Chartered Governance Institute UK & Ireland

Guidance note

ESG: A maturity matrix for charities

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ESG: A maturity matrix for charities

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If you have any feedback on the content of these resources, or additional questions that you'd like to discuss, please contact The Chartered Governance Institute information centre:
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Introduction

This paper seeks to outline the rise of environmental, social[1] and governance factors (ESG) in the commercial sector and explain how they will become increasingly relevant to modern charities. It covers the drive behind the increasing use of ESG factors in investment decisions, reputational risks, environmental awareness amongst consumers and clients and the need to attract talent with different motivations to work.

While larger charities, with funds to invest, will be aware of ESG in terms of investment decisions, such as avoiding carbon-heavy or extractive industries, others will not be familiar with the concept or believe that as they do not have substantial funds to use to influence corporate behaviour the ESG discussion is not relevant to them. However, this is not just about investment. There are increasing pressures on charities to demonstrate that they are making a positive impact on society and are not doing any harm to others in the pursuit of their charitable objects. ESG concerns are already being discussed by charities, of all sizes, they just might not recognise it as such. The pandemic has forced charities to re-evaluate how they operate: the use of digital; reduced travel; office space; flexible working and alternative business models are all elements of the ESG agenda instigated by ESG risk.

ESG is, therefore, not merely a new version of reputational risk management; it is a concept that could potentially change the way charities think about values, attract supporters and maximise impact. This document provides information on:

- What ESG is;
- The potential opportunities and benefits for charities of engaging in ESG;
- Practical suggestions to start board conversations and implement changes; and
- A maturity matrix for boards to assess and identify the degree to which they can and want to embrace ESG in their broader reporting arrangements.

ESG will come with some costs but could yield significant benefits which will ultimately support the sustainability of the charity while creating a more positive impact on the communities it seeks to serve.

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Considering and reporting on ESG factors affecting a charity can result in positive impacts such as:

- Demonstrating transparency and effective management which in turn increases sustainable support for the charity
- Attracting long-term supporters and funders
- Driving continuous improvement by creating accountability and collaboration
- Funding streams, new and diversified
- Identifying cost savings and improvements in efficiency and effectiveness
- Opening new opportunities for income generation (e.g. new technology delivering services, renewable energy sold to the National Grid)
- Improving risk management
- Organisational growth
- Enhanced brand value and reputation
- An ongoing legitimacy to operate in the eyes of some sections of the public through demonstrating transparency and responsiveness to stakeholder concerns
- Creating a deeper understanding of stakeholder needs, which in turn can drive innovation in the way the charity fulfils its objectives
- Placing the charity ahead of ESG expectations in the sector and regulatory requirements
- Enhanced human capital
- Higher quality staff recruitment, motivation and retention
- Increased collaboration and partnership potential.

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ESG, not ESP

ESG matters have grown in importance in a relatively short period of time in the corporate governance world, driven by investors keen to promote a more compassionate face of modern capitalism. According to the FT Lexicon, ESG is a

> 'Generic term used in capital markets and used by investors to evaluate corporate behaviour and to determine the future financial performance of companies…..ESG is a subset of non-financial performance indicators which include sustainable, ethical and corporate governance issues such as managing a company's carbon footprint and ensuring there are systems in place to ensure accountability.'

ESG can be seen as encompassing a broad set of environmental, social (including sustainability) and governance considerations that can impact on an organisation's ability to execute strategy and deliver charitable objects.

Significant sections of the public are increasingly interested in how organisations impact wider society in the way they undertake their activities. Culture, values, resource use, climate change and responsible investment are becoming of greater interest to customers, clients, supporters, regulators and others. At the same time, the use of digital technology and social media has made it easier for people to research and campaign against an organisation deemed to have fallen below acceptable standards of organisational behaviour. The outcry over the 2020 destruction of Aboriginal caves by Rio Tinto demonstrates the wide-ranging impact of board decisions. The potential implications of board decisions are therefore of equal relevance to charities and multi-national corporations.

ESG should not be seen as just a reputational risk for organisations, but also a way of demonstrating global citizenship, values-driven operations, ethical behaviours and sustainability. ESG includes:

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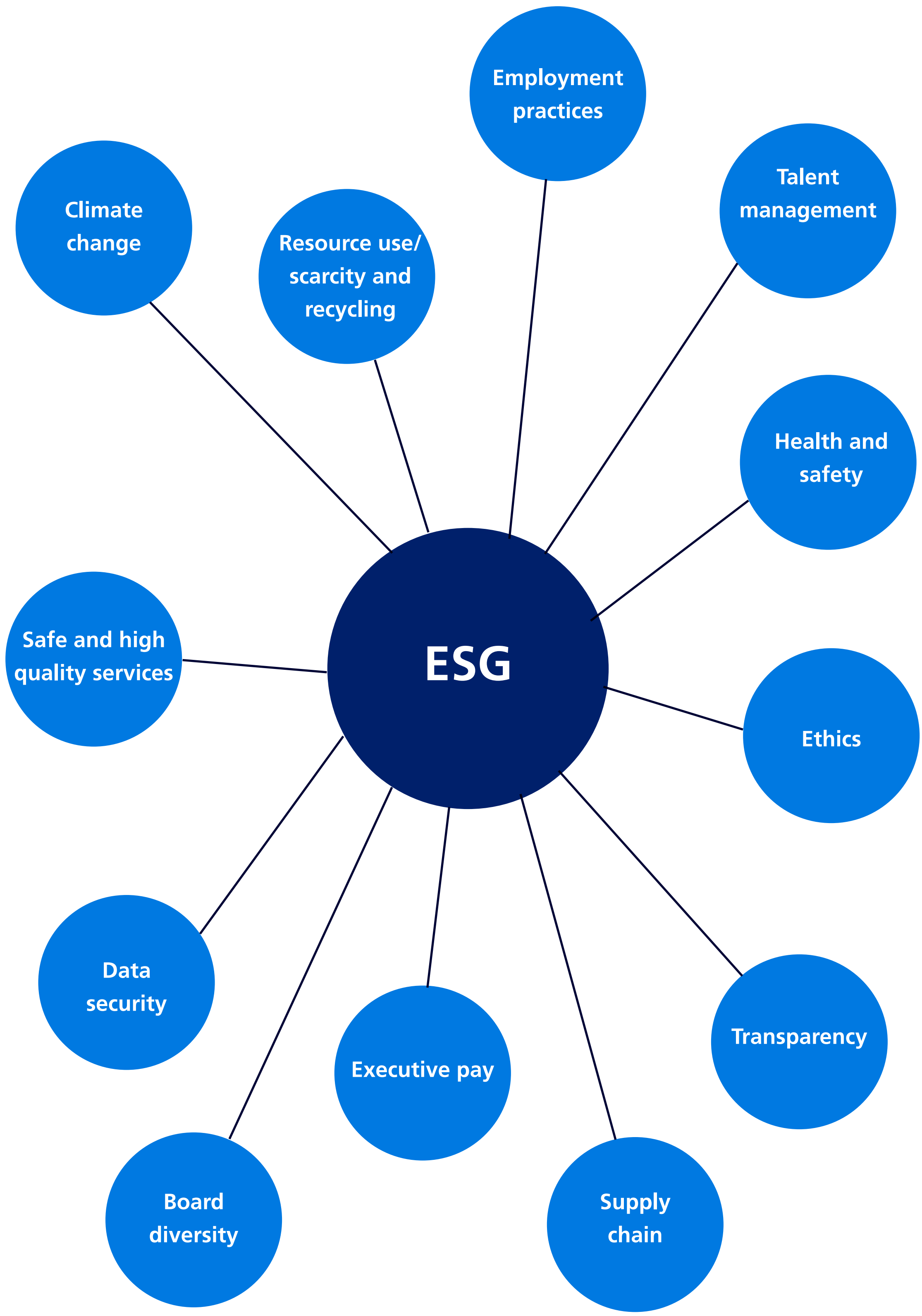

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Responding to the increased interest in the impact an organisation has on the wider world, reporting on ESG provides an insight into how a board is making its decisions with an eye on the wider impacts of organisational activities. As with other aspects of governance, the approach adopted by an organisation is likely to be proportionate to the size and complexity of the entity and the variety of challenges and opportunities ahead of it.

