Is Sustainability Reporting mandatory for UK product design companies?

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Reading time 7 mins

Key Points

- Sustainability Reporting is a framework that organisations use to publicly communicate their social and environmental risks, opportunities and practices
- It gives their stakeholders (e.g. investors, government regulators, employees, partners, and customers) the information needed to make informed decisions
- The UK government is adopting additional policy steps such as Sustainable Disclosure Requirements (SDR) to put a central reporting framework for compliance regulations to help the country reach its goal of becoming Net Zero by 2050
- While a policy statement is yet to be released and receive legislative approval, many companies have started anticipating how new regulations could impact them
- Sustainability Reporting isn’t mandatory for most UK companies but is nevertheless important and has numerous benefits
- It can serve as a catalyst for change, ignite innovation, identify opportunities for operational efficiencies and cost-savings, help companies demonstrate their commitment to sustainability and ethical business practices, and attract investors

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Sustainability reporting is a way for companies to report on matters relating to the environmental, social, governance, and ethical impacts of the work they do. It's a transparent and balanced way for companies to assess all facets of their operations, considering both positive and negative factors (e.g., a company that uses renewable energy but produces non-recyclable waste).

As concerns and challenges regarding sustainability continue to play an increasingly pivotal role at the centre stage of national and international affairs, companies that are proactive and transparent in their sustainability reporting have numerous advantages over those that don't. For example, it improves a company's brand image and helps them become more resilient, thus making them more attractive to customers, partners, and investors.

While sustainability reporting is not yet mandatory for UK companies (except for publicly traded UK-quoted companies that need to report on their greenhouse gas emissions as part of their annual Directors Report), getting ahead of the curve and investing in environmental, social, and governance (ESG) reporting is essential.

Suggested articles

5 sustainable design challenges and how to overcome them

A guide to ESG investing for business leaders

How to calculate and reduce your product's carbon footprint and environmental impact

The UK's upcoming Sustainable Disclosure Requirements (SDR) Regulations

Sustainability is an important socio-economic topic in the UK, and with the government announcing Sustainability Disclosure Requirements (SDR) set to come into effect in 2023-2025, industries across the board are anticipating how new regulations and compliance requirements could impact businesses. The objectives behind the SDRs are to:

- Help the UK reach its objective to achieve Net Zero by 2050 and become the first country to make alignment with the Task Force on Climate-related Financial Disclosures (TCFD) mandatory across the country. This task force is a global organisation formed to develop a set of recommended climate-related disclosures that companies and financial institutions can use to inform investors, shareholders, and the public of their climate-related financial risks
- Create an integrated, unified, and streamlined framework that brings all the sustainability-related reporting requirements together
- Give deeper insights into a company's social and environmental impact – especially to investors
- Demonstrate which sustainability issues have an impact on a company, but also which of the company's activities have an effect on sustainable development (double materiality)

- Reduce greenwashing (a PR tactic that many companies use to make their activities or products seem more environmentally friendly than they really are) and unify reporting standards, e.g. restrictions on the use of sustainability-related terms on product labels and marketing campaigns

There's a high probability that proposed regulations and requirements won't come into effect anytime soon as the Financial Conduct Authority has already delayed publishing a Policy Statement on SDR rules twice: legislative approval and amendments will take time. However, companies should nevertheless be prepared and start putting reporting systems in place (e.g. data collection on every part of their supply chain) for when SDR compliance does become mandatory.

What are the benefits of sustainability reporting?

Compliance with (potential) government requirements aside, all companies – as well as their investors and stakeholders – have a vested interest in the longevity and viability of their business. Understanding their operations' social and environmental impact is beneficial and important for numerous reasons.

Firstly, it can serve as a catalyst for change and help to ignite innovation. For example, a company could be unaware that a raw material used in their product development is a scarce resource and that extracting it contributes to land degradation and labour exploitation. However, a sustainability report that brings these issues to light might compel them to look for an innovative solution that uses sustainable alternatives and protects human rights.

Secondly, sustainability reporting helps identify operational efficiencies and cost savings opportunities. For example, by calculating and reducing your business carbon footprint, you improve the efficiency of energy and water usage, reduce waste, reduce greenhouse gas emissions, and possibly qualify for tax rebates.

In addition, sustainability reporting helps companies to communicate and demonstrate their commitment – or lack thereof – to a sustainable future. This, in turn, allows them to attract like-minded employees, partners, consumers, and investors who play a crucial role in realising that future.

