the scale of the industrial revolution. This transformation necessitates a profound shift in both business operations and financial practices.

Currently, corporates contribute significantly to the UK's carbon footprint, responsible for approximately 18% of annual emissions, totalling around 61.9 million tonnes¹. Urgent action is needed to mitigate these emissions, as well as preparing and adapting to both the embedded and escalating risks posed by climate change. Recognising the urgency, the Transition Plan Taskforce (TPT) was announced at COP26 and launched by HM Treasury in 2022. Understanding that a one-size-fits-all approach will not suffice, the TPT introduced a climate transition framework for publicly listed companies and regulated financial services firms. Developed as the "gold standard" for transition plan disclosures, it has been designed to align with existing frameworks that require companies to disclose transition plan elements, such as the Task Force on Climate Related Financial Disclosures (TCFD), CDP, and the Corporate Sustainability Reporting Directive (CSRD).

To support leaders as they present their transition plan, the TPT Framework guides organisations to detail foundations, implementation strategy, engagement strategy, metrics & targets as well as governance structures. Guided by the principles of ambition, action and accountability, corporates will be obligated to report annually on their progress when mandatory requirements come into force.

Although implementation is due to commence in the 2025 accounting year, with the first reports due in early 2026, this represents a significant shift for organisations. They will now find themselves mandated to prioritise environmental

considerations alongside financial reporting. This will require fundamental overhauls of how businesses operate, especially for carbon-intensive industries like oil and gas, agriculture, transport, manufacturing, and food.

Like all organisations working to transition, we are on this journey as well. We are committed to achieving net zero by 2050 or sooner, recognising the importance of ongoing collaboration with our clients, peers and stakeholders. To support this journey, in 2023, we enhanced our methodology for assessing the credibility of our clients' transition plans. Our approach to transition plans will support us in delivering our sector decarbonisation targets to drive real economy impact.

Over the following pages, we set out to uncover how UK corporate leaders are responding to the challenge of building credible transition plans, and explore their reception among UK institutional investors. Our survey, comprising 100 director-level executives from companies with at least £100 million annual revenue and 100 professionals from institutional investment firms with at least £100 million assets under management, sheds light on the areas of alignment and tension between these two audiences when developing transition plans.

As a major financial institution, Lloyds Bank is in a good position to help corporates access the data, tools and finance needed to unlock credible transition plans. As well as engaging with corporates and investors in this study, we've also added useful tools and programmes in the final pages to help corporates and institutions develop ambitious goals.

Together we can achieve more.

¹ Department for Energy Security & Net Zero, UK greenhouse gas emissions



Executive Summary

UK corporates are seeking to balance ambition and credibility as they navigate the journey of developing credible transition plans whilst balancing ongoing day to day priorities.

A significant proportion of surveyed corporates highlighted a key challenge: the necessity of aligning their aspirations with the practicality of what a credible transition plan can realistically achieve. This hesitancy was recognised by institutional investors, with nearly three-fifths (57%) identifying the ‘need to be realistic’ as a factor holding corporates back.

This research sets out to examine the areas of alignment and tension between corporates and institutional investors in the development of credible transition plans.

Encouraging initial signs

At first glance, the data collected from our research makes for encouraging reading. An overwhelming 80% of companies surveyed have transition plans. And 80% of executives surveyed feel confident that their firm will meet its goals.

With the deadline for credible transition plan reporting set to be around 2026, companies have around 20 months remaining. While most corporates anticipate completing their plans in just over a year, 22% foresee a longer timeline, posing potential challenges.

The companies surveyed are mostly allocating resources to this mission, with average core teams of six or seven people. Over half of the firms surveyed have also engaged with one of the big four consulting firms to guide and inform their plans. Almost one in four seek advice from other specialist firms.

Despite the guiding principles of ambition, action, and accountability outlined in the TPT Framework, our research highlights a tension surrounding ambition.

