

Why Audit and Assurance of Carbon Costs and Net Zero Targets are Fundamental



Our
Strategic
Partnerships

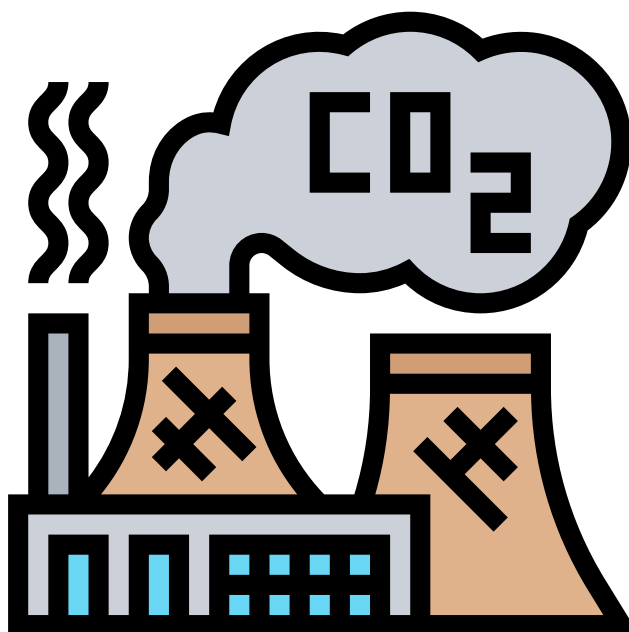
Core
Empowering
Communities

Values
Sustainable
Value

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What is Net-Zero Target?

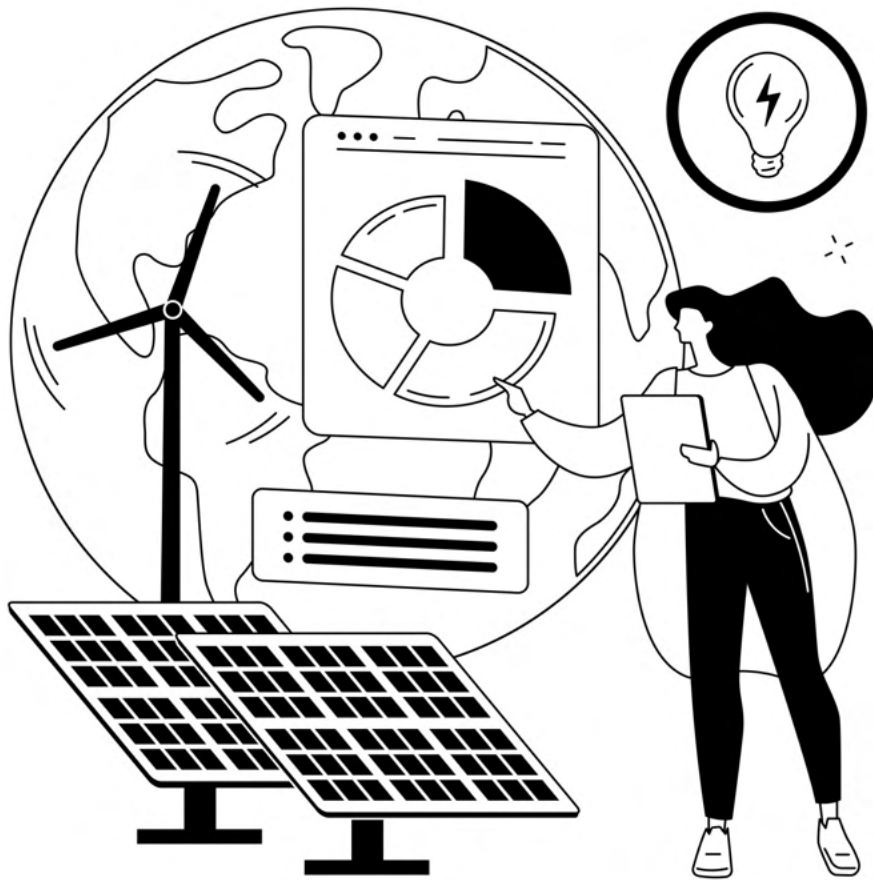


Achieving a balance between the number of greenhouse gases added to the atmosphere and the number removed is known as "Net-Zero." A similar idea underlies achieving net zero based on a specific science-based target for balance between greenhouse gases produced and absorbed.