Lastly, companies that genuinely prioritise sustainability are statistically better positioned to manage risks, reduce resource-related costs, and anticipate ESG-related disruptions to their supply chain. This makes them more appealing to investors (who can then better assess a company's long-term financial performance and ability to adapt to changing market conditions) and also helps attract a customer demographic seeking to align themselves with businesses that have a positive impact.

Are you ready to take the next step?

Even though sustainability reporting is optional for most small-medium and unlisted companies in the UK, future legislation could change that. Even if not, it's a beneficial practice that could help businesses across the board to become more resilient, innovative, climate-conscious, and proactive!

If you want to get ahead of the curve, sign up for our newsletter or watch this space. In our next post, we'll be sharing a free Sustainability Reporting template to help you put a best practice framework into place to give you more of a competitive edge!

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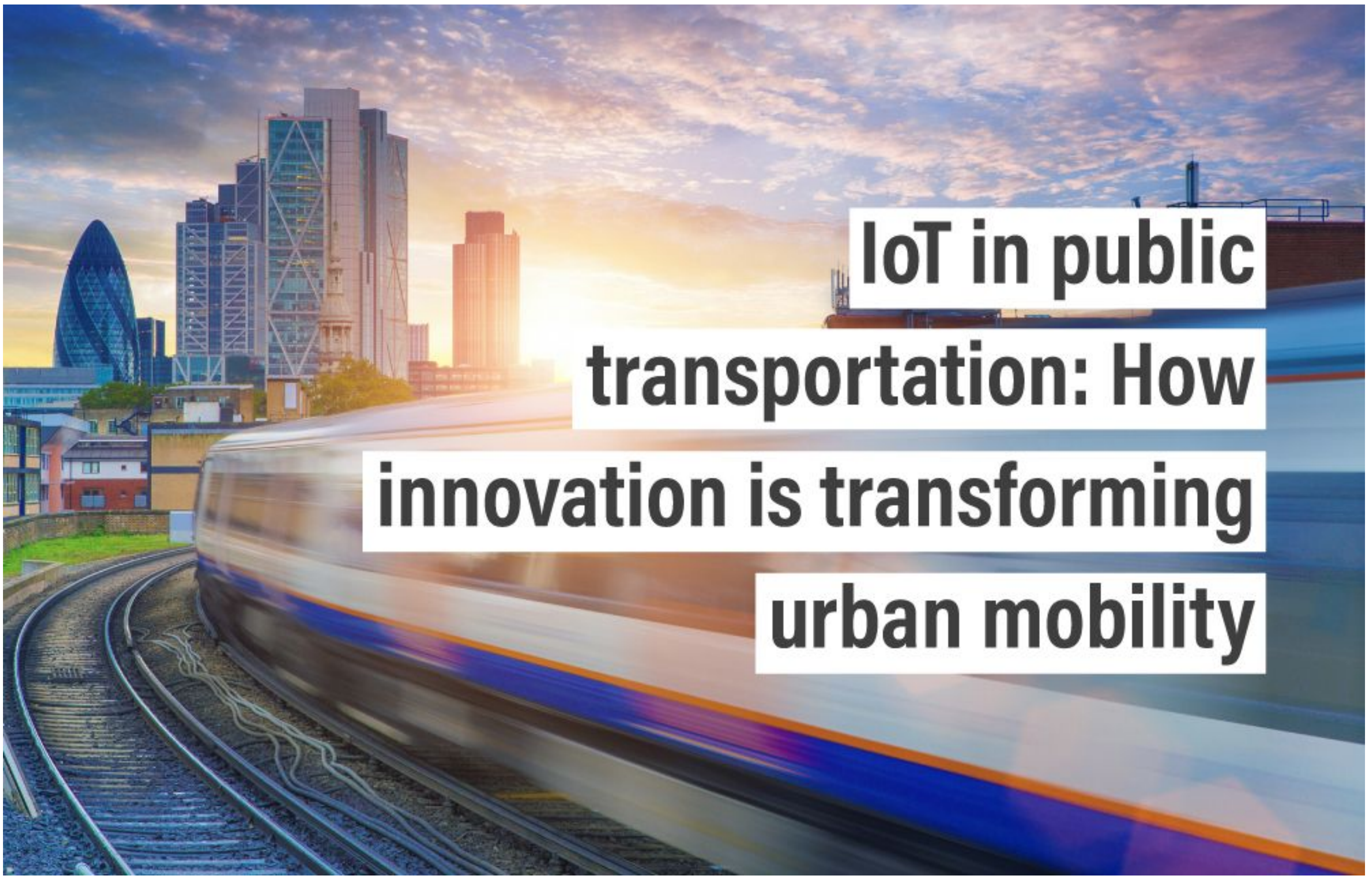

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