THE GOOD ECONOMY

The ESG Social Housing Working Group

THE SUSTAINABILITY REPORTING STANDARD FOR SOCIAL HOUSING

The final report of the ESG Social Housing Working Group

NOVEMBER 2020

Peabody · Centrus · Clarion Housing Group · Sovereign · Optivo · M&G Investments · savills · trowers & hamlins · Insight Investment · Big Society Capital · impact investing institute · the guinness partnership · The Housing Finance Corporation Limited · Legal & General Investment Management · Pension Insurance Corporation · home group · NatWest Group

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FOREWORD

The idea behind creating an Environmental, Social and Governance (ESG) reporting standard for social housing was born when we attended a meeting with a large UK institutional investor in 2019. The conversation turned to the rapidly growing interest in ESG and the way in which ESG factors would likely form a more fundamental role in the credit process underpinning future investment decisions. Indeed, a major UK pension fund investor recently described to us how ESG considerations are becoming as central to their credit process as a company's balance sheet or profit and loss profile.

Conversations like this, as well as the various ESG questionnaires being sent to housing associations from investors convinced us that momentum was gathering. This demanded a more proactive response from the social housing sector, which previously had relied on a presumption that it ticked ESG boxes but with little structure or consistent reporting to substantiate this.

Debt investment in the sector stands at almost £80bn and growing. We are at the early stages of what may be a wave of equity investment in affordable housing, which along with public sector funding will play a vital role in developing much needed new housing, as well as the investment required to improve building safety and deliver the decarbonisation agenda. The UK social housing sector has a strong story to tell in relation to both ESG and impact performance. The sector also has a history of collaboration and co-creating standards and metrics which set a good precedent for this initiative. In summer 2019, we launched a collaborative project to establish a consistent and broadly accepted sector-wide approach for ESG reporting, which would support and increase private sector investment in this vitally important sector for UK society and the economy.

During the course of this project, the COVID-19 emergency has come to dominate all aspects of business, political, personal and family life. The UK social housing sector has moved quickly and efficiently to keep delivering in challenging times, mobilising to support thousands of vulnerable people when it was most needed. Lockdown has reinforced how important it is for people to have a good, safe home at a price they can afford. The sector is well placed to both help the country recover from the impact of the pandemic and also to play a leading role in promoting sustainable business practices.

Fast forward more than 12 months and we have been delighted with the enthusiastic support and endorsement received for this project from across the social housing and financial sectors. Nearly 400 individuals participated in the consultation process launched in April 2020, providing invaluable feedback which was used in shaping the final Standard presented in this report. Furthermore, 39 housing associations and 31 lenders and investors have signed up as early adopters of the new Sustainability Reporting Standard for Social Housing with an additional 16 organisations committed to endorsing it.

Now it is time for the working group to hand the project over to an industry representative governing body. The Social and Affordable Housing: Sustainability Reporting Standards Board will develop and promote sustainability reporting standards for the sector, investor community and wider stakeholders, as well as provide guidance to support implementation. Plans are well advanced for establishing this body along with supporting technical working groups to ensure the project's positive momentum is sustained.

We would like to thank all of the organisations and individuals who have committed the time and financial support to bring this project to fruition. Our thanks also to The Good Economy team for its excellent leadership role in facilitating and managing the project. We also thank Ritterwald for sharing the environmental and social criteria it developed for affordable housing providers, which formed a starting point for this approach. We hope that the publication of this voluntary reporting standard will become widely adopted and provide a major step forward towards transparent, consistent and comparable ESG reporting in UK social housing.

Susan Hickey
Phil Jenkins

EXECUTIVE SUMMARY

THE STANDARD

Following widespread consultation and engagement from across the housing and financial sectors, this report presents the Sustainability Reporting Standard for Social Housing. The Standard is a voluntary disclosure framework for housing providers to report on their Environmental, Social and Governance (ESG) performance in a transparent, consistent and comparable way.

The first version of this ESG reporting approach was developed based on a review of existing ESG investor questionnaires; workshops with subject matter experts, from partner investors to housing associations; and wider consultation, including with Ritterwald, a German consultancy that has developed a Certified Sustainable Housing Label.