80%

Of the companies surveyed have developed transition plans

80%

Of executives feel confident that their company will meet its goals



Of executives think creating the plan will take less than 18 months

Balancing climate ambition and credibility

The balancing act between setting realistic targets and fostering ambitious plans for a sustainable future is evident among policy makers and corporate leaders as they navigate the development, design, and delivery of credible transition plans.

While progress is being made, many corporates acknowledge that more could be done across various aspects. When exploring the Just Transition - an overarching concept of ensuring fairness and equity in the process of transitioning to a net zero - a compelling 83% of executives felt that their company could be doing more, with 36% believing it could do significantly more. For climate risk and operations, it's a similar story, 82% of respondents agreed that more could be done by their organisation.

There was a slight divide around decarbonisation. Although 62% of executives felt that their firm could do more, 38% believed that their firm 'could not be doing any more than they currently are' to reduce emissions further. This is in contrast to the opinion of institutional investors, where 93% think corporates could decarbonise further.

Although many firms are allocating resources to the plan, a considerable 45% of companies do not have any reporting and governance frameworks in place, highlighting the challenge they face. Additionally, 12% have no methodology in place to help them reach their climate goals. Measurement is the first step that leads to control and eventually to improvement. As companies build their credible transition plans, governance, reporting and methodology should be at the helm of their strategies.



Of executives think their company could do more for the economy-wide transition

82%

Of executives think their company could do more around climate risk and operations



68%

Of executives think their company could decarbonise more



Fear of failure holds companies back

The executives creating the credible transition plans seem to be acutely aware of the risk of over-promising and under-delivering. When asked about their biggest blockers, 53% cited the need “to be realistic”. While 43% admitted “we don’t want to go too far and fail”. High profile scandals and fines around greenwashing could be contributing to a culture of concern among corporates, who feel reluctant to set ambitious targets in the fear of a reputational backlash.

Our view is that corporates should feel confident and supported to set high targets, even if this means accepting that they may not all be reached. As a major financial institution on our own net zero journey, we would like to extend a helping hand to other corporates. We don’t yet have all the answers, but we are continuing to work with our stakeholders to evolve our approach. Through our learnings and our ongoing engagements with the UK Transition Plan Taskforce, we will continue to share our learnings and guidance with corporates on developing their strategies, measuring emissions, or accessing finance for sustainable projects. We would also like to engage and learn from other industries.

45%

Of large companies do not have a reporting and governance framework for their credible transition plans

53%

Of executives feel blocked from setting higher targets by the need to be realistic

43%

Of executives admit they do not want to “go too far and fail”

Weighing Ambition vs Credibility

Our study revealed a bold gap between what corporates could be doing, versus the targets in their credible transition plans. More than four in five executives feel their companies could aim higher around the economy-wide transition, climate risks and operations. On decarbonising, 63% also concede that they could be doing more.

Institutional investors also have noticed a fear of being too ambitious, and 28% have already asked companies in their investment portfolio to be bolder in their transition plans. Overall, 93% of investors think that at least a few of their holding companies could be doing more, and 44% think most could be doing more.

What's holding large firms back from being more ambitious?

% of respondents agree that large corporates could do more...

	Corporates	Investors
To achieve an economy-wide transition	83%	89%
To respond to climate-related risks and opportunities	82%	94%
To decarbonise	62%	93%
For the credible transition plan overall	62%	93%

Fear of failure weighs down on corporates

Over half of executives said there is a need to be realistic about what their credible transition plan can deliver. Across all sectors, this was the most common blocker. In second position at 47%, was the fear of “going too far and failing”, which follows a similar theme.

This may be surprising to institutional investors, as just 15% felt that the risk of “going too far and failing” would be a challenge. There was also a similar misalignment in view points between corporates and investors in relation to investment and technology holding back ambition.

% of respondents agree that corporate ambition is hampered by...

