FINANCING ENERGY EFFICIENCY

BRIEFING DOCUMENT

Financing Energy Efficiency & The Potential Role of ESG Reporting Confirmation

Tracy Harrison introduced the latest webinar in the NHC's #OurNorthNetZero series. Whilst the last few weeks had established striving towards Net-Zero emissions and decarbonising our existing housing stock as a joint-ambition for the North, today would be about asking where the money was going to come from. It was underlined that developing new net-zero housing as well as making the critical investments required to deliver decarbonisation in existing homes would require a mixture of public and private finance. To this end, Tracy explained how the social housing sector was beginning to look more closely at demonstrating their environmental credentials to growing investor interest. At this session the NHC had brought together a range of stakeholders working with social housing providers on the sustainable finance agenda to discuss their work, particularly around a social housing sector standard approach to Environmental, Social and Governance (ESG) reporting. Attendees were to also hear from colleagues in the sector on how green finance has played a role in facilitating their organisation's environmental and sustainability goals.

Sarah Forster, Chief Executive Officer at The Good Economy spoke first, giving an update on her organisation's involvement in developing a Social Housing Sector Standard for Environmental, Social and Governance (ESG) reporting.

Having worked at the forefront of sustainable economic development, finance, and impact measurement for over 25 years, Sarah co-founded The Good Economy in 2015 to enhance the role of business and finance in inclusive and sustainable development, enticing them to play a bigger role in inclusive development.

Private funders have an appetite to deliver loans which demonstrate their commitment to social goals addressing inequality and also environmental concerns. To date there has been a lack of a consistent format for the social housing sector as a whole to demonstrate its credentials across ESG reporting however, that was changing.

In May of this year The Good Economy, representing a working group of stakeholders, published a White Paper in which they set out the problem at hand. With a housing market not delivering affordable homes at scale and 8 million people affecting by a lack of suitable accommodation, and an aging stock in which the ‘environmental factor’ is rapidly coming to the fore. There is clearly a need for public investment in affordable homes but also a need to being private capital into the market.

This White Paper proposed a first draft of a Sector Standard for ESG and, after public consultation, received a huge response with 400 organisations making contact. The Good Economy have ensured they have spoken to a large range of housing associations across the UK and are planning on publishing a final version at the end of October.

Common themes which emerged on the environmental side include climate change, with metrics to measure performance of buildings. Another is that of ecology and the protection of biodiversity, as well as resource management. The strong intersection between energy efficiency and affordability was explained, with the link to cheaper fuel bills for residents stressed, as well as that delivery on environmental criteria results in progress on social metrics, such as reducing fuel poverty. Environmental and social aspects absolutely must become part of business strategies and are typical of good governance. The Good Economy found there was an interest not in a tick box approach but in establishing a forward looking, meaningful agenda.

The Good Economy have put out a call for action for early adopters to help to create a sector standard that creates unity between housing and finance, with 31 registered providers involved and a further 23 lenders and investors. Participants will report against these criteria in their annual reports and will be able to see The Good Economy’s findings ahead of publication. This approach is designed to help housing associations secure capital more easily, opening new sources and creating competition on pricing. They plan to set up a governance structure, with a board overseeing the further development of this standard and will be practitioner led, not a top-down approach. The standard has taken off, with more interest than anticipated, and the collaborative approach as well as the desire to deliver for residents has fuelled its growth.

Providing a funders view of the issue was Marcos Navarro, director of housing finance at Natwest. He explained that the bank understands their role in countering climate change and appreciate the risks to their clients. Natwest currently provides £12bn of loans to the housing sector and has provided £3bn of additional funding since the start of the pandemic. This will allow the delivery of new, green affordable homes as well as retrofit. They currently provide around 12% of all facilities to the sector.

He explained that whilst ESG and socially responsible funding are not new concepts, they have become more prominent in recent years. It hasn't fallen away during the pandemic and there is growing focus in investment and activity. Natwest have been keen to get their own house in order and not simply 'green wash', seeking to prevent the most harmful activity, for example reducing funding to high percentage coal users. They have set a target of 50% of their mortgage book having an EPC C standard by 2030 and are looking to help the drive to decarbonise the transport sector. Between 2018-20 they committed to £10bn of sustainable funding and have since doubled that figure this year

Marcos explained that sustainability is important within the real estate sector as together with its supply chain it is a significant obstacle to net zero. Improving energy efficiency of the existing stock is key here as 80% of the homes that will be in operation by 2050 has already been built. In addition to traditional funding there is a wide range of products offered, including asset finance, project finance and green bonds. Sustainability-linked loan demand has increased significantly. Of the £10bn provided in the previous two years £3.4bn was linked to sustainable energy projects, with ESG objectives in the housing sector typically energy efficiency-based. They anticipate a future trend of social and governance KPIs alongside environmental, fully incorporating the ESP spectrum, and broken down into environmental, social and governance issues.