In addition to commercial sector-led developments in ESG, the UK government committed to making the country carbon net-zero by 2050. International action has been taken to help commercial entities report on ESG factors in supporting the achievement of climate change and other sustainable development goals. Initiatives have been created to guide such entities in establishing, monitoring and reporting ESG factors including:

- The Task Force on Climate Disclosure[2]
- GRI Standards[3]
- The World Economic Forum's metrics[4]
- Sustainability Accounting Standards Board
- Climate Disclosure Standards Board[5]
- The UN Development Programme's Sustainable Development Goals[6] (SDGs)

The SDGs are supported by the UK government and may be seen as being more relevant to organisations with a social or charitable purpose, given their broader themes. The goals are:

#1 No poverty:

End poverty in all its forms everywhere

#2 Zero hunger:

End hunger, achieve food security and improved nutrition and promote sustainable agriculture

#3 Good health and well-being:

Ensure healthy lives and promote well-being for all at all ages

#4 Quality education:

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

#5 Gender equality:

Achieve gender equality and empower all women and girls

#6 Clean water and sanitation:

Ensure availability and sustainable management of water and sanitation for all

#7 Affordable and clean energy:

Ensure access to affordable, reliable, sustainable and modern energy for all

#8 Decent work and economic growth:

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

#9 Industry, innovation and infrastructure:

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

#10 Reduced inequality:

Reduce inequality within and among countries

#11 Sustainable cities and communities:

Make cities and human settlements inclusive, safe, resilient and sustainable

#12 Responsible consumption and production:

Ensure sustainable consumption and production patterns

#13 Climate action:

Take urgent action to combat climate change and its impacts

#14 Life below water:

Conserve and sustainably use the oceans, seas and marine resources for sustainable development

#15 Life on land:

Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

#16 Peace, justice and strong institutions:

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

#17 Partnerships for the goals:

Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Each of the initiatives above will have its strengths and weaknesses, with some more suited to particular industries and economic activities or focused on one aspect of ESG. In each case, reporting on progress against targets appears to follow the approach promoted by the Task Force on Climate-related Financial Disclosures (TCFD).[7] It expects organisations to:

- Disclose governance arrangements around climate-related risks and opportunities
- Describe the board's oversight of those risks
- Describe what management's role is in assessing and managing climate-related risks.

This is an approach that can be adapted for different sectors and various types of organisations. These three bullet points inform the following discussion on the wider ESG issues charities may wish to address now and in the future.

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ESG and charities

For those in the charity sector, the response to improving environmental, social, sustainability or governance matters might be to point to their ongoing charitable purposes and legal responsibility to deliver public benefit. Within the social purpose sector (including, but not limited to, charities, social enterprises, public benefit entities, etc.), the environmental and social concerns are likely to have been considered by boards, if not explicitly, for longer. Some might argue that the justification of many social purpose entities, and the desire to 'do no harm' to stakeholders while helping intended audiences, have been considered by boards in their general deliberations for as long as they have existed. This has not always meant that harm has been avoided to another community which isn't the focus of the entity and its board. For charities, historically, such adverse impacts may not have been broadly considered, reviewed or monitored. But the situation is changing, not just from within the sector but also in response to the public's growing expectations of how charities undertake their activities.

The COVID-19 pandemic has prompted some charities to review the way they currently operate and to consider how they might deliver for their communities in different ways. Digital services, better use of technology and homeworking have been tested and many organisations will have found them to be up to the challenge, if not a preferable way of working. As an organisational disruptor, the lockdown presented many charities with an opportunity to prepare for a different future, taking into account many ESG issues.

Historically, the sector's role in the ESG debate has generally focused on the shareholder activism angle, where larger charities with funds available to invest have used that influence to change the behaviours of organisations in which the charity might invest, e.g. the Church of England's decision to disinvest in carbon energy, or a health charity choosing not to invest in tobacco products or other unhealthy consumables.

Traditional board discussions may have focused on whether to use their investment power to be more responsible and support causes that enhance or augment the furtherance of a charity's objects, or to maximise income for the charity. Achieving both aims has not always been possible; however, recent research and articles suggest that investing in more 'ethical' shares has yielded better results.[8] The legal aspects related to charities following ethical investment policies are not straightforward, with a court case in 2020 seeking clearer guidance and the Charity Commission looking to improve the advice it can offer charities, without necessarily changing the law. Getting investment decisions 'wrong' can result in adverse headlines, such as those experienced by Comic Relief in 2013,[9] and the associated risks of a decline in public support.

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In a January 2020 blog by the Charity Commission, it was stated that the 'law is clear' that trustees can take ethical and other non-financial considerations into account when making investment decisions,[10] particularly:

- where the investment conflicts with the charity's purposes;
- where the investment decision is likely to hamper the charity's work; and
- when there is no risk of significant financial detriment to the charity.

There is an ongoing debate as to the degree to which charities can pursue environmentally sustainable activities that do not fall within their registered charitable purposes. Applying the letter of the law narrowly is a stance which asserts that trustees have a legal duty to apply charity resources exclusively to further the charitable objects detailed in the charity's governing documents. Others applying the spirit of the law might argue that trustees should be alert to avoid doing unintended harm and should think more broadly about the unplanned adverse impact their activities and decisions could generate. A further argument might include the need for charities to be more reflective of the sector's values and not undertake anything that could damage or undermine the reputation and public trust in the sector. All are relevant factors trustees need to consider when thinking about ESG issues in their charity.

The impact of the pandemic, the wider social expectations in society with regard to the use of plastics arising from the 'Blue Planet effect', the prominence of the 'Me too' and 'Black Lives Matter' movements, along with a greater awareness of the exploitation of humans and animals and the climate change challenge, are among many issues that mean that the operating environment for many charities has fundamentally changed. Many of these may be viewed through the reputational risk prism, but this is only one aspect of a multi-dimensional issue.

Recent media coverage of charities has focused on the issues of culture, ethics and values. This mirrors stories covering other sectors and demonstrates a society which has evolved its thinking about how organisations should behave. All types of entities are being asked challenging questions about their operating models, and those that will fare the best – in terms of attracting employees, clients, customers, funders, supporters or donors – will be those that can articulate a convincing narrative of how their organisation 'makes a difference'. That difference will be measured in a number of ways, by different stakeholders, including taking a position on from whom the charity accepts funds or with whom it partners.[11]

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Why engage with ESG?