■ Corporates ■ Investors

A need to be realistic about what can be delivered



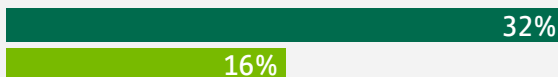
Risk of going too far and failing



Lack of expertise to achieve the goals



The risks outweigh the returns



Too much investment is required



It's not a priority for the business



Not having the technology in place



Nothing is holding them back



Credible transition plans broadly meet investor expectations, with room for improvement

We asked corporates how they think shareholders will respond to their credible transition activities. The findings show mixed results. 49% of executives expected a positive reception. However, 51% are bracing themselves for challenges. This could also explain some of the tensions arising. With so much uncertainty around shareholder reactions, firms may be testing the waters with softer climate goals first.

The good news for corporates is that our survey found that investor expectations are generally aligned with the core aspects of their credible transition plans so far, however investors do feel there is room for more, especially when it comes to the strength of ambitions, speed of delivery, as well as transparency and standardisation of metrics.

% of respondents agree that the credible transition plans align with investor expectations

	Corporates	Investors
Strength of ambitions	78%	70%
Speed of delivery	79%	69%
Frequency of reporting	81%	73%
Quality of reporting	80%	81%



Investors have the greatest influence around the quality of reporting

When asked about whether shareholders have any influence in developing credible transition plans, answers were also split down the middle. While 51% of executives agreed investors do sway the strength of their ambitions, 49% reported that they did not. Findings were also divided around the degree of shareholder influence for the speed of delivery and frequency of reporting.

However, nearly seven in ten executives were united in one area: 68% agreed that shareholders have an influence on the quality of climate reporting. This could coincide with a general feeling of a need for more transparent and standardised ESG data. Overall, companies with less than £350 million in annual turnover were slightly more likely to be moved by the investor sentiment.

Corporate Challenges to Climate Action

Creating a robust credible transition plan is complex and multi-faceted. Our study found that the main internal challenges for large corporates on their journey are: insufficient data, strategic clashes, lack of expertise, lack of investment and translating ambition into long-term action.

CORPORATES: From an internal perspective, what are the main challenges you are facing/have faced in developing a transition plan?



The five top net zero blockers



1. Insufficient data

The greatest challenge for large corporates on their net zero journey is access to high-quality data. Half (50%) of executives surveyed find this problematic.

For many corporates, a detailed understanding of their Scope 3 emissions will be needed to create an impactful transition strategy. However, 22% of executives report struggling to incorporate supply chain factors into the plan.



2. Strategic clashes

With so much at stake and so many voices in the mix, large corporates are struggling to agree on a strategic vision. Across all sectors, almost half (46%) of the executives found “aligning on strategic ambition” challenging as they develop their credible transition plans, with commodities and agriculture struggling the most.

Linked to this, 21% reported that the risk of misalignment between the credible transition plan and corporate strategy was challenging too.



3. Lack of expertise

Across all sectors, finding qualified experts in this new and evolving specialism is proving to be challenging. 37% of corporates cited a lack of expertise as a major barrier for their credible transition plan.

The short supply of expertise could make it more cost-effective to re-train existing employees. However, this is not without its problems. 28% of large corporates are already struggling to allocate sufficient employees to the credible transition plan as their teams do not have the capacity to take on more work.

While concerns about expertise and capability are present, corporates don't need to have all the answers to develop a transition plan. The Transition Plan Framework applies to organisations of different maturity levels and planning should be considered as an iterative process.



4. Investment required

Alongside the lack of expertise, 37% of executives said the investment required to transition to net zero is a blocker.

A recent study² from the World Economic Forum estimates that approximately \$50 trillion in incremental investments is required by 2050 to transition the global economy to net zero emissions, highlighting the significant investment needs and the urgent need to accelerate the deployment capital.



5. Translating ambition into long-term action

A recurring theme across this study has been the ambition gap. Just 28% of executives feel that translating ambition into long-term action will be a challenge, indicating that the bar may be set quite low.