This initial version was published in a White Paper in May 2020 and then opened to a public consultation and feedback process. More than 400 individuals participated in the consultation process, with 53 organisations providing invaluable feedback which was used in shaping the final reporting standard presented in this report.

Furthermore, 39 housing associations and 31 lenders and investors have signed up as early adopters of the new Sustainability Reporting Standard for Social Housing, with an additional 16 organisations related to the sector endorsing the Standard. Ultimately, the project aims to sustain and increase capital flows into and across the UK social housing sector against a backdrop of significant changes in the policy and investment environment.

CONTEXT

Housing associations' social purpose and impact is significant. The need to scale up the supply of new genuinely affordable homes is clear. Investor interest is strong and growing. However, there is an increasing need for the UK social housing sector to clearly highlight and report on its strong ESG performance.

By establishing a transparent, consistent, and comparable set of ESG criteria, the sector can deliver an approach to ESG reporting which can be adopted by key stakeholders, including lenders, investors, regulatory bodies and government.

ESG SOCIAL HOUSING WORKING GROUP

The project was initiated by Peabody, one of the UK's oldest and largest housing associations and Centrus, a corporate finance firm which specialises in essential service industries and has a market leading presence in providing advice to and raising capital for the social housing sector in the UK and Ireland. Peabody and Centrus brought together a working group to help lead the development of the proposed approach.

This includes housing associations (Clarion, Optivo, Sovereign, Guinness Partnership and Home Group); Investors (Insight M&G, L&G, NatWest, Pension Insurance Corporation and The Housing Finance Corporation); organisations concerned with growing the impact investment marketplace (Big Society Capital; Impact Investing Institute); and service providers active in the sector (Savills and Trowers & Hamlins).

The Good Economy, a specialist impact advisory firm, led the process of researching and developing the ESG criteria using a participatory, stakeholder-led process and produced this paper.

A Steering Group has now been set-up to establish a new governance structure, the Social and Affordable Housing: Sustainability Reporting Standards Board, to oversee the implementation and adoption of the Standard. It will be up and running in early 2021.

The development of this voluntary reporting standard has been characterised by a positive market response and a high level of engagement from housing associations and investors – from traditional bank lenders to asset managers looking to participate in the UK social housing sector.

REPORT SUMMARY

Following the introduction, the paper is divided into three parts:

Part one describes the market context and social need for affordable housing. It examines the crisis in the supply of genuinely affordable homes in the UK. Housing associations have a critical role to play in meeting the need for new good quality, sustainable, affordable homes. The report examines the role of housing associations in the context of the Sustainable Development Goals (SDGs). "Access to adequate, safe and affordable housing" is a core target for SDG 11 Sustainable Cities and Communities. But housing is not just about "bricks and mortar". Having a decent, affordable home is an important determinant of people's health and wellbeing (SDG 3), has a positive knock-on effect on children's education (SDG 4), can help people into decent work (SDG 8), can contribute to reducing inequalities (SDG 10) and can provide a route out of poverty (SDG 1). The social housing sector can also help reduce energy consumption and tackle climate change (SDG 7 and 13). The report also introduces the Impact Management Project's approach to analysing impact that is increasingly being used by enterprises and investors.

Part two examines how private investment can complement public investment to address the UK's affordable housing challenges. Private debt finance has played a longstanding and important role in the delivery of new social housing, with drawn debt levels currently standing at almost £80 billion. The UK social housing sector has become a firmly established asset class which is of increasing interest to a wide range of UK and international institutional investors, including asset managers, pension funds and insurance companies. The social housing sector is also witnessing the entry of new equity funds bringing new funding models to the sector. Affordable housing is well suited to pension fund and insurance company investment with its long-dated, index-linked returns, underpinned by government through the social security system and secured by property. Social and affordable housing is an investment opportunity that can deliver both stable financial returns and has strong ESG and impact credentials.

Part three presents the ESG reporting approach. It proposes 12 themes and 48 criteria for ESG reporting by housing associations. These are qualitative and quantitative and are identified as core and enhanced requirements to demonstrate strong ESG performance. The criteria are also aligned to international frameworks and standards including the SDGs, Global Reporting Initiative, SASB, ICMA and LMA Principles.