The Charity Commission increasingly promotes a view that the public expects more of charities or holds charities to a different standard from other organisations. Whatever the reader's response to those assertions, the call for greater transparency in charities has been growing for some time. Additionally, there is a perception that the public believes charities should be run to a higher ethical standard. The public's trust may or may not have declined, but for many individuals the decisions on where to shop, who to support, including who to work for, and who to boycott are made in consideration of a wider range of factors, including organisational stance on the way they make money, respect the environment and treat people. ESG reporting by the board, therefore, provides a degree of transparency which in turn can build trust, especially where funders, donors and supporters do not currently have adequate information to make funding or support decisions. For boards to be able to report publicly on these issues will require a degree of robust internal assessment, review and scrutiny to inform decisions which impact on a charity's culture, behaviours and values.

Ultimately, ESG reporting is about accounting and reporting mechanisms which are fundamental to the ongoing sustainability of charities; whether that is manifested as people accessing services/activities, ongoing volunteering, donations and funding, resource use, responsible investments, or adapting business plans. Consequently, ESG provides insight into the quality of management and governance of a charity and can help to judge the future performance of the organisation and its ability to deliver its charitable purposes. ESG can, therefore, play a pivotal role in organisational sustainability (and for some, ESG may simply mean the broader sustainability agenda in charities).

Boards and ESG-related risk

The board should lead on defining the charity's ESG values and aims as part of board responsibilities. In all likelihood, this will be in partnership with the senior management team,[12] and possibly other key stakeholders. ESG should be incorporated into other board reports and decision-making to ensure that ESG is not seen as a passing 'fad' but becomes an integral aspect to developing a charity that is sustainable on several levels.

Reporting on ESG matters can help inform and strengthen internal reporting systems, thereby enhancing governance arrangements as a whole. Clear links between strategic goals, the business model, risks, opportunities, operational indicators and financial performance can deliver better decision-making and improve the ability to deliver the charitable aims. Charities will be better able to identify and manage risk, evaluate and measure success and recognise future challenges and opportunities.

As detailed earlier, for ESG reporting to be effective it needs to address three areas: how governance arrangements and risks are disclosed; the role the board plays in overseeing the identification, assessment and management of risk; and the board's role in evaluating and managing those risks and opportunities. Key questions for trustees to consider when thinking about the risks and opportunities associated with ESG reporting are:

Introducing the topic

- Are ESG issues included in board strategy days? Are there specific issues or more general themes relevant to the charity?
- Do current areas of governance include environmental, social or sustainability issues in their approach, such as the approach to socially responsible investments within the investment policy, reduce, re-use and recycle campaigns in the office, approaches to sustainable or ethical supply chains?
- What is the board's view on each ESG-related risk facing the charity and its work with the communities it serves? How are those views informed?
- What evidence is there that there is a need for the charity to report against ESG? Where is that coming from?
- What are the incentives to encourage the charity to report against ESG – tax benefits, clients, staff, volunteers, funders, donors, supporters, regulators, other stakeholders?
- What are other charities doing in relation to ESG reporting?
- What is the board's current role regarding each ESG-related risk? What is the senior management team's current role regarding each ESG-related risk?
- What current reporting requirements include ESG issues? Could these be built upon to develop a wider ESG approach?

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Opportunities

- Could charitable purposes be better served by adopting an ESG approach to activities? This might include:
  - resource use and efficiency;
  - talent recruitment and management;
  - energy savings and sustainability;
  - reputational advantages;
  - alternative income streams (new programmes or alternative service provision to clients);
  - reinforcing organisational culture, values or behaviours;
  - stakeholder acquisition and retention.
- How would adopting ESG reporting to the board deliver better decision making?
- Would ESG reporting improve public trust and confidence in the charity by being more honest and open? Could that impact be measured?
- Are there sources of funding that focus on ESG factors which are currently unavailable to the charity? What would the charity need to do to be able to access them?

Board oversight

- Who is responsible for ESG-related risk issues facing the charity? How are the board and its committees involved?
- How often does the board consider each ESG-related risk to the charity, and to what degree?
- What information is presented to the board relating to ESG-related risk matters affecting the charity and the communities it serves? How is that information used?
- What processes does the charity have in place for assessing and considering ESG issues?
- How do trustees decide what ESG-related risks are deemed as ‘material’ to the work of the charity?
- Are there any existing ESG models the board could adopt or adapt?

Strategy

- How can ESG support the organisation in achieving its charitable aims?
- What strategy does the charity have for responding to material ESG-related risks?
- How can ESG be used to align the board, senior managers, staff and volunteers in delivering a positive impact in line with charitable objects?

Operational

- Do ESG-related risks affect the business model? If so, in what way?
- Is the charity's operating model sustainable in light of material ESG-related risks? If not, what can be changed to improve the charity's sustainability?
- What are the operational risks and opportunities aligned to ESG-related risks? How can the organisation prioritise each?
- How is the charity moving towards a sustainable business plan?
- What short, medium and long-term changes could the charity introduce to mitigate material ESG-related risks?
- What ESG-related scenarios could affect the charity's ongoing sustainability?
- What will the charity look like in the future? Will it continue to be sustainable, and in what form?

Monitoring ESG-related risks and management

- What ESG-related risks, directly and indirectly, apply to the charity and its intended aims? How could they derail strategic aims?
- What does the board have in place to assess/consider ESG-related issues? How can the board monitor the impact made from its ESG-related risk management approaches?
- What risk management systems are in place to specifically deal with material ESGrelated risks?
- How frequently are ESG risks reviewed, and the risk register amended?
- What is the chief executive's perspective on ESG affecting the charity's ability to achieve its goals?

Reporting

- What are the current reporting requirements around ESG? Should it include something in the Charities SORP's trustee annual report, public benefit statement, or risk management or financial policies? What are the regulators' needs,[13] and could the same data and information be used for each?
- Does the charity plan to voluntarily adopt a formally developed ESG standard? If so, which one and why?
- How will the charity disclose its ESG-related activities to its stakeholders and the wider public?
- Will any reports include historical trends from within the charity and the wider (sub) sector, e.g. relevant ratios, sector averages? Does it have access to that information? If not, should it seek to work with others to produce it? Would that help deliver charitable objectives?
- How does the ESG framework relate to the charity's goals?
- How have any ESG changes affected organisational performance and impact (planned and unplanned)?

An ESG statement should reflect the circumstances of the individual charity and provide boards with the opportunity to reflect on a charity's role and impact – both planned and unintentional, and how its activities contribute to wider social, sustainability, environmental and development goals. It provides transparency about the board's oversight of ESG risks and opportunities and can help strengthen the charity's credibility to a range of stakeholders.

When developing its ESG statement, the board should consider:

- The importance each stakeholder group attaches to ESG considerations and how that stakeholder group influences the board's approach to ESG matters (for example, does the organisation have a perspective on the priority accorded to each group, such as clients over staff and volunteers, over supporters and the general public?);
- Which ESG factors are relevant to the charity, and its stakeholders, which ones were chosen for addressing by the board and an explanation as to why;
- Realistic timeframes for seeing change within the charity, the area in which it operates and potentially wider society as a consequence of the charity's ESG activities.

