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The Home of Homes

Task Force on Climate-related Financial Disclosures (TCFD)

Voluntary progress report for FY21
Extract from Annual Report and Accounts 2021

Task Force on Climate-related Financial Disclosures (TCFD)

OUR PATH TO A MORE SUSTAINABLE FUTURE

During the year, we made a step-change to the way we approach, measure and communicate climate-related risks and opportunities across the Group. Being sustainable in everything we do is a foundation of our business and integral to our shared value of 'long-term thinking'. We set out below an abbreviated disclosure under TCFD, in advance of full disclosure next year.

	Governance	Strategy	Risk	Metrics
PRIOR FINANCIAL YEARS	• Sustainability Focus Group chaired by Company Secretary with formal reporting to Board.	• Focus on emissions reduction and operational waste management. • Sustainability identified as key strategic focus area at Board strategy days in May 2020. • Appointed Carbon Trust in FY20 to help us measure carbon footprint and complete an initial climate change risk assessment.	• Climate change and environment on operational risk register and disclosed as principal risk in FY19.	• Carbon intensity metric set as Group KPI and measured since 2016 (based on GHG protocol Scope 1 and Scope 2). • Energy and waste management targets in place since 2009. • Model created with Carbon Trust in 2020 to measure Scope 1 and 2 carbon footprint.
FY21	• Sustainability standing item on Board agenda. • Sustainability Focus Group widens remit. • Worked on initial TCFD report published for FY21 in advance of full report for FY22.	• Board commits to supporting British Retail Consortium's Climate Action Roadmap to achieve net zero by 2040. • Joined WRAP's Textiles 2030 agreement (see page 58). • Became TCFD supporter. • Sustainability reconfirmed as focus area during Board strategy days in May 2021.	• Climate change and environment reconfirmed as principal risk. • Carried out high-level climate change risk assessment with Carbon Trust. • New Risk and Resilience committee carries out first 'deep dive' into climate change in June 2021. • Top-line climate-related risks and opportunities disclosed.	• SECR data published in October 2020. • Actual Scope 1 and Scope 2 emissions disclosed. • Initial model created with Carbon Trust to measure Scope 3 carbon footprint. • Published 10-year greenhouse gas reduction targets, aligned to a 1.5°C pathway: – Scope 1 target: reduce emissions by 50% in absolute terms by 2030 (using 2019 as base). – Scope 2 commitment: continue to purchase renewable electricity.
FY22	• CEO becomes Chair of Sustainability Focus Group in July 2021 and renames it Pathway to Zero Steering Group to signal critical importance of addressing climate change to the long-term success of the Group. • Members confirmed as CEO, three Executive Board members, each heading up new working groups, and Company Secretary. • CFO heads up Carbon reduction working group, taking direct responsibility for Scope 1 and 2 carbon reduction and TCFD reporting, supported by Company Secretary. • Head of Climate Change appointed in July 2021, reporting directly into CFO, and working closely with two other Executive Board heads.	• New forward-looking purpose encapsulates commitment to being a sustainable business. • Sustainability identified as a business foundation. • Circular principles further embedded into product design and development process. • Roadmap for removal of gas heating and harmful refrigerants developed.	• Climate change risk assessment results to be fed into development of wider climate change roadmap. • Scenario planning to be completed to assess resilience of relevant risks under different climate scenarios.	• Published 10-year greenhouse gas reduction targets, aligned to a 1.5°C pathway, to reduce Scope 3 emissions by 50% by 2030 (using 2019 as a base). • Circular economy, 'more responsibly' sourced cotton and packaging reduction KPI targets assigned as measures for FY22-24 LTIP. • Sustainability targets in FY22 annual bonus for CEO, CFO, Company Secretary and Executive Board members.

Governance

BOARD OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

During the year under review, our Board had a two-pronged approach for governing climate-related risks and opportunities – through our formal risk management framework (see page 77 and below) and our Sustainability Focus Group, whose remit included understanding, mitigating and/or benefiting from the impacts of climate change on our business. Through both formal channels the Dunelm Board had oversight of and fulfilled its overall responsibility for our approach, strategy, risk management and performance in this area.