The 12 core themes are:

- Affordability and security
- Building safety and quality
- Resident voice
- Resident support
- Placemaking
- Climate change
- Ecology
- Resource management
- Structure and governance
- Board and trustees
- Staff wellbeing
- Supply chain management

The final section of the report describes the planned creation of the Social and Affordable Housing: Sustainability Reporting Standards Board which will lead the future development of the standard and issue guidance with the input of working groups, including early adopters of the standard.

The development of this voluntary reporting standard has been characterised by a positive market response and a high level of engagement from housing associations and investors – from traditional bank lenders to asset managers looking to participate in the UK social housing sector. All market participants see the timeliness and usefulness of having a widely accepted sector-standard approach for all housing associations to consider reporting on their ESG performance in a transparent, consistent, and comparable manner.

INTRODUCTION

BACKGROUND

The social housing sector needs to sustain and increase private capital flows to meet the urgent need for more high quality, affordable housing and improve the quality and environmental sustainability of existing stock. However, for the social housing sector to deliver on its capacity to help solve the housing crisis, it is vital that this capital is aligned to both the financing needs of the sector and the delivery of positive social and environmental outcomes.

Today, most financial institutions are assessing the Environmental, Social and Governance (ESG) performance of their investments in social and affordable housing. This is in part driven by the new UK Stewardship Code, launched in October 2019, which requires all signatories, including asset owners and asset managers, to take ESG factors, including climate change, into account across all asset classes when making investment decisions.

More recently new real estate and specialist investors have entered the market, some of which are committed to 'impact investing' strategies, requiring them to demonstrate how their funds deliver both financial returns and net positive environmental and social impact.

Before this Standard, there was no consistent approach to assessing the ESG and impact performance of investments in social housing, which includes regulated social and Affordable rent as well as Shared Ownership homes. The absence of any sector standard ESG reporting approach is problematic for the following reasons:

1 It puts increased demands on housing associations to complete ESG questionnaires, which often ask different questions. These are often drawn from broader corporate ESG questionnaires – many of which are not relevant to housing associations and therefore create an information burden.

2 It fuels a lack of clarity for housing association senior management and boards, which are keen to act as good corporate citizens, but are unsure how best to navigate this area and provide lenders and investors with the information they need.

3 Failure to meet investor demands for ESG reporting could mean the social housing sector will not be able to attract the capital flows it requires and investors will not be able to compare and allocate capital in a way which drives ESG standards up.

This project was launched in response to this market need.

OBJECTIVES

This paper presents the Sustainability Reporting Standard for Social Housing as a voluntary reporting framework for housing providers to report on their ESG performance in a transparent, consistent and comparable way. This will make it easier for lenders and investors to assess the ESG performance of housing providers, identify ESG risks and opportunities to create positive social and environmental outcomes. It also aims to lay the foundations for an approach to impact reporting for investors pursuing an impact investing strategy. The Good Economy and Big Society Capital are leading a collaborative project to develop a sector-standard approach to impact reporting working with equity investors and housing providers. The results of this working group will be published separately later in 2020.

The objectives in developing this Standard were:

- To sustain and increase capital flows into the UK social housing sector against a backdrop of significant changes in the policy and investment environment.
- To develop sector approaches to measure, manage and report on ESG factors and impact performance.
- To create the basis for the development of ESG reporting standards and disclosure guidelines for the social housing sector that all market participants can use to account for positive social and environmental outcomes.

The UK social housing sector has strong social values and a tradition of building financially strong business models driven by a social purpose. With increasing mainstream investor interest in the ESG and impact investing opportunities in the social housing sector, the working group believe it is important that the integrity of the sector and its social purpose remains central. This is particularly important at a time when all market participants need to focus on tackling the affordability crisis and respond to major issues such as building safety and de-carbonisation.

We are pleased and encouraged by the positive market response and high level of engagement this initiative has received both from housing associations and the investor market – from traditional bank lenders to asset managers looking to participate in this sector. All market participants see the timeliness and usefulness of having a widely accepted sector-standard approach to ESG reporting.