Choosing ESG indicators

When deciding what issues a board should be reporting in relation to ESG, the commercial sector makes use of the concept of 'materiality'. Not all ESG-related risks will be of equal importance, hence the introduction of a concept to help decipher the seriousness and relevance of a particular action or issue to an organisation. 'Materiality' is a concept derived from financial accounting and within the Charities Statement of Recommended Practice (FRS102) (often shortened to Charities SORP or SORP) is defined as:

> 'an accounting test of what elements of information should be given in a particular set of accounts (financial statements). Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions of users taken on the basis of the accounts.'[14]

For charities, that definition could easily be applied to information which would be considered relevant to a reasonable stakeholder considering a decision to support the charity (support could include a range of activities such as volunteering, fundraising, donating, becoming a member or otherwise promoting the organisation). This definition is used in the maturity matrix in section 7.

Within the charity context, the definition of materiality would need to encapsulate the ESG factor's relevance to a range of stakeholders. Each stakeholder group identified by a charity will have their own degrees of relevance and priorities. It is, therefore, more challenging for the charity sector to succinctly derive a definition which is equally applicable across a range of charitable causes and approaches.

For a charity, it will be necessary for the board to agree and publicise its own definition of 'materiality' and how that informs what ESG factors are measured and reported in light of the definition. It is likely the definition will reflect the aggregate ranking of different ESG issues by different stakeholders, tempered by the decisions of the board as to which ESG related risks directly threaten the work of the charity or undermine the agreed values and culture of the organisation. Developing a definition of materiality should be included in the charity's ongoing processes developing and maintaining a stakeholder map and wider organisational engagement plan.

When deciding upon what indicators to report, the trustees might want to consider the following:

- Any guidelines on ESG recognised by the sector, including specific guidance on single issues that are appropriate (such as responsible and ethical investments, climate change, transportation, regulatory guidance or charity governance standards such as the Charity Governance Code)
- Can indicators be tracked over time to highlight short, medium and long-term impacts and effects?
- Procedures and accuracy of data collection (and interpretation)
- If there is any supplemental qualitative or quantitative data that might add value to the exercise and reporting
- How the ESG indicators link to the charity's performance and impact.

Whatever indicators are chosen, the board should be assured that the quality of the data collected is as accurate as possible: better data leads to better decision making and performance. The charity should know what data it currently collects and try to use that to inform ESG discussions unless existing systems are not sufficiently robust for multipurpose use or GDPR factors prevent its wider use.

Engaging management in ESG

For charities still coming to terms with new ways of working after the pandemic, the inclusion of ESG issues within their strategic discussions and future developments is likely to make them better placed to deal with future business-disruptors. Boards that act now in framing their ESG issues will be ahead of the curve in terms of the effective delivery of services in established and new formats and ongoing sustainability. They will also likely be better positioned to attract and retain key stakeholder groups (staff, volunteers, clients, donors, funders and supporters) as society becomes more knowledgeable and demanding in a range of ESG areas of interest.

From a management perspective, ESG can give profound insight and impact on the way a charity operates.

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Business impact of ESG	Opportunities deriving from ESG
Operational: supply chains: physical location of the operational activity; insurance costs; talent management and employee views Resources: energy and water use: reduce, re-use and recycle	Take advantage of resource efficiencies (such as re-using and recycling initiatives, reduction/increased efficiency of transport, and more energy-efficient ways of working) Adopt new energy sources which may be cheaper or efficient or aligned to the charity's values (lower emissions, new technology) The ability to access any government schemes to promote ESG factors (diversity, talent management, CO2 emissions)
Stakeholder behaviour: potential for greater support for charities with more developed ESG monitoring and reporting, reduced incidence of stakeholder activism	Possibility of attracting and retaining new stakeholders and supporters (sustainability, greater awareness, validation)
Donor and client demands: easier to meet changing demands and expectations of long-term, new and potential supporters and clients	The development of new services and products, or more sustainable current practices, from the use of new technology (effectiveness, better able to meet client needs, efficiency, sustainability). Better and more effective donor engagement.
Regulatory, policy and legal: potential future expectations of charities with regard to ESG, therefore better able to move swiftly and with relative ease to meet changes in regulation, policy and legal matters. For example, greenhouse gas emission reporting, the application of s. 172 of the Companies Act 2006, risks associated with a more litigious public.	An ability to position the charity more positively within the sector and wider economy (enhanced resilience)

Charities committed to developing ESG monitoring and reporting are therefore likely to be better placed to deal with issues arising from within the charity and externally, and minimise the adverse impact on the charity. The senior management team should be closely involved in ESG matters and reporting to demonstrate the charity's commitment.

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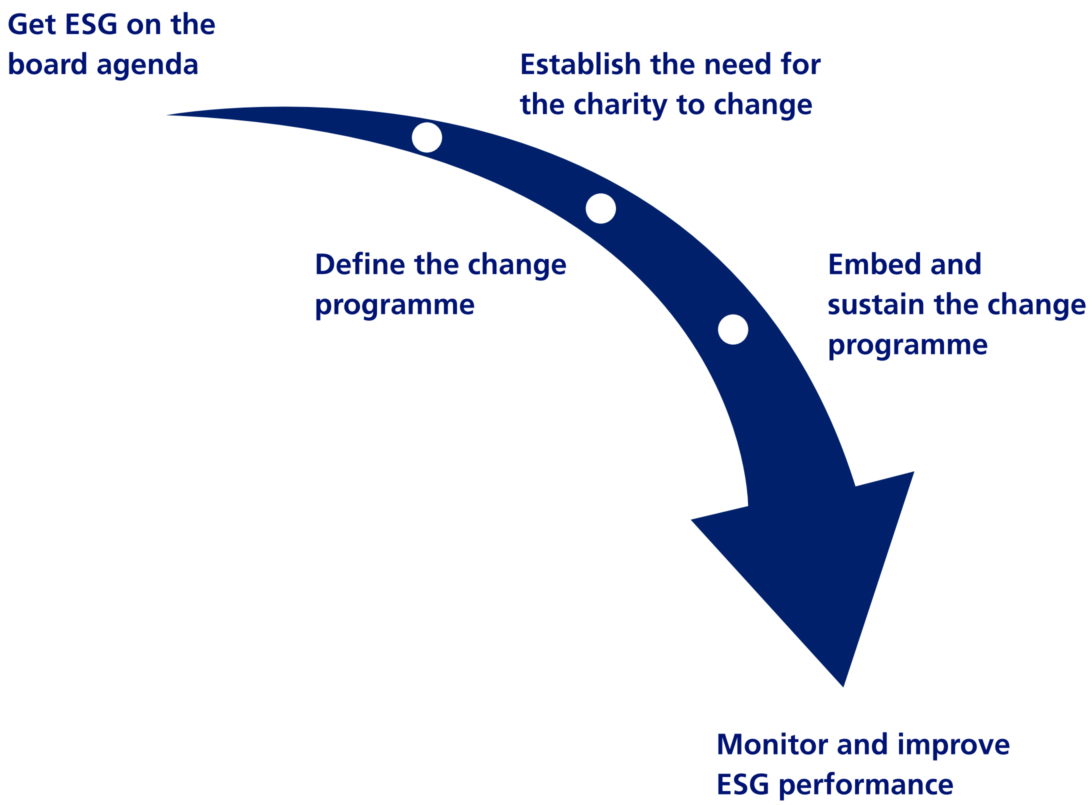
Other staff should be included in a 'grassroots to boardroom' approach, which incorporates input from different departments and across locations (where relevant) to ensure each perspective has an opportunity to contribute to the ESG discussion and delivery of sustainable goals.