In FY21, two formal presentations on Sustainability were made to the Board by our Company Secretary (Chair of our Sustainability Focus Group during the period under review), one of which supported the decision to set 2030 targets to reduce our Scope 1 and 2 carbon emissions, aligned to a 1.5°C pathway, and announced in February 2021. Additionally, the Board received a monthly update from the Company Secretary. Our Board and Audit and Risk Committee also formally reviewed our principal risks, one of which is Climate Change Risk – this is mandated to take place twice a year.

The Executive Board was also updated each month on the activities of the Sustainability Focus Group by the Company Secretary. In May 2021, Carbon Trust presented to the Executive Board and the Chairman of the Board the outcome of the work completed to create a model of our Scope 3 emissions and the initial climate change risk assessment. This was included in the preparatory reading for the Board strategy days in May 2021 and informed the debate on the development of Dunelm's sustainability ambitions.

» Moving forward

As outlined in the table on page 48, the Board took a significant number of steps this year to underscore the critical importance of managing climate change risks and opportunities to the long-term success of the Group. Our new Pathway to Zero Steering Group will meet at least three times a year and is headed by Nick Wilkinson, our Chief Executive, who will report to the Board on its activities. Our Company Secretary will continue to provide an update on sustainability matters, including climate change, at each Board meeting. Our Board and Audit and Risk Committee will continue to formally review our principal risks twice a year – bolstered by our newly-formed Risk and Resilience Committee, which will carry out a 'deep dive' into climate change at least annually. The first of these took place in June 2021.

Strategy

INTEGRATING CLIMATE CHANGE RISKS AND OPPORTUNITIES INTO OUR BUSINESS

Climate change considerations are increasingly integrated into day-to-day business activities. Energy efficiency/carbon impact is already included in all new store and store refit proposals; our stock supplier (product) assessment has been extended to include climate-related matters and is completed on a mandatory basis by all Dunelm branded suppliers; and our product development/selection process now includes consideration of matters relevant to climate change and the environment (see 'Circular Economy' (page 52) and Responsible Sourcing (page 56). Our principal risks are considered in the process of developing our five-year financial plan, and we have a specific budget for climate-related matters, with additional resource requirements (for example to support product sourcing) built into the relevant functional budget. With this pivotal change in emphasis, we aim for climate-related considerations to become more central to our business, strategy, and financial planning.

Through our work with Carbon Trust we undertook an initial, high-level assessment of potential risks and opportunities that climate change could have on our business over the following time horizon scans: short term (0 to 2 years), medium term (2 to 5 years) and long term (over 5 years). These are presented in the table on page 50.

» Moving forward

- Build out our detailed roadmap to meet our targets, gaining a better understanding of the key drivers of carbon reduction through our supply chain.
- Increase stakeholder engagement, improve internal and external communications.
- Invest in resource and expertise to support this activity.
- Recognising that climate change is a complicated and complex topic – it is technical, scientific and moving at a fast pace – we will continue to engage more with our peers and stakeholders to improve our understanding, share ideas and progress, and gain support.