BENEFITS FROM THE STANDARD

Key expected benefits from having a Sustainability Reporting Standard include:

- Build consensus on how to measure and report on ESG performance in the social housing sector focusing on questions which are relevant, meaningful and capable of being answered.
- Reduce the ESG reporting information burden on housing associations.
- Attract increased capital flows to social housing which are well-aligned to the sector's needs in terms of its financial objectives as well as its social and environmental objectives.

REPORT OUTLINE

The paper is structured into three parts:

- Part one provides an overview of the current housing crisis and important role of housing associations in meeting the social need for affordable, quality housing.
- Part two examines how private investment can complement public investment to address the UK's affordable housing challenges.
- Part three presents the Sustainability Reporting Standard and the long-term governance arrangements.

CONSULTATION AND ADOPTION

The ESG Social Housing White Paper was published in May 2020 with the first draft of a proposed set of themes and reporting criteria. This opened wider market engagement and consultation on both the proposed reporting criteria and the appropriate long-term governance arrangements for the further development, provision and adoption of a sector-standard ESG reporting approach.

The initial draft of the ESG performance criteria was developed with input from subject matter experts from within the working group. Following on from this, there was a period of sector-wide consultation, running from May to July 2020.

The consultation process involved engagement with over 400 organisations and individuals, through written feedback, oral feedback and group consultation events. A total of 53 written contributions were received during the consultation period, including 21 housing providers (including large and small providers), 11 investors (including banks, equity providers and wholesalers) and eight sector specialists, as well as resident groups, academics, charities and developers.

As part of the group consultation events, four webinars were hosted to both educate and encourage feedback from the wider housing sector on the ESG approach and criteria. 391 people attended at least one of the four webinars, with an average of 160 people per webinar. In order to involve a wide variety of stakeholders, an additional webinar was hosted with the tenant engagement experts TPAS to engage residents, as well as a webinar with The Housing Finance Corporation (THFC) for smaller housing providers.

Overall, the feedback received was overwhelmingly positive. There was a high level of engagement from a range of organisations with widespread support for a large proportion of the criteria within the framework.

There was, however, feedback from some respondents that the framework was not stretching or progressive enough and that thresholds were needed to provide an indication of what 'good' performance looks like.

There were also requests for more clarity in relation to a number of criteria in order to ensure consistent and comparable disclosures across different organisations.

In response to the feedback, we have made several changes to the criteria which are presented in Section 3 as the first version of the "Sustainability Reporting Standard for Social Housing". A separate public feedback statement is also available from **esgsocialhousing.co.uk** which documents the feedback received and our response.

The ESG Working Group has now set up a Steering Committee to establish a Social and Affordable Housing: Sustainability Reporting Board which will lead the future development of the Standard and issue guidance with the input of working groups, including early adopters of the Standard. Further details on the set-up and objectives of this governance body are presented in the final section of the report.

For the social housing sector to deliver on its capacity to help solve the housing crisis, it is vital that this capital is aligned to both the financing needs of the sector and the delivery of positive social and environmental outcomes.

1. THE MARKET CONTEXT

THE UK IS IN THE MIDST OF A HOUSING CRISIS

According to the National Housing Federation, this is affecting nearly 8 million people, 1 in every 7 people.[1]

The effects of the housing crisis are well-documented. Millions of people are living in substandard or overcrowded conditions. Over one million people are stuck on local authority housing waiting lists, some for more than a decade.[2] House prices and rental costs have become unaffordable for many, such that home ownership rates have declined significantly – from 43% for those age 27 in the 1970s to 25% for those born in the late 1980s. Many young people can't afford to buy a home.[3] The median mortgage deposit has increased from around £13,000 in 2007 to around £26,000 today.[4]

The UK has also witnessed a sharp increase in homelessness and rough sleeping although efforts to house homeless people during the Covid pandemic show it is possible to end this crisis.[5] At the same time we are building fewer homes than in many periods in the past.

Having a safe, decent, affordable home is a key determinant of people's health and wellbeing. The state of the housing market also has a socio-economic effect. Housing is a household's single most important financial asset and often the largest monthly expenditure item. Hence, the state of a housing market has a profound impact on the distribution of wealth in a country. Homeowners may profit handsomely from house price rises, while those on low incomes remain locked out of home ownership or affording a decent home to live.