Attaining net zero targets is key to tackling climate change and reducing global warming. Actions over the decade to limit emissions will be critical. Therefore, countries, industries, and sectors from financial to energy and construction must collaborate to reduce the impact and cost of carbon.

The process of reaching Net-Zero refers to reducing greenhouse gas emissions as closely as feasible to zero, without any leftover emissions being re-absorbed naturally from the atmosphere, for example by oceans and forests.

What is a Science-Based Net-Zero Target?



This is when companies set measurable achievable KPIs towards achieving global goals and transparently report actual data of 'what is achievable at a global level (e.g. 2.0°C reduction), build this into company strategic and financial goals that contribute towards achieving shared global goals.

Net-Zero targets will be best successful when corporations with over 500 employees committed to net-zero targets through the Science-Based Target initiative (SBTi). SMEs can similarly use SBTi for a simplified pathway to ensure their business set net-zero targets.

Benefits of Net zero to The Economy



The balance between emitting carbon and absorbing it from carbon sinks is known as carbon neutrality. Any system that absorbs more carbon than it emits, such as forests, soils, and oceans, is considered a carbon sink. Carbon neutrality is when the amount of carbon removed from the atmosphere equals the carbon emitted.

Our carbon footprints can be reduced, and total environmental effects can be reduced, by adopting more environmentally friendly lifestyle choices. This could entail limiting food waste, recycling plastics and used clothing, choosing public transportation over driving a personal vehicle, and keeping an eye on how much carbon-intensive energy your home uses. specifically focusing on the removal of carbon.

Carbon neutrality is beneficial for businesses to be sustainable in the long run. Achieving it allows businesses to optimise costs through operational efficiencies and tax reductions whilst protecting the environment and communities of relevant stakeholders necessary for a project to succeed.

Why is Net-Zero Important?



Backed by evidence, the globe is becoming hotter. According to the World Meteorological Organization, the last 22 years have experienced the warmest 20 years recorded. The average temperature across the globe has risen by 1.2°C (2.16°F) since the pre-industrial era. Although 1.0°C may seem insignificant, this gradual warming appears to be having a significant harmful effect. If current patterns continue, this is expected to worsen, with estimates of a 2.7°C (4.86°F) increase in world temperatures by 2100.

We are experiencing the effects of climate change, including irregular weather patterns, heat waves, floods, and severe storms, and with this slight increase in global temperatures, climate risks will increase construction and people costs on infrastructure projects. So it is expected that there will be a significant increase in investment in green infrastructure.

The increase in global temperature must be kept to 1.5°C above pre-industrial levels to prevent the worst effects of climate change and maintain a liveable planet. The earth is already warmer by 1.1°C since the late 1800s, and emissions are still rising. Emissions must decrease by 45 percent by 2030 to achieve Net-Zero by 2050 if the Paris Agreement of keeping global warming to 1.5°C or below is to be met.

Causes and How to Combat Climate Change?



Governments and scientists largely agree that increased atmospheric concentrations of greenhouse gases are what precipitate climate change. The greenhouse effect they produce by warming the Earth's surface and the air above it gives them their name. Gases that capture solar energy are to be blamed for this. Methane, carbon dioxide (CO₂), and water vapor are the most prevalent greenhouse gases.

Since CO₂ is the most harmful and prevalent of greenhouse gases, reducing carbon emissions, reducing one's carbon footprint, or finding low-carbon alternatives are recommended as solutions to combat climate change. Reducing the number of greenhouse gases in the atmosphere should help combat climate change because too many of these gases are causing dangerous global warming.

Below are two ways to do this that will benefit the triple bottom line:

- *Reducing the number of carbon emissions produced from industrial processes, power generation, transportation, and intensive agriculture.*
- *Reducing greenhouse gas emissions by planting more trees that can absorb carbon produced by industrial operations before it is released.*