Key emerging social themes centre on health and well-being and the reallocation of work. The World Bank group has stated that they have issued £43bn of social bonds this year, as opposed to £17bn in 2017, with much of this funding link to the recovery from COVID-19. Marcus also highlighted the lack of ESG reporting methods and seconded Sarah's call for standardisation, reiterating that there will be more interest from private capital if so. The sector as a whole must latch on to this in order for it to be effective. To conclude he stated that housing associations and registered providers must play a key role in this process and that ESG will become more of a focus as we key forward.

Tracy Harrison asked about the implications of low market values typical of many Northern areas, to which Marcus explained that Natwest are focusing on tailored conversations with clients on the benefits to the wider UK economy and going beyond a providers usual responsibilities may find agreement, as opposed to funders simply shaving a few basis points off a loan. The impact on financial returns must be stressed as part of this but also organisations must be asking if this is the right thing to do, with a refresh on asset management potentially a good move. We must avoid abandoning poorly performing assets to the private sector and accept that some stock will simply not stack up financially. Offsetting is also an option and seeking value is key, with some stock not being worth investing in.

Will Ray, Head of Sustainability at Clarion Homes was the next featured speaker. Will has 20 years of experience in sustainability. Clarion have 125,000 properties and are spread across 170 local authorities, with the importance of sustainability has been high on the agenda since Clarion's formation, though it wasn't until last year that they made significant move in sustainable finance. They sought to strengthen their current base and attract new investors. Their treasury team spent a lot of time researching the approach and looked to hear from organisations to had experience in green bonds.

Clarion joined up with European providers to develop their own sustainable funding framework, with a series of data collecting stages. The whole process took around 2-3 months as they developed the criteria and from this they have aligned with the White Paper. They were the first housing association to achieve the certified sustainable housing label and then issued their first sustainability bond, raising £350m and demonstrating the appetite of investors across Europe. Clarion received a range of inquiries from various investors, receiving surveys and associated queries as interest amongst their shareholders grew, citing the standardised approach influenced from other sectors as a key reason that their attempts have been successful.

Will recognised the journey ahead, planning for substantial changes going forward and uncertainty in a post-COVID world and in the face of climate change. Housing associations are naturally inclined to work best with a commitment to transparency and so integrating ESG into their operating procedures makes sense. The issue of tenant's environmental footprint is important and must also be considered as it can be many orders of magnitude greater than providers'. Will emphasised the varied nature of mechanisms that are at our disposal and stressed that there is a benefit to residents around wellbeing if investing is done the right way, with housing associations able to contribute significantly in the drive to generate economies of scale.

Clarion are seeking to refresh their sustainability strategy and are looking to significantly increase their ambitions. Their focus on key issues will continue, and they are about to eliminate all EPC F properties in their stock. Their integrated repairs fleet will become more environmentally friendly, both by reducing journeys and transitioning to electricity. Fuel poverty remains a huge issue across the sector and they have set up a dedicated team to support on this.

Doug Bacon, at Home Group spoke on their approaches to ESG monitoring and building home fit for the future. They are stressing the importance to link to other goals, such as fire safety for example and align with the levelling up agenda in the North. New government funding for share ownership is just one way that there could be a contraction of cash for providers, with Doug stressing the need for registered providers being able to access capital efficiently. Rather than the onus being upon housing association's to produce money to fit houses for the future we must look to combine with other sources, not only saving money for customers in bills but also develop a funding model for the changes. Doug explained that a lot can be learned from the energy sector, citing the smart metering programme as being entirely off-balance sheets from a funding perspective. He explained the challenges ahead as exciting as they have an aligned goal with the same solutions, a quite different prospect from the varied goals the sector is used to. There is also a real opportunity for knowledge sharing, particularly by larger organisations to smaller ones. Tracy Harrison said that there is a perpetual problem on carbon retrofit in that housing associations pick up the bill without enjoying the benefits, particularly in the North. Aging homes present damp issues and Doug cited alternative funding issues as being key to target the most difficult homes, particularly in rural areas.

Campaign Partners:

LIVERPOOL CITY REGION HOUSING ASSOCIATIONS

thirteen Managing and building homes

Halton Housing

together HOUSING GROUP

Consortium Procurement reduce risk, save time, save money, be compliant