The wider problem seems to be that the ambition levels must be ramped-up, a sentiment that over nine in ten institutional investors in our study agree with to at least some extent.

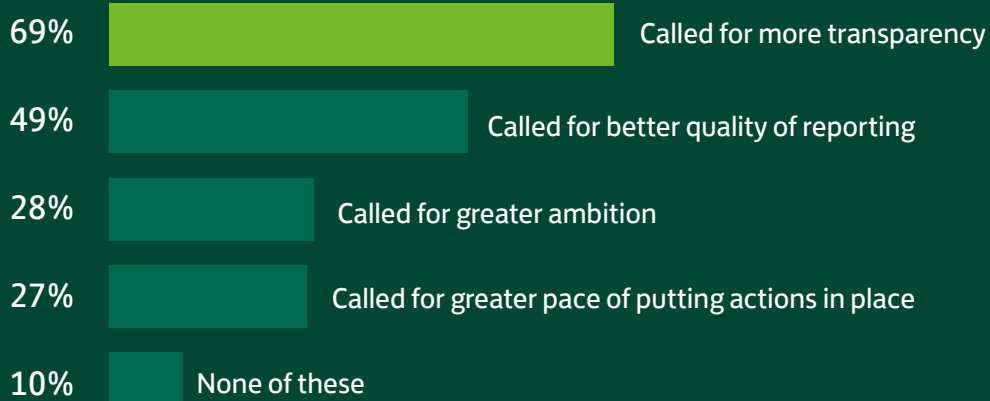
The investor perspective

We also asked institutional investors whether they felt they had the tools and insight to voice any climate-related concerns to companies. Overall, the respondents were confident.

More than four in five agreed that they could challenge the company's strength of ambition (87%), speed of delivery (88%), impact on real economy (84%), impact on environment (91%) and progress already made.

Most institutional investors already have raised at least one issue about a company's credible transition plan.

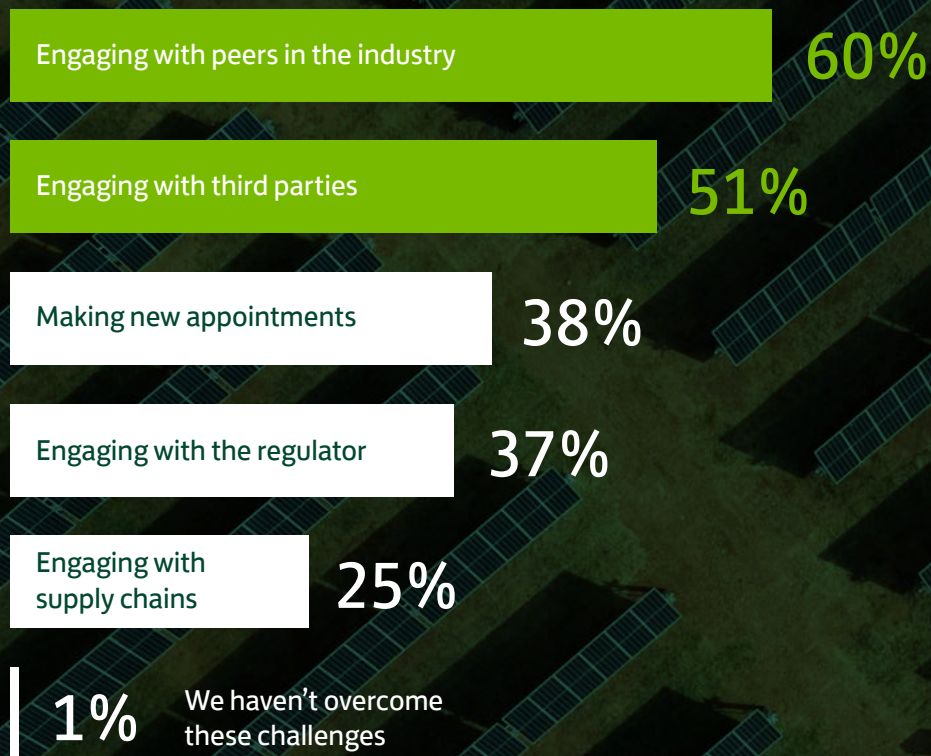
INVESTORS: When thinking about your engagement with companies on transition plans to date, what actions, if any, have you taken?