As with many aspects of good governance, an individual charity's approach is likely to be tempered by available resources and what is proportionate to the size and complexity of the organisation. A simple approach could look like:



Delivering meaningful ESG for the charity and its stakeholders

The charity

To fully integrate ESG into a charity's existing governance, risk, strategic and reporting activities, the board, senior management team, staff and volunteers all need to be included. Research into stakeholder concern should be given due consideration and will help to identify those areas that should be prioritised and those that can be addressed later. An ESG delivery plan should consider concerns and incorporate:

- Long-term issues;
- Multi-generational desires and concerns;
- Analysis of the benefits (and potential risks) with aligned marketing and communications messaging or strategy;
- Wider support for future strategic, financial or operating plans, business models and forecasts.

In developing an effective ESG delivery plan, the charity will need to address several aspects at every level of the charity's operations and activities, seeking input from both internal and external parties and weighing the potential impact against regulatory and legal frameworks. Key questions to cover include (some of which have been discussed earlier):

- What are the opportunities available to the charity in pursuing an ESG agenda and reporting strategy? What are the risks, and how can they be managed or mitigated?
- What is the scope of the charity's ESG ambition? Does it intend to cover those issues directly relevant to its charitable purposes or is there a strong case to be broader in its approach and potential activities?
- Are there strong financial incentives to adopt an ESG reporting approach? What are they? Can they be quantified and included in budget planning?
- What is the value proposition for the charity, clients, staff and volunteers and other stakeholders of adopting ESG targets and reporting?
- What is the strategic difference the charity will derive: sustainable advantage; organisational capability; more effective achievement of charitable purposes; stronger public trust and confidence in the charity; increased donations?
- What are the key milestones for each ESG factor, and what is the likely impact on the business? What information does the board currently have to inform metrics and monitoring?

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The following table provides examples of how a charity can navigate the five stages displayed in section 5 with suggestions, actions and activities.

Stage	Suggestions actions/activities
Getting ESG on the board agenda	• Identify which ESG factors directly impact on the ability to deliver the charitable purposes. Incorporate them into board papers and discussions. • Review risk management approaches from an ESG angle. • Undertake ESG awareness training in relation to the ongoing sustainability of the charity. • Use scenario planning to develop thinking on how ESG matters could impact the charity and its activities; for instance ◦ adverse/extreme weather events in an area of operation; ◦ media scrutiny of the employment practices of a supplier or contractor; ◦ spread of infectious diseases; ◦ impact on donations of examples of poor safeguarding processes; ◦ stakeholder campaigning on operational activities that harm oceans and sea life (use of microplastics or harmful detergents), etc. • Use existing stakeholder engagement plans to assess the level of interest in ESG matters. • Assess the base level impact of ESG factors on the charity's ability to deliver strategic aims.

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Stage	Suggestions actions/activities
Establish a need for change	• Establish a committee or working group to discuss the benefits of ESG for the charity, clients, staff and volunteers, stakeholders and the general public. Recommendations reported to the board. • Link ESG to the achievement of the strategic plan. • Identify the opportunities and challenges for adopting an ESG framework. • Articulate the risks associated to not adopting ESG targets.
Define the ESG change programme	• Establish the vision the charity seeks to achieve by incorporating ESG into its activities. • Assess and evaluate the data already collected as to its suitability to support ESG. • Discuss and agree on the metrics required to assess performance. • Publicly disclose the metrics and timeframes chosen. • Establish internal messaging and posters to support the programme and highlight individual actions that can contribute to it.

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Stage	Suggestions actions/activities
Embed and sustain the ESG programme	• Make ESG a key aspect of the new/revised strategic plan (and supporting documents and activities, such as risk management, budgeting and operational actions). • Incorporate ESG aims into board reports. • Align policies and procedures with ESG targets. • Include ESG targets in departmental and individual goals and performance reviews. • Provide training and development opportunities for staff and volunteers. • Work with third parties/suppliers/contractors to embed delivery targets in their activities for the charity. • Ensure internal and external communications reinforce ESG goals and the agreed vision. • Review the metrics and analyse what the data tells you about the charity's performance. • Identify trends and anticipate future opportunities and challenges. • Review and revise investment and purchasing criteria.
Monitor performance and make improvements	• Audit charity's activities against the stated aims of ESG. Report candidly on success and failure. • Assess whether the data collected is sufficiently robust. Seek independent external validation or support. • Benchmark performance against other charities or sectors, and publicly disclose. • Amend the targets to reflect the changes in the charity and wider society. • Collaborate with others to deliver a bigger ESG impact, such as local authorities on travel reduction or biodiversity campaigns.

Stakeholders

It is likely that a charity will have a range of stakeholders with competing interests and demands as to how a charity should fulfil its charitable objects and undertake its activities. Stakeholder engagement can be a source of innovation, identifying future opportunities and potential new partnerships.[15] The same will be true for ESG considerations. If not already undertaken, a charity wanting to report on ESG in a meaningful manner for its stakeholders will need to know:

- Who the more important stakeholders are, possibly for each specific ESG topic
- What type of stakeholders the charity would like to attract (more of)
- How the charity has previously engaged with stakeholders to ascertain what their interests are
- How effective that engagement has been
- If the charity's reporting of ESG reflects the needs of its stakeholders (frequency, format, messaging, etc.).

Publicly reporting a charity's ESG metrics can help inform and strengthen internal reporting systems, along with articulating the stance the charity takes on a range of ESG factors. With clear links between strategic goals, business model, risks, opportunities, operational indicators and financial performance, the board can identify and manage risk and evaluate and measure success. An ESG report can also identify future challenges and opportunities.

An externally assured ESG report is even more likely to generate trust, credibility and recognition for the charity compared to one that is internally validated. However, there will be a cost attached to an external audit exercise which may not be proportionate to the work and resources of the charity. As with impact reporting, there may be opportunities for pro bono or subsidised audits for the sector as the practice develops and some funders may be willing to include it as part of a grant.

An ESG report should take a format that stakeholders want to see, not necessarily what is most convenient for the trustees or the senior management team to produce. That may mean delivering key messages in different formats, via multiple channels for various audiences. For example, the report could be a standalone document, a standard financial report with additional information about material ESG factors, an integrated report, or an impact report. Regardless of the final format chosen, there are important principles that should be applied:

- Ensuring various reports cover the same time frames (as much as possible) so it is easier for readers to judge the different types of impact the charity is making
- Where appropriate, cross-reference information to other relevant documents
- Ensure there is a consistency of messaging and terminology across external reports
- Aim for ease of use
- Make the best use of digital platforms
- Ensure information is clear, relevant and jargon-free (where possible).

Ultimately, any publicly available ESG report should be an honest view of the charity's progress in the chosen ESG areas to be addressed, and this should treat success and failure openly in order to produce a 'warts and all' account. An honest report will generate more supportive discussion and rapport, which may in the future guard against more negative interactions with key stakeholders.

ESG maturity matrix

The following ESG maturity matrix has been developed to help charities move from a fledgling, compliance-based ESG to practice that is best in class and invaluable to promoting the ongoing sustainability of the organisation.

How to use it

The ESG maturity matrix can be used to establish where a charity's current practice sits, and to map progression against each stage. As individual charities will be at different stages, there are several ways in which trustees and the executive might do this, such as:

- a basic self-assessment tool;
- part of a governance review or strategic discussion by the board; or
- part of any peer, stakeholder or benchmarking reviews of the charity's governance, environmental, social and sustainable development arrangements.