Chart 1: Breakdown of housing situation (2020)

*People may experience more than one of these problems with their home, therefore the totals of each problem cannot be directly combined to create the overall total.

Source: National Housing Federation (NHF), https://www.housing.org.uk/resources/people-in-housing-need/, People in Housing Need, September 2020.

1. National Housing Federation (NHF), People in Housing Need, September 2020.
2. MHCLG, Local authority housing statistics data returns for 2018 to 2019, England, 20 November 2019.
3. The decline of home ownership among young adults, The Institute for Fiscal Studies, 2018.
4. Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System, March 2020.
5. Currently, 140,000 families - including 200,000 children - live in temporary accommodation – or in hostels or B&Bs. An estimated 5,000-8,000 individuals sleep rough – figures which have risen substantially in the past decade.
Sources: Crisis, Shelter and Office for National Statistics (ONS), Combined Homelessness and Information Network (CHAIN).

MULTIPLE FACTORS HAVE CAUSED THE HOUSING CRISIS

There are multiple factors underlying the state of the wider housing market. There is no simple, single housing market. Instead there are multiple housing markets defined by location, property type, tenure, and price. Equally, there is no single explanation for the housing crisis.

Research and evidence point to multiple factors, including:[6]

- **Population growth** – rapid population growth and growth in the number of households puts pressure on demand for housing, particularly in cities experiencing high rates of urbanisation. People living longer also increases housing demand.

- **Financial markets** – the financial sector has a role to play in the state of the housing market. Bank lending policies and mortgage rates play a role in price inflation and how easy it is for first time buyers to buy a home. The Buy-to-Let market has also increased competition for home ownership.

- **Low wage growth** – UK average house prices have risen much faster than wages, by over 260% in real terms since 1997 compared to 68% for wages.[7] On average, full-time workers paid nearly 8 times their annual salary to purchase a home in 2018 compared to 3.5 times in the early 1990s.[8] Today, around 14 million people in the UK live in poverty. The median household disposable income is £29,400. Around 56% of people in poverty are in a working family, compared with 39% twenty years ago.[9]

Many people on low incomes are unable to afford a decent standard of living, including a decent home.[10] Households in housing stress (paying more than a third of net income on housing costs) total 4.8 million households, representing one in five of all households in England. The main effect of housing stress is worsening mental health, with nearly a quarter (23%) of struggling renters saying their mental health had been affected.[11]

- **Lack of government investment** – government commitment and funding both for building new social housing and for housing benefits has declined over the last decades. Government has focused more on low-cost home ownership and Affordable rent, than investing in social rent housing for those most in need. Over 3 million people currently receive housing benefit in the UK.[12] However, housing benefit has tended to cover a decreasing proportion of housing costs, such that even social rent homes have become less affordable.[13]

- **Land** – the price of land as well as ownership and access to land is also a key factor at the heart of the housing crisis. The cost of land, the value of which has increased fivefold since 1995, pushes up the cost of building new homes.[14] Increasing construction and labour costs also increase the cost of house building.

Given the housing crisis and its effects on people's quality of life, there has been renewed concern over the provision of genuinely affordable housing to those in most social need. There is also an increasing recognition of the importance of housing associations and local authorities in helping to solve the housing crisis and meet the need for quality, affordable homes for everyone.

6. Understanding Local Housing Markets, Advice and Guidance for Local Authorities, A Report for the Local Government Association, Residential Analysts, June 2019; BBC Housing Review, March 2020.
7. https://www.ogilvyandsneyd.co.uk/the-astonishing-relationship-between-wages-and-property-prices/
8. ONS, Housing affordability in England and Wales: 2019.
9. JRF Poverty Report, 2019.
10. Office of National Statistics, Annual Survey for Hours and Earnings (ASHE) 2019.
11. Affordable Housing Commission, Making Housing Affordable Again: Rebalancing the Nation's Housing System, March 2020.
12. National Statistics, DWP benefits statistics, August 2020.
13. Resolution Foundation, Housing Policy: https://www.resolutionfoundation.org/major-programme/housing-outlook/housing-policy/?section=Housing%20benefit%20coverage%20by%20tenure
14. NEF, Building the Social Homes We Need – Solving the Land And Capacity Challenges, November 2019.