Overcoming challenges

As well as asking corporates about their key challenges, we were also interested to uncover how they are overcoming them. The answer overwhelmingly seemed to be engagement, specifically with industry peers and third parties.

CORPORATES: What have been the most effective ways your business has overcome challenges?



60%

Of large corporates overcome challenges by engaging with peers in the industry



51%

Of large corporates overcome challenges by engaging with third parties



The Opportunities

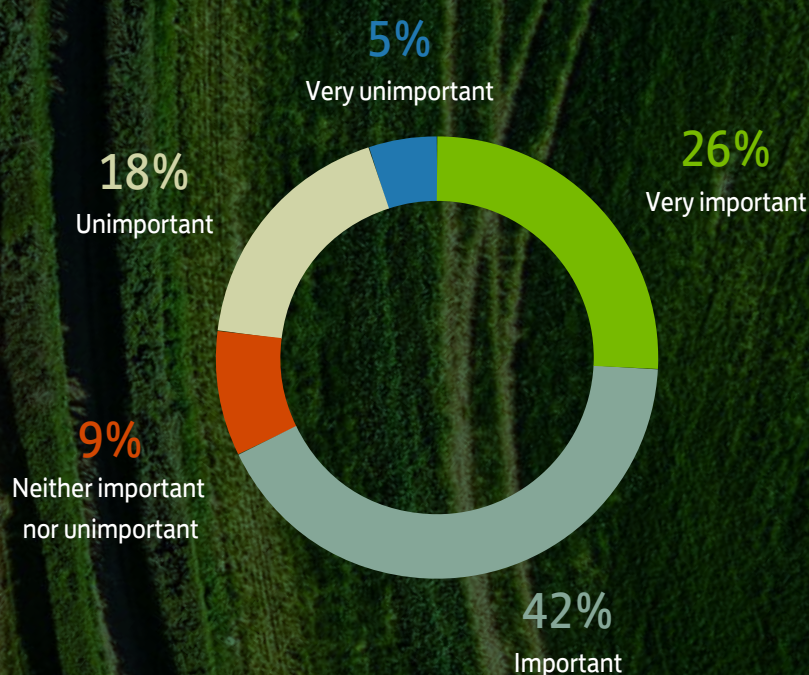
Over half (54%) of the institutional investors surveyed agree that companies with ambitious transition plans have a competitive edge. This could explain why they are eager to encourage firms to be bolder.

Credible transition plans are important for investors

It's not just regulators keeping a close eye on green claims, but investors too. Globally, a rising tide of shareholders are voting for climate transition plans, sometimes even in defiance of the board's recommendations.