The maturity matrix does not include a rating system, but some boards may feel that attributing a 'score' to each stage will help assess where their charity sits in the matrix and help to identify future activities.

ESG: A maturity matrix for charities

The table provides summary indicators of an organisation's ESG maturity using ESG criteria drawn from other sectors but adapted for the charity sector in England and Wales. Specifically, the framework reflects the governance requirements of the Charity Governance Code (the Code) and regulatory returns and the UN Development Programme's Sustainable Development Goals (UN SDG) as detailed in section 2.

Not all of the UN SDG priorities will be relevant to every charity, but trustees should be able to articulate to stakeholders why they don't feel a particular goal is relevant or 'material',[16] such as not operating in a way that impacts on a development goal or because it would not be legal to use charitable funds in a particular way. The matrix enables self-assessment by a charity of its current ESG standards and highlights criteria for improving general and specific areas of ESG of relevance to an organisation. For ease of use and simplicity, the 17 UN SDG have been grouped under the headings of 'environmental' and 'social and sustainability':

Theme	UN SDG
Environmental	#6 Clean water and sanitation #7 Affordable and clean energy #11 Sustainable cities and communities #12 Responsible consumption and production #13 Climate action #14 Life below water #15 Life on land
Social and sustainability	#1 No poverty #2 Zero hunger #3 Good health and well-being #4 Quality education #5 Gender equality #8 Decent work and economic growth #9 Industry, innovation and infrastructure #10 Reduced inequality #16 Peace, justice and strong institutions #17 Partnerships for the goals

ESG: A maturity matrix for charities

The 'governance' aspects of the ESG maturity matrix reflect the principles and key outcomes of the Charity Governance Code.[17] The Code principles are:

Principle title	**Principle detail**
Principle 1: Organisational purpose	The board is clear about the charity's aims and ensures that these are being delivered effectively and sustainably.
Principle 2: Leadership	Every charity is headed by an effective board that provides strategic leadership in line with the charity's aims and values.
Principle 3: Integrity	The board acts with integrity. It adopts values, applies ethical principles to decisions and creates a welcoming and supportive culture which helps achieve the charity's purposes. The board is aware of the significance of the public's confidence and trust in charities. It reflects the charity's ethics and values in everything it does. Trustees undertake their duties with this in mind.
Principle 4: Decision making, risk and control	The board makes sure that its decision-making processes are informed, rigorous and timely, and that effective delegation, control and risk assessment, and management systems are set up and monitored.
Principle 5: Board effectiveness	The board works as an effective team, using the appropriate balance of skills, experience, backgrounds and knowledge to make informed decisions.
Principle 6: Equality, diversity and inclusion	The board has a clear, agreed and effective approach to supporting equality, diversity and inclusion throughout the organisation and in its own practice. This approach supports good governance and the delivery of the organisation's charitable purposes.
Principle 7: Openness and accountability	The board leads the organisation in being transparent and accountable. The charity is open in its work unless there is good reason for it not to be.

ESG: A maturity matrix for charities

There are three stages of ESG maturity which detail particular activities and outcomes that help identify where a charity's ESG may be observed at a particular moment in time in relation to the UN SDG and the Code. It is likely that progress may be stalled in some situations during the charity's ESG evolution. The three stages are:

- Aware – the organisation has an awareness of the broad range of issues involved, and minimum legal and regulatory requirements regarding ESG matters are met.
- Active – principles of good ESG management and monitoring are being planned, adapted and implemented. Processes are being embedded, which impact positively on the charity's achievements and the wider world.
- Advanced – ESG systems are regularly reviewed and refined in the light of the charity's evolution via a comprehensive assurance framework which ensures continuous ESG improvement and delivery through formal evaluation. The board leads good practice in its ESG and seeks to share its learning with others while remaining alert to new ESG developments that are appropriate to the charity and its wider community.

ESG: A maturity matrix for charities

The maturity matrix below sets out suggestions of what a charity's behaviours would look like in each of the three stages.

Environmental					
SDG	**Relevant Government initiative or legislation**	**Materiality test: would this information be considered relevant to a reasonable stakeholder considering supporting the charity?**	**Aware**	**Active**	**Advanced**
#6 Clean water and sanitation #7 Affordable and clean energy #11 Sustainable cities and communities #12 Responsible consumption and production	#6: #7: Smart Meters, Generate renewable energy[18] #11: Clean air zones #12: Waste prevention programmes (Waste Framework Directive), WRAP initiatives	#6: Yes/No. Why? #7: Yes/No. Why? #11: Yes/No. Why? #12: Yes/No. Why?	An environmentally aware charity will: comply with those aspects of legislation and regulation that apply to it; promote reduce, re-use and recycling policies; be thinking about the impact of its actions/activities on the environment (local, national, international); understand government initiatives to counter climate change; understand stakeholder concerns, and consider how these issues can be incorporated into the strategic plan.	An environmentally active charity will: be using its data and stakeholder feedback to implement environmentally friendly policies, procedures, practices and behaviours; be improving the environmental literacy of staff; be incorporating environmental considerations into annual budgets and strategic plans; be adapting good practice from other sectors to support public statements on environmental factors.	An environmentally advanced charity will: have embedded environmentally friendly practices through all of its activities; delivered on stated targets and publicly shared their experiences; have in place plans to mitigate climate risk; be recognised as a sector leader in this area by sharing its experiences and lessons widely. Potential actions include: majority of energy use derived from renewable sources, promoting low-carbon commuting schemes (bicycles, walking, car share, etc.)

ESG: A maturity matrix for charities

Environmental					
SDG	**Relevant Government initiative or legislation**	**Materiality test: would this information be considered relevant to a reasonable stakeholder considering supporting the charity?**	**Aware**	**Active**	**Advanced**
#13 Climate action #14 Life below water #15 Life on land	#13: Climate Change Act 2008, the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) 2018 Regulations,[19] Emissions Reduction Plan, Natural Capital Committee[20] #14: Commonwealth Blue Charter[21] #15	#13: Yes/No. Why? #14: Yes/No. Why? #15: Yes/No. Why?	Potential actions include: stakeholder engagement activities, learning to measure emissions and carbon footprint Establishing how net-zero emissions will affect operational activities. Set targets Reduce, re-use and recycling campaigns and actions Establishing energy reduction strategies Reviewing travel policies (commute and international travel guidance) Waste reduction actions Using local/seasonal produce in canteens or catered meetings/events (reducing food miles)	Potential actions include: promoting home/flexible working, measuring emission data and reporting against stated targets Auditing operational activities against the SDGs Revising investment policies, to cover the disinvestment of fossil fuels and other environmentally unfriendly products Incorporating environmental risks in the risk register and management approaches Implementing a renewable energy strategy Working with local authorities to improve biodiversity Including environmental training in staff/volunteer development opportunities	Strategic plan incorporates climate change and environmental factors Working with third parties/suppliers/partners to deliver climate change/environmentally positive changes Declares its progress on ethical resource use (recycling v landfill ratios) Annually reports on its environmental impact and how it is working to prevent climate change within its charitable objects Benchmarks against other bodies Has its SDG activities externally and independently audited, publicly discloses findings Climate change and environmentally friendly practices embedded in governance arrangements