Net Zero Financial Benefits for Businesses

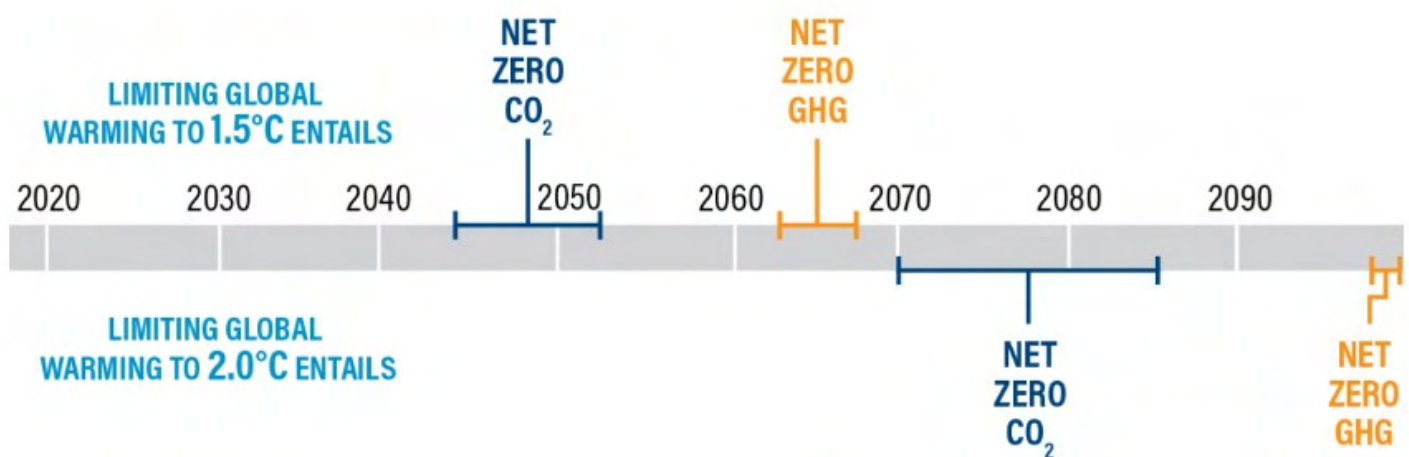


From our experience, below are Net Zero and decarbonisation investment financial benefits for businesses:

- *Improving business brand value, reputation, and expansion.*
- *Meeting consumer demand for low-carbon products and services*
- *Improving the recruitment and retention of the best talent*
- *Ensuring a sustainable supply chain where purchasing decisions are made*
- *Ensures Operational cost reductions and improved financial decisions*
- *Satisfying the demands of stakeholders, investors, and funders*
- *Ensuring that the business remains a sustainable growing concern*
- *Safeguarding future performance, lost market share, and revenue*

How can Net-Zero be Achieved?

Global timeline to reach net-zero emissions



Source: IPCC Special Report on Global Warming of 1.5°C



The above figure represents the timeline to reach Net-Zero. One of the biggest challenges humanity has ever faced is the transition to a net-zero planet. It will demand a massive change in the ways that we produce, consume, and travel, and the global pandemic is evidence of that. Around three-quarters of greenhouse gas emissions come from the energy sector, which also holds the key to decarbonisation and preventing the worst effects of climate change.

The energy sector is responsible for generating significant GDP income for developed and developing economies. Carbon emissions will be significantly reduced with investment in cleaner energy and if electricity from renewables like wind or solar replaced dirty coal, gas, and oil-fired power. This will demand education, phased transitional, and global transformational change.

Net-Zero Strategy



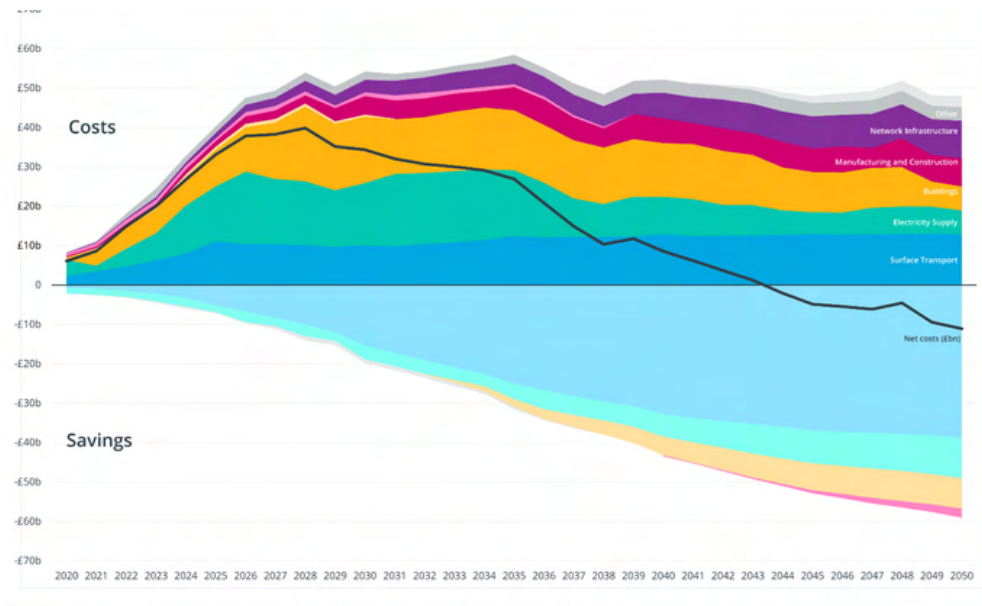
It will be challenging to eliminate all emissions within the required timeframe, hence the "net" in net zero is crucial. We however need to ramp up decarbonisation infrastructure investments in addition to significant and bold reductions in emission targets.