THE SOCIAL HOUSING SECTOR HAS A VITAL ROLE TO PLAY IN HELPING TO MEET HOUSING NEED

Regulated housing providers play a critical role in meeting housing need, particularly for vulnerable people and those who cannot afford to rent or buy in the private market.

There are two types of regulated provider – local authorities and private registered providers (PRPs), which include not-for-profit housing associations, for-profit providers, housing cooperatives, community land trusts and specialist charities. PRPs total more than 1600 organisations, the majority of which are not-for-profit housing associations. Most PRPs have fewer than 250 homes. However, there are 272 providers (also known as large PRPs) which manage at least 1000 or more units of social housing representing more than 96% of PRP stock.[15]

As of November 2019, there were about 5 million homes in the social sector in the UK, of which 4.15 million homes were in England. Of the 5 million homes, about 2 million homes are let, owned and managed by a local authority and 3 million are let, owned or managed by PRPs.[16]

The social housing sector has witnessed enormous changes in the last few decades. This includes the rise of housing associations as the largest providers of social housing, increasing consolidation among housing associations as well as the more recent entry of for-profit providers. The housing sector has also witnessed the rise of private renting with the number of households in the Private Rental Sector (PRS) increasing from 3.6 million in 2007 to 5.4 million in 2017, an increase of 52%.[17] Local authorities are also re-entering the social housing market following the government scrapping of the borrowing cap in 2018 in a bid to boost council housebuilding.

Chart 2: The rental sector in Great Britain by tenure, 1980-2017

Data for earlier years are less reliable and definitions may not be consistent throughout the series (change in methodology marked by grey vertical lines).

Source: Ministry of Housing, Communities & Local Government; Live tables on dwelling stock (including vacants); Table 102: by tenure, Great Britain (historical series)

15. Regulator of Social Housing, Private registered provider social housing stock in England – sector characteristics and stock movement, 2018-2019, October 2019. https://www.gov.uk/government/statistics/statistical-data-return-2018-to-2019
16. ONS, Comparing affordable housing in the UK: April 2008 to March 2018, November 2019; MHCLG, Local authority housing statistics data returns for 2018 to 2019, England, 20 November 2019.
17. ONS, UK private rented sector: 2018: https://www.ons.gov.uk/economy/inflationandpriceindices/articles/ukprivaterentedsector/2018

Homes within the regulated social housing sector are provided at sub-market and discounted rates through a range of tenure types:[18]

- **Social rented housing** – usually rented at around 50% of local market rent, prioritised by need identified by local authorities.
- **Affordable rent product** – rents are typically set at 65-80% of market rent and allocated by need. The Regulator for Social Housing defines both social rent and Affordable rent setting and places limits on annual rent increases.
- **Shared Ownership** – housing that residents can part buy and part rent as a means of providing a first step on the housing ladder.

As seen in the graph below, Affordable Housing (comprising Shared Ownership and Affordable rent) has increased in recent years with social rent decreasing. Public housing investment in England continues to increase but promoting the non-regulated affordable private market and home ownership are still the government's main priorities. Analysis of affordability based on income distributions shows that a large number of households cannot afford the private market on any reasonable norms. Many households require social rent housing which is in increasingly short supply.

Chart 3: Trends in the supply of affordable housing completions by tenure, England 1991-92 – 2018-19

Note: All Affordable Housing also includes London Affordable rent, intermediate rent and unknown tenure.

Source: MHCLG, Affordable Housing Supply: April 2018 to March 2019 England, 20 November 2019

18. Shelter, What is 'affordable housing'?, 10 August 2015 https://blog.shelter.org.uk/2015/08/what-is-affordable-housing/

THERE IS AN URGENT NEED TO INCREASE THE SUPPLY OF QUALITY, AFFORDABLE HOMES FOR THOSE ON LOW INCOMES

There is an urgent need for more homes that provide people on low incomes with security, decent living conditions and affordability across all tenure types. In particular there is a need for more social rented homes. The large-scale cuts to government support of social rent combined with the introduction of Affordable rent has inevitably impacted on the supply of genuinely affordable new homes.