Task Force on Climate-related Financial Disclosures (TCFD) continued

TCFD main risk categories	TCFD sub risk categories	Indicative timeframe, post mitigation	Risk	Opportunity	Link to Dunelm's principal risks
TRANSITION RISKS (related to a lower-carbon economy)	**Policy and legal risks**	Medium	Risk of increased taxation as UK Government aims to meet its own climate change commitments. Key areas relating to Dunelm include: increased taxes for energy, plastic, vehicle fuel taxes, waste and overall 'carbon tax'.	Reduce fuel costs by partnering with leading low-carbon logistics providers. Warehouse and distribution savings through efficiency improvements in logistics, packaging reduction, picking and route optimisation.	Business efficiency
		Long	Increased costs associated with building efficiency standards, including legislation to remove and replace gas-fired heating and refrigerants.	Long-term cost savings through move to renewable energy.	Business efficiency
		Short/ Medium	Extended producer responsibility is increasing costs of operational waste disposal (products, packaging and raw material waste).	Potential longer-term savings in procurement and inventory costs by moving to a more circular business model. Reduction in waste management costs by phasing out single-use plastics and improving reuse and recycling schemes.	Business efficiency
	Market risks	Medium	Increasing demand for more sustainable materials (recycled, recyclable) – currently a scarce resource. This may increase costs.	Benefiting from decreasing costs of alternative and/or climate-stable raw materials, while increasing reputation as a sustainable retailer. Future-proofing our business through the above, particularly in relation to new product development, decreasing reliance on narrowing supply chains, improving processes and distribution efficiencies and gaining preferential access to financing to support future growth.	Business efficiency
		Medium/ Long	Demand for more durable products/ repair and reuse/circularity leads to lower sales of new products; potential loss of sales to competitors who have a more sustainable offer.	Increased sales of products, which help customers lead more sustainable lifestyles. Increased revenue from products associated with circularity (e.g. upcycling).	Competition, market and customers
	Reputational risks	Medium/ Long	Failure to attract/retain customers if we are not perceived as a responsible company.	Enhanced brand and reputational credentials, leading to wider, and more loyal customer base.	Competition, market and customers; Brand damage
		Medium/ Long	Failure to attract/retain colleagues if we are not perceived to be a responsible company.	Enhanced brand and reputational credentials, leading to wider, and more loyal colleague base.	People and culture
		Medium/ Long	Failure to attract/retain investors/ pressure from investment community if we are not perceived as a responsible company.	Easier access to capital through enhanced disclosure and investor relations activities.	Finance and treasury
		Medium/ Long	Bank or other finance is not available or has a higher cost due to poor sustainability credentials.	Easier access to capital and improved lending conditions through enhanced disclosure and investor relations activities.	Finance and treasury
PHYSICAL RISKS (related to physical impacts of climate change)	**Acute risks**	Medium/ Long	Extreme weather events could cause significant transport disruption.	Work with distribution suppliers to improve efficiencies and ensure resilience to potential disruption.	Supply chain disruption
		Medium/ Long	Extreme weather events (flood, drought, wildfire, storm surge) could increase competition for land use and impact availability or cost of raw materials.	Benefiting from decreasing costs of alternative and/or climate-stable raw materials, while increasing reputation as a sustainable retailer.	Business efficiency
	Chronic risks	Medium/ Long	Water stress/soil degradation/ deforestation creates raw material shortage, for example cotton, timber, palm oil and coffee.	Refine supplier selection process and work with existing suppliers to improve resilience and sustainability in the supply chain.	Business efficiency; Brand damage; Competition market and customers

Risk management

MANAGING OUR CLIMATE-RELATED RISKS AND OPPORTUNITIES

As our Climate change and environment risk is classified as a principal risk in our risk register, this is discussed with our Executive Board, Audit and Risk Committee and Board as part of a twice-yearly formal review of our principal risks. Additionally this year, a detailed climate change risk and opportunities register was developed by management with Carbon Trust, which forms the basis of our summary on page 50 and was discussed at a 'deep dive' session of our newly formed Risk and Resilience Committee in June 2021.

More information about our Climate change and environment risk can be found in the principal risk section on page 83. An overview of our risk management responsibilities is set out on page 77, and explains in more detail how responsibility for risk management is allocated and how that responsibility is discharged by our Board, Audit and Risk Committee, Executive Board and Company Secretary.

» Moving forward

Our focus in FY22 onwards will be to refine our high-level risk and opportunities assessment, and establish the most appropriate scenarios for resilience testing of relevant risks and opportunities.

We will also develop a better understanding of the potential impact of the risks identified by our climate change risk assessment, particularly the physical climate change and biodiversity risks and opportunities associated with our key supply chains, such as cotton and timber, under different climate scenarios.

Metrics and targets

MEASURING OUR CLIMATE-RELATED RISKS AND OPPORTUNITIES

We have allocated a metric for each climate-related risk and opportunity, for those which we have been able to quantify to date. In relation to our Climate change and environment risk, we monitor the number of regulatory/reputational issues (see page 83). Carbon intensity remains a Group KPI and we track performance against our three-year Scope 1 and 2 emissions reduction targets quarterly, and aim to do so for our Scope 3 targets in FY22. We also measure progress against packaging reduction targets, waste management, recycling and landfill avoidance, and the move towards more sustainably sourced materials, all of which will contribute towards reduction of carbon emissions and other environmental impacts such as water and chemical usage. Metrics related to sustainability performance can be found on pages 42 and 43, including for energy reduction, waste management, and single-use plastics. We also comment on other environmental impacts.

» Moving forward

In September 2021 we announced our 1.5°C Paris-aligned target to reduce our Scope 3 emissions by 50% by 2030, which reflects our Textiles 2030 commitments.
This year we will:

- Continue to improve our data quality and accuracy.
- Progress our understanding and quantification of the material financial impacts of climate change.
- Set intermediate targets and apply for SBTi approval.