Net zero must be a permanent cultural change to be effective, which means greenhouse gas reductions from minimising forest fires or faulty carbon dioxide storage. A Net Zero strategy means implementing plans to reduce emissions that harm the climate and decarbonizing all economic sectors from agriculture to transportation.

Below are some measures included in the UK Net-Zero strategy published in October 2021:

- To stop the sale of new petrol and diesel cars by 2030.
- To provide grants to support households switching from gas boilers to low-carbon heating systems like heat pumps.
- Incentives to encourage farmers to use low-carbon farming.

Where are We on The Path to Net-Zero 2050?



To achieve net zero carbon goals, businesses need a strategic plan of action for financing decarbonization investments, projects, and initiatives to achieve change from within and throughout their ecosystem while optimising costs and value sustainably for investors and shareholders.

Projects should be compliant with global sustainability standards and companies must ensure they are working with an independent audit or advisory firm of qualified professionals. Businesses must ensure investments and operations have a positive social and environmental impact on the communities in which they operate and ensure activities are carbon-efficient.

When greenhouse gas removals or offsets equalize business residual emissions. Net zero can be achieved via a significant reduction in carbon emissions across the value chain. This is key to achieving net zero. Once abatement is maximised, businesses can apply carbon offsets or removals to achieve net zero. Working towards net zero demonstrates a commitment to decarbonization and despite short-term costs investments, this will create longer-term value and sustainable benefits.

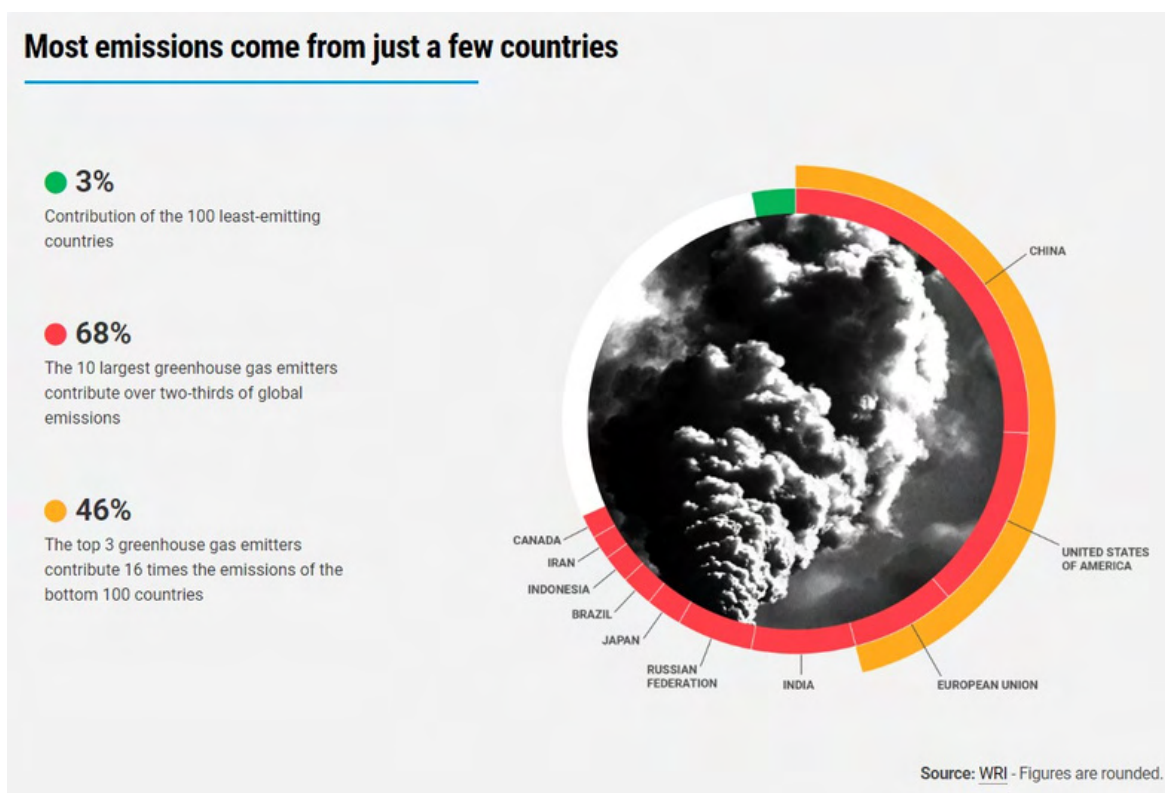
Cost and Savings from Net-Zero Investments