ESG: A maturity matrix for charities

Social and sustainability					
SDG	**Relevant Government initiative or legislation**	**Materiality test: would this information be considered relevant to a reasonable stakeholder considering supporting the charity?**	**Aware**	**Active**	**Advanced**
#1 No poverty #2 Zero hunger #3 Good health and well-being #4 Quality education	#1: National Minimum and Living wage rates #2: #3: Change4Life,[22] Thriving at Work,[23] ONS well-being data and toolkit #4: Apprenticeships	#1: Yes/No. Why? #2: Yes/No. Why? #3: Yes/No. Why? #4: Yes/No. Why?	A socially aware and sustainable charity will: comply with those aspects of legislation and regulation that apply to it; promote equality, equity, diversity and inclusion; understand stakeholders concerns, and consider how these issues can be incorporated into the strategic plan. Potential actions include: paying minimum wage, with a public commitment to move to the 'living wage' for all staff	A socially active and sustainable charity will: use its data and stakeholder feedback to implement sustainable and socially positive policies, procedures, practices and behaviours; improve the diversity, equity and equality literacy of staff; incorporate social/ sustainable considerations into annual budgets and strategic plans; adapt good practice from other sectors to support public statements on SDG factors.	A socially advanced and sustainable charity will: have embedded equality, equity, diversity and inclusion practices through all of its activities; have delivered on stated targets and publicly shared their experiences; have in place plans to promote socially responsible and sustainable development; and be recognised as a sector leader in this area by sharing its experiences and lessons widely. Potential actions include: offering secured contracts as opposed to interim contracts (of less than 12 months, excluding maternity/ paternity cover) in the majority of vacancies

ESG: A maturity matrix for charities

Social and sustainability					
SDG	**Relevant Government initiative or legislation**	**Materiality test: would this information be considered relevant to a reasonable stakeholder considering supporting the charity?**	**Aware**	**Active**	**Advanced**
#5 Gender equality #8 Decent work and economic growth #9 Industry, innovation and infrastructure #10 Reduced inequality #16 Peace, justice and strong institutions #17 Partnerships for the goals	#5: Shared parental leave and pay, Gender pay gap reporting, Hampton Alexander Review[24] #8: s172 Companies Act 2006, Modern Slavery Act 2015[25] #9: #10: Disability Confident,[26] Access to Work #16: Freedom of Information Act 2000,[27] anti corruption strategy[28] #17:	#5: Yes/No. Why? #8: Yes/No. Why? #9: Yes/No. Why? #10: Yes/No. Why? #16: Yes/No. Why? #17: Yes/No. Why?	Only offering paid internships Looking at sustainable and ethical supply chains Implementing gender gap reporting (voluntarily if not a legal requirement) Considers how best to report on BAME representation and pay differentials. Publishes statements on equality, anti-corruption, antislavery/ modern slavery and ethical practices Considers partnership working to achieve charitable objects	Potential actions include publicly declaring a commitment to the SDGs Pays the 'living 'wage' to staff Policies reflect wider commitments to ethical and sustainable investments Adopting an ethical framework for third parties/suppliers Publishing annual data on gender, disability and BAME pay gaps. Updated policies to reflect good practice in terms of staff equality, diversity, equity and inclusion Provides training to staff and volunteers on SDG matters, improving SDP literacy and understanding Develops a partnership criteria framework to embrace opportunities in a methodical and objective manner	Agreed KPIs to monitor the effectiveness of pay scales Acts to minimise any inadvertent inequality in pay levels within the charity, and its third parties Agreed policy to contract with third parties which are committed to paying the 'living wage' in the respective operating areas Publicly discloses CEO to average staff pay ratios Publishes data on gender, BAME and disability equality restaff, volunteers and clients Produces an annual signed ESG statement Benchmarks progress against other organisations Actively seeks partnership engagement and mergers, when required.

Governance					
CGC Principle	**Relevant Government initiative or legislation**	**Materiality test: would this information be considered relevant to a reasonable stakeholder considering supporting the charity?**	**Aware**	**Active**	**Advanced**
Principle 1: Organisational purpose Principle 2: Leadership Principle 3: Integrity Principle 4: Decision making, risk and control	Charity Acts 2011[29] and 2016, Charities SORP,[30] Charity Commission guidance,[31] other regulatory guidance[32]	Yes/No. Why? Yes/No. Why? Yes/No. Why? Yes/No. Why?	A charity aware of the importance of good governance will: exist to fulfil the charitable purposes; understand the environment in which it operates; have a board which focuses on strategy, performance and assurance; and foster a culture that supports ethical practices and positive behaviours and values. Potential actions include: periodically reviewing organisational purpose Clearly identifying the public benefit it delivers Trustees act collectively and independently in the interests of furthering charitable purposes. Clear demarcation of trustee and executive roles	A charity active in promoting good governance will: regularly review its governance practices to ensure it is delivering in the most effective manner; work with stakeholders to identify how better to achieve charitable objects, and disclose its adherence to the Charity Governance Code (or other code). Potential actions include: undertaking internal impact assessments Considering partnership working and mergers Trustees live the charity's stated values and behaviours Adhering to the Nolan Principles or NCVO's Charity Ethical Principles Policies and procedures regularly reviewed and revised	A charity advancing good governance will: regularly review its effectiveness and sustainability with a view to changing its operating model, closing or merging if that offers a better chance of achieving its charitable objects; undergo an externally led, independent board review and report its findings publicly; welcome accountability from its stakeholders; and promote the benefits of good governance for its stated community/clients. Potential actions include: benchmarking impact, outcomes and disclosure of performance Reviewing and revising the operating model Reviewing governing document to ensure it is a business enabler, and amending it to support strategic plans Actively managing succession planning of the board and key personnel

ESG: A maturity matrix for charities

CGC Principle	Relevant Government initiative or legislation	Materiality test: would this information be considered relevant to a reasonable stakeholder considering supporting the charity?	Aware	Active	Advanced
Principle 5: Board effectiveness Principle 6: Diversity Principle 7: Openness and accountability	Charity Acts 2011 and 2016, Charities SORP, Charity Commission guidance, other regulatory guidance	Yes/No. Why? Yes/No. Why? Yes/No. Why?	Adhering to governing document and supporting documentation Appointing trustees in line with governing document Identifying and managing conflicts of interests and loyalty Having a code of conduct for trustees Having an agreed stakeholder engagement strategy Trustees use their skills, competencies and experience to exercise robust oversight of management and risks.	Implementing objective selection criteria for trustee recruitment Promoting diversity, equality, equity and inclusion in trustee recruitment Publicly declaring the conflicts of interests of trustees and key staff Implementing a code of conduct for third parties and suppliers Disclosing the pay framework for deciding senior staff pay Promoting opportunities for stakeholders to get involved in informing the direction of the charity Annually discusses risk appetite and reviews risk management procedures.	Publicly reporting on targets to promote board, staff, volunteer and client diversity Publishing the register of interests, gifts and hospitality covering trustees and connected persons, and senior staff Reporting its relationship with third parties/ suppliers around SDG and other relevant matters Adhering to the ‘three clicks’ recommendation in publishing executive pay on its website Welcoming accountability from a range of stakeholders and demonstrating how stakeholder insight has informed decisions Reporting its risk management and approaches to SDG, benchmarking where appropriate.