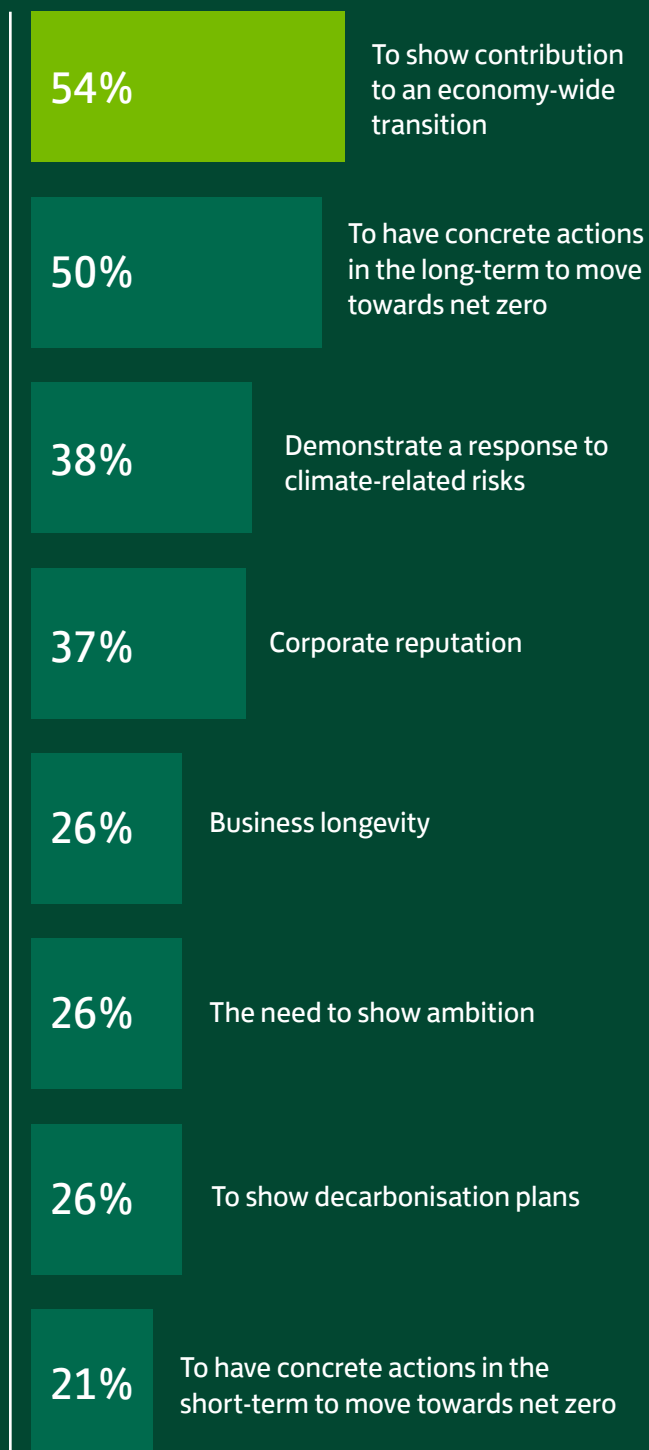
Within our survey, the majority of investors (68%) believe a company's transition plan is important when considering making an investment, 26% describing it as "very important". On the other hand 23% said a transition plan isn't important when deciding to invest. These investors are likely to be focused on organisations moving away from paper decarbonisation to the positive impact corporates can have on the real economy, thanks to the role of a credible transition plan. The financial imperative is also likely to be front of mind with investors wanting their portfolio companies to be ahead of future regulations and standards and avoiding any financial risks.

INVESTORS: How important or unimportant is a company's transition plan when you consider making an investment?



The plan signals to investors how the corporation will contribute to an economy-wide transition, move towards net zero, manage climate-related risks, and maintain its reputation. These were some of the most cited factors when considering investment.

INVESTORS: Why is it important for a company to have a transition plan when deciding where to invest?



Corporates are well aware of the opportunities ahead

Despite the challenges corporates face, leaders are optimistic about the opportunities ahead. 65% of executives believe that achieving all their targets will make the company “more” or “much more” competitive, compared to 54% of investors.

Just 11% of corporates felt that having a credible transition plan would make them less competitive, while 23% thought it would not impact competitiveness.

The heightened awareness of opportunities, combined with fear of failure and low ambition levels, paints a tense picture for today’s corporates. As they progress on their journeys, some may be battling the “fear of missing out” against the pull of maintaining the status quo.





Practical Steps

The way that the transition plan must be structured is the same for all sectors. The Transition Plan Taskforce mandates firms to disclose their:



Foundations: How the corporation will transition to a low-carbon future, as well as the main risks it must overcome.



Implementation Strategy: What actions the company is taking to achieve its strategic ambition, and how this will impact its finances.