Government investments presently fall short of what is needed. According to all 193 Parties to the Paris Agreement combined, current national climate policies will result in a significant increase of about 14% in global greenhouse gas emissions from 2010 levels by 2030. All countries, especially the biggest emitters, must significantly increase their *Nationally Determined Contributions (NDCs)* and take decisive action to cut emissions. All nations were urged by the Glasgow Climate Pact to improve the 2030 targets by the end of 2022. In the UK, only about £10 billion in public and private investment went toward low-carbon projects in 2020. The independent Climate Change Committee believes that net-zero investments need to increase to £50 billion annually by the late 2020s on transportation, renewable energy, and construction until 2050.

Importantly, there will also be significant savings. The CCC predicts that by the late 2030s, decreases in routine spending (operational expenditure), particularly from electric car increased efficiency, will offset this additional investment (capital expenditure). Similar findings have been reached by other analyses in general. The Office for Budget Responsibility projected the net cost of the UK achieving net zero by 2050 to be £321 billion, or just over £10 billion per year, in a study on fiscal risks published in July 2021. This consists of around £1.4 trillion in costs and approximately £1.1 trillion in savings.

Who will Pay for Net-Zero?



There will be a need for significant investment initiatives, driven by global governments but mostly funded and implemented by the private sector and ordinary people driving change through reduced spending and investment in products and services that are not carbon friendly. According to the CCC, governments are unlikely to provide the majority of the funding to encourage the private sector. Investment and cover costs of decarbonisation now must be evidenced to be able to generate future economic benefits.

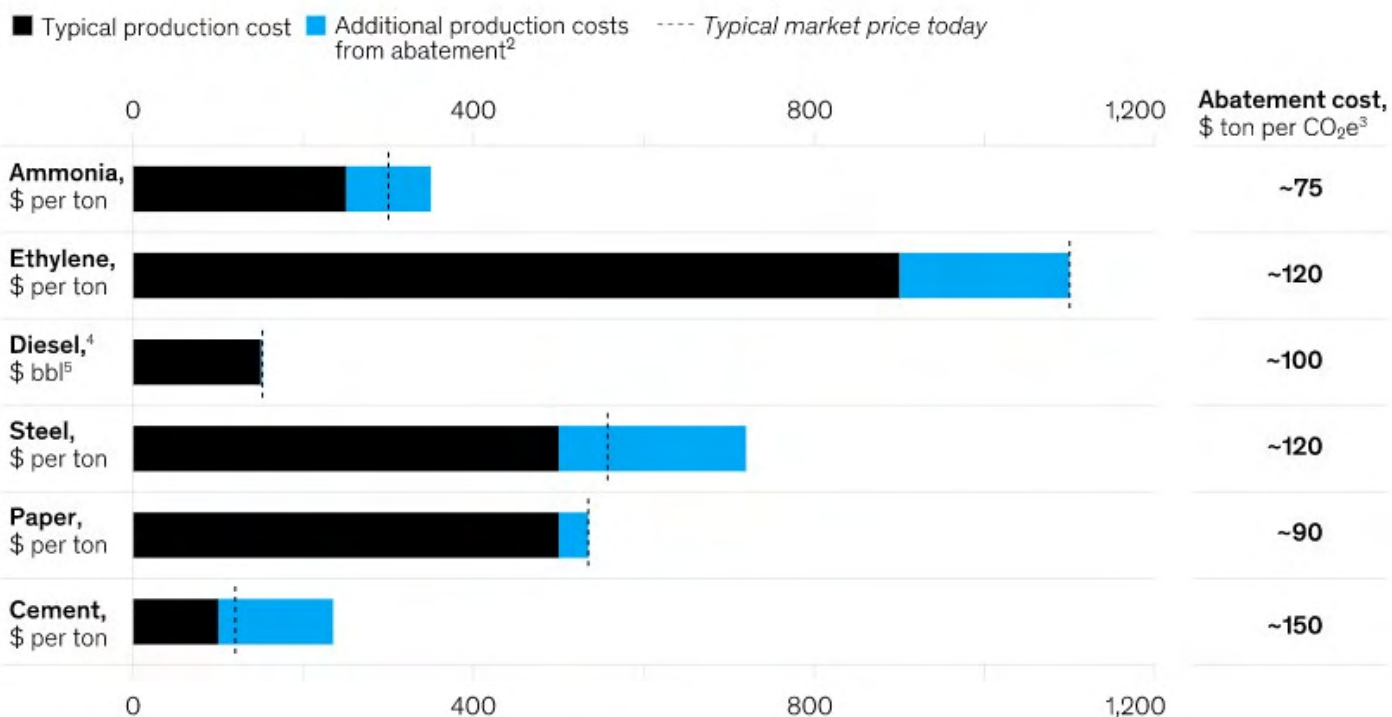
When deciding who will pay the cost of decarbonisation, policymakers will consider five overlapping groups:

- Ordinary taxpayers and investors
- Consumers, by placing costs on energy providers
- Charging customers via higher bills (we are seeing this already)
- Restricting the use of high-carbon alternative
- Taxing businesses - ultimately customers, staff, and shareholders.

Managing Demand Shifts Cost Increases

Decarbonization can raise near-term unit costs for various sectors; these increases will need to be managed.

Production cost and 2030 additional abatement costs per industry¹



¹Based on 2030 abatement cost.

²Based on earnings before interest, taxes, depreciation, and amortization margin of companies with primary activity in production in a given commodity.

³CO₂e calculated based on 100-year global-warming potentials (IPCC AR4).

⁴Additional abatement cost for diesel is small but not zero (~\$2 per bbl).

⁵Per barrel.

Source: Company reports; "How the European Union could achieve net-zero emissions at net-zero cost," December 3, 2020, McKinsey.com

McKinsey
& Company

The above chart from a 2020 McKinsey report depicts that the additional cost of decarbonisation is still significant in some challenging industries; for instance, the cost of producing green steel is currently over 40% higher than that of conventional production, and in 2050, it is anticipated to remain 20% to 30% higher. Therefore global governmental tax interventions and rebates will be required to offer incentives for transformation in these areas at the present.

How CFBL Consulting Will Help



- *Undertaking pre-audit diagnostic and current state risk assessment*
- *Perform Independent actual carbon cost audits to prevent greenwashing*
- *Engaging with key stakeholders, board and leadership for buy-in*
- *Communicating with stakeholders, and supply chain early on*
- *Establishing protocols for your net zero strategy*
- *Implementing protocols through workshops and training*
- *Benchmarking your carbon footprint for carbon reduction and offset*
- *Developing the investment business cases, for decarbonisation*
- *Establishing a sustainable, ESG, and Net Zero strategy*
- *Independently reporting actual impact against goals*
- *Account, tax, and compliance reporting for ESG and carbon cost*

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Our Services & Value Proposition



- **Infrastructure project:** cost assurance, cost systems, payroll, HR audits & protocols
- **Sustainability & ESG:** pay-gap, carbon cost audits, reporting, ESG finance training
- **Training:** delivering case-based training for cost assurance and ESG strategy protocols
- **Independent advisory:** on ESG and sustainable strategy, cost optimisation & digital transformation.
- **Fintech/Transformation advisory:** minimising risk and optimising business case ROI
- **Business Strategy:** 5-Yr strategic business plan, financial statements
- **SME investor pitch assessment,** diagnostic and recommendations before investor pitches
- **Steering Group (CSR / ESG governance in initiative):** cost assurance and audits on infrastructure projects/contracts

OUR CASE STUDIES



WE IDENTIFY



WE PLAN



WE IMPLEMENT



WE FOLLOW-THROUGH



WE MEASURE



WE RE-EVALUATE

Our Services

- Cost Assurance and Forensic Audits
- Carbon Cost Audit
- Cost Systems Audits
- Sustainable Business Planning
- Capex Cost Controls and Protocols
- Training
- Payroll and HR Audit
- Cost Consulting and Advisory



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Anna Hewson has 14 years of experience delivering improvements to a range of high-value infrastructure projects of up to £41 bn. She is an environmental specialist that has helped businesses achieve optimum sustainability and environmental outcomes.



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