Concluding comments

ESG in the commercial world can help a company understand the positive impact and manage the risks its operations have on customers, investors, employees and communities. While a heavy focus on the financials remains, it does supplement corporate information to improve board decisions and organisational performance, including its impact on society at large. Trends in stakeholder activism, changing consumer tastes, discussions about the ongoing relevance and sustainability of capitalism and the rise in the concept of the modern corporation have all given credence to wider ESG consideration and reporting.

ESG is not currently a widely accepted concept in the charity sector, but the trends suggest that it will increasingly become so:

- A perception, promoted by the Charity Commission, that the public expects charities to behave 'better' than other types of organisations;[33]
- The rise of ethics and values in work choices amongst millennials;
- Green consumerism issues, including the 'Blue Planet' effect;
- More active investors, especially around extractive industries or other industries that harm the natural environment or human communities;
- Demands for greater charity transparency and evidence of their impact in effecting the change they promote.

For charities and social purpose entities, delivering positive impact in their intended field and communities has been a given and core to the DNA of the organisation. The desire to make the world a better place attracts talent, funders and supporters. However, the pursuit of one kind of improvement may come at a cost to another, for example, international aid relief efforts may harm the environment due to the use of cargo planes to transport much-needed items. While the delivery of aid and other relief is still of paramount importance, trustees, senior management, staff and volunteers may now also consider the environmental impact of their transport choices and seek to source relief items closer to the area of emergency. In short, ESG factors have come in to play and helped inform discussion and decision making. Consequently, positive impacts may have been created that are ancillary to the core charitable purpose, such as: reduced emissions from international transport; a reduction in poverty in a neighbouring country as relief is sourced closer to the disaster area; contributing to that economy; creating additional jobs; improving mental health and well-being for those involved in the supply and logistics of that relief; and hopefully developing new skills and opportunities.

The duty to use charity resources exclusively for the furtherance of charitable objects remains; however, reputational factors have to be considered in order to contribute and maintain public trust in the sector. The challenge for trustees and senior managers is not going to disappear. This paper is an introduction to the subject, and the ESG maturity matrix is one tool which could be used to marshal discussions and refine thinking so that positive actions can be taken which support the charity and its stated purposes, hopefully delivering new services in a more sustainable and effective way, attracting and retaining talent (whether trustees, senior managers, volunteers or supporters); identifying and accessing new funding or income streams; and working in partnership with others in different sectors to help realise a better way, community, environment or world.

This document is a first entry into wider ESG thinking in the charity sector.The Institute welcomes others adding to the discussion and furthering thinking and development practice.

Notes

1. ESG is traditionally defined as 'environmental, social and governance'. ESG and sustainability are often conflated and this paper views sustainability as encompassing all aspects of ESG. However, given the legal requirement for charities to deliver public benefit, it could be argued that the 'social' aspect of ESG is a given (if only narrowly defined in some instances), but the sustainability aspect is more pressing. As such this paper refers to both the social and sustainability aspects of ESG.
2. https://www.fsb-tcfd.org/about/
3. https://www.globalreporting.org/standards/
4. https://www.cdsb.net/
5. https://www.un.org/sustainabledevelopment/sustainable-development-goals/
6. https://www.fsb-tcfd.org/about/
7. The following articles may be of interest: https://www.business-humanrights.org/en/uk-instituteof- business-ethics-shows-that-ethical-companies-outperform-others; https://magazine.ethisphere.com/a-clear-correlation-ethical-companies-outperform/; https://www.ehstoday.com/safety-leadership/ article/21920028/being-ethical-has-its-perks-worlds-most-ethical-companies; and https:// www.ft.com/content/f99b0399-ee67-3497-98ff-eed4b04cfde5.
8. https://www.bbc.co.uk/news/uk-25273024
9. With sufficient resources to be able to invest, it is likely the trustees will have discussed and agreed an approach to reserves and investments, including what types of organisations to invest in. These will be articulated in a written policy and reviewed regularly. When investing funds, especially through an investment firm or fund, it will not always be possible to influence the ESG factors of a company unless the size of investment is significant (which is only likely to apply to the largest charities). However, portfolio management should be able to keep an eye on specific aspects central to a charity's culture or ethos, e.g. an animal charity may not wish to invest its funds in a charity that undertakes experiments on animals at all or in relation to non-medical or cosmetic applications, or an environmental may not wish to invest in a company with a high carbon footprint or contribution to plastic pollution.
10. The issue of 'greenwashing' can be challenging for some charities offered sizeable donations from an organisation which may not be entirely sympathetic with the charity's purposes. A commercial organisation may be keen to 'partner' with a charity in the hope that some of the positive reputation of the charity is reflected on the company making their products more desirable or acceptable in the eyes of consumers and others.

11. This document assumes the charity employs staff to help develop and deliver ESG activities. For those charities without staff, the document may offer some practical ideas as to how to think more broadly about the charity's ongoing sustainability and business plan.
12. Depending on the sector in which the charity operates there may be several regulators requiring different information about ESG matters, such as the health, education, social care or social housing sectors.
13. The appendix of the Charities SORP continues to define materiality in the following way: 'Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor in identifying whether it is material. Immaterial information will need to be excluded to avoid clutter that impairs the ability to understand other information provided. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects. Materiality is identified from a combination of factors, rather than any one in particular. The principal factors normally taken into account are:
    - the item's size judged in the context of the accounts as a whole and the other information available to users that would affect their evaluation of the accounts (this includes, for example, considering how the item affects the evaluation of trends and similar considerations); and
    - the item's nature in relation to:
    - the transactions or other events giving rise to it;
    - the legality, sensitivity, normality and potential consequences of the event or transaction;
    - the identity of the parties involved; and
    - the particular headings and disclosures that are affected."
14. For further information on stakeholder engagement see the Institute website.
15. See the UNDP website.
16. Alternatively, materiality could be swapped for a comply and or explain approach. The purpose is for boards to have a discussion about the issue and articulate their reasoning for pursuing actions and activities, or not. Boards should adopt the approach best suited to their needs.
17. https://www.charitygovernancecode.org
18. https://www.ofgem.gov.uk/consumers/energy-guides
19. The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) 2018 Regulations
20. https://www.gov.uk/government/groups/natural-capital-committee
21. https://bluecharter.thecommonwealth.org/
22. https://www.nhs.uk/change4life/about-change4life
23. https://www.gov.uk/government/publications/thriving-at-work-a-review-of-mental-health-and-employers.

24. https://ftsewomenleaders.com/
25. The Modern Slavery Act provides the following definitions: 'slavery' is where ownership is exercised over a person; 'servitude' involves the obligation to provide services imposed by coercion; 'forced or compulsory labour' involves work or service extracted from any person under menace of a penalty and for which a person has not offered voluntarily; 'human trafficking' concerns arranging or facilitating the travel of another with a view to exploiting them.
26. https://disabilityconfident.campaign.gov.uk/
27. https://www.legislation.gov.uk/ukpga/2000/36/contents
28. https://www.gov.uk/government/publications/uk-anti-corruption-strategy-2017-to-2022
29. https://www.legislation.gov.uk/ukpga/2011/25/contents/enacted
30. https://www.gov.uk/government/publications/charities-sorp-2005
31. https://www.gov.uk/guidance/charity-commission-guidance
32. Such as guidance from OSCR, CCNI, or sector specific guidance like the NHF, CQC, Ofsted, DfE, etc.
33. https://www.gov.uk/government/publications/regulating-in-the-public-interest.

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