Engagement Strategy: How the corporation is engaging with its value chain, industry peers, government, public sector, communities, and civil society to achieve its goal.



Metrics & Targets: An explanation of the climate metrics and targets that the company has set, and how performance will be measured.



Governance: How the company is embedding its transition plan within its governance structures and organisation.

While the framework is an invaluable reference, it is also dense, and the legal language may feel intimidating. The data from our study suggests that some corporations may be feeling overwhelmed. In the following paragraphs, we will outline some useful information for corporates, to help break down this mammoth task into achievable steps.



We've broken down the five steps needed for corporates to develop a credible but ambitious transition plan

Five steps to help corporates tackle their credible transition plans

- 1. Measure, Analyse, Set Science-Based Targets:** Understanding your current environmental impact is crucial. Measure your greenhouse gas (GHG) emissions across Scopes 1, 2, and 3 (direct operations, purchased energy, and supply chain). Analyse this data to identify emission hotspots. Partner with organisations like the [Science Based Targets Initiative \(SBTI\)](#) to set ambitious, yet achievable, reduction targets aligned with limiting global warming to 1.5°C.
- 2. Strategise for Decarbonisation:** Develop a comprehensive strategy outlining how you'll achieve your set targets. Find the highest emitting areas of your organisation, where the biggest differences can be made. Consider transitioning to renewable energy sources, investing in energy efficiency upgrades, and exploring innovative low-carbon technologies. Assess your product portfolio and business model for opportunities to reduce embodied emissions.
- 3. Engage Stakeholders & Build Transparency:** Climate action requires collective effort. Collaborate with suppliers, customers, and industry peers to create a robust low-carbon ecosystem. Ensure your plan is publicly available and clearly explains your goals, strategies, and progress. Regularly report on your emissions and progress towards targets using standardised frameworks like the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#).
- 4. Invest in People & Skills:** The shift to a low-carbon economy necessitates a skilled workforce. Invest in training and upskilling programmes to equip your employees with the knowledge and expertise required for the transition. Attract and retain talent with a strong sustainability focus.
- 5. Align Governance & Reporting:** Embed climate action into your corporate governance structure and hold senior management accountable for achieving set goals. Integrate sustainability considerations into risk management processes. Regularly assess and report to monitor progress and effectiveness - many corporates in our study used the [Climate Action 100+ methodology](#).

Useful Tools for Corporates

Sharing expertise is fundamental for success. In this spirit, we've opened a series of useful tools, information and financing opportunities to help organisations of all sizes achieve their unique net zero targets.



Measure the carbon footprint of your portfolio and get insights on potential savings, CO2 reduction and time to recoup costs with our [Green Buildings Tool](#)



Our [1.5°C Business Playbook](#) is designed to help organisations of all sizes build their net zero strategies

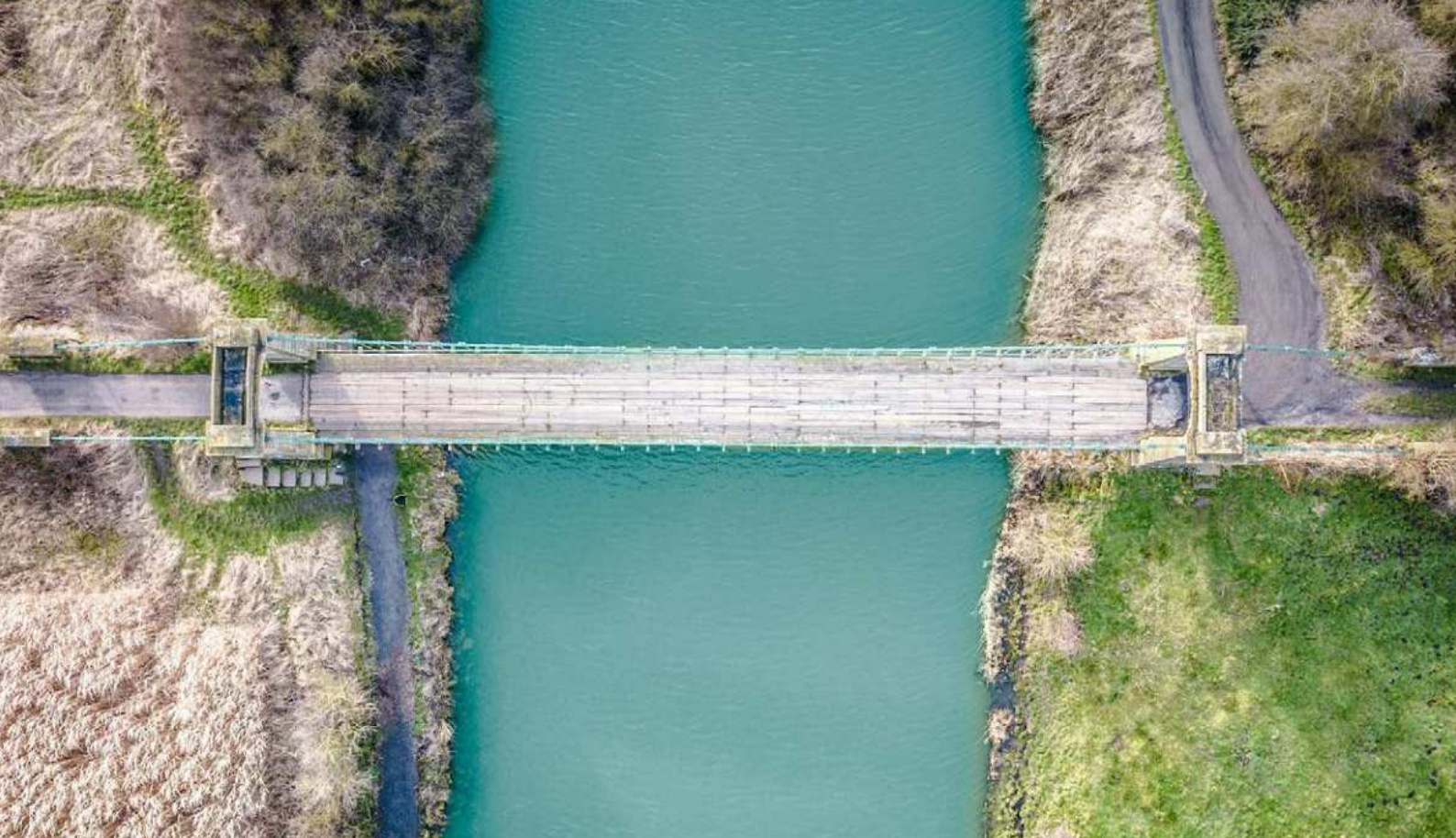


Industry experts and thought leaders discuss what a [Just Transition](#) means in a UK context, financing a Just Transition and how vision must turn into action.



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Conclusion

The imperative for corporates to embark on a journey towards net zero greenhouse gas emissions by 2050 is both urgent and monumental. As highlighted in this report, the Transition Plan Taskforce (TPT) represents a pivotal step towards realising this ambitious goal, providing a tailored framework to guide organisations in developing credible transition plans.

The commitment of corporations to this cause is evident, with the majority already engaged in developing their climate transition strategies. However, the road ahead is not without challenges, as corporate leaders navigate the delicate balance between ambition and credibility in their transition plans.

Despite these challenges, there is cause for optimism. Through collaboration, innovation, and a shared commitment to sustainability, organisations can overcome barriers and drive tangible progress towards a net zero future.

As a leading financial institution, Lloyds Bank remains steadfast in its support of this endeavour. By providing access to essential resources, expertise, and financing, we aim to empower organisations of all sizes to embrace sustainability and contribute to a brighter, greener future for generations to come.

Together, let us continue to champion sustainability and pave the way towards a more resilient and sustainable future for all.