Yet many housing associations have expanded and operated more commercially and developed cross-subsidy models to keep delivering social housing. Housing associations build thousands of new homes every year. In England, in 2018/19, they built more than 45,000 homes, nearly a third of all new homes in England. This includes more than 5,000 homes for social rent, more than 19,000 homes for Affordable rent, and more than 14,000 homes for Shared Ownership.

A study by Crisis and the NHF estimates a need to build over 380,000 affordable homes every year for the next fifteen years across Great Britain, of which 100,000 should be social rent.[19]

Chart 4: New housebuilding requirements in Great Britain based on need

	TOTAL	SOCIAL RENT	SHARED OWNERSHIP	INTERMEDIATE AFFORDABLE RENT
England	340,000	90,000	25,000	30,000
Scotland	26,000	5,500	2,500	2,000
Wales	14,000	4,000	1,500	1,500
Great Britain	380,000	100,000	29,000	33,500

Source: Professor Glen Bramley, Crisis & NHF Housing supply requirements across Great Britain, November 2018

The amount of capital needed to meet this housing need is estimated at over £10bn a year (NHF).

MAJOR INVESTMENT IS NEEDED TO MEET SAFETY STANDARDS AND ZERO CARBON TARGETS

While the need for new homes is evident, the current social housing stock is also in urgent need of refurbishment to meet new fire safety standards, align with regulatory standards and meet the Future Homes Standards, as well as improve the current stock in order to meet the government's 2050 net-zero carbon target.

In February 2019 the UK Committee on Climate Change warned that "UK homes are not fit for the future" and made a series of recommendations including no new homes to be connected to the gas grid from 2025. Retrofitting existing social housing and investing in new home construction with methods that could help meet these recommendations is a major challenge.

Large-scale investment amounting to tens of billions of pounds is needed both to build new quality homes that are genuinely affordable and retrofit existing stock to meet net-zero carbon targets. Public investment is vital, but private investment also has a critical role to play.

Hence, we welcome the growing interest of investors in the UK social housing sector. Ensuring private sector finance meets the needs of the social housing sector requires collaboration and alignment of financial, social and environmental objectives between local authorities, housing associations and private sector funders, as well as developers, underpinned by a supportive government housing policy and public investment strategy.

19. Crisis/NHF, Housing supply requirements across Great Britain: for low-income households and homeless people, Professor Glen Bramley, November 2018

THE IMPACT OF HOUSING ASSOCIATIONS

Affordable housing has multiple positive social and environmental impacts. The majority of investors are looking for investment opportunities with strong ESG credentials. More and more investors, including large-scale asset owners such as pension funds are looking to optimise the social and environmental impacts of their investments.

The Sustainable Development Goals (SDGs), adopted by all UN member states in 2015, have become a powerful rallying call and set of common global goals that demand investors – along with governments, business and civil society – to do more to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.[20] Achieving the SDGs will require trillions of pounds of additional investment each year in both developing and developed countries.

Investors are moving beyond ESG towards contributing to the SDGs.

Affordable housing is recognised as a universal social good within the SDGs. "Access to adequate, safe and affordable housing" is a core target for SDG 11 Sustainable Cities and Communities. But housing is not just about "bricks and mortar". There is strong evidence, including in the UK, that good housing contributes to other positive outcomes.[21] Having a decent, affordable home is an important determinant of people's health and wellbeing (SDG 3), has a positive knock-on effect on children's education (SDG 4), can help people into decent work (SDG 8), can contribute to reducing inequalities (SDG 10) and can provide a route out of poverty (SDG 1). Housing's carbon footprint can also be reduced through the right energy efficiency and construction measures (SDGs 7 and 13).

As a result, there is a strong social and environmental impact case for investing in the UK social housing sector. Importantly, housing associations have place-based impacts providing affordable housing in nearly every town and city in the UK. They act as anchor organisations in many poor communities, contributing to community wealth building through employment, procurement, service provision and investments. Housing associations employ almost 150,000 people in England, manage assets with a combined value of £155bn and run resident and community support programmes worth £70m a year. As housing associations are embedded in the community and unlikely to leave that place, they can provide direct benefits to their residents and local areas for the long term.[22]

Housing associations also have an important role in place shaping – investing in housing and wider regeneration developments that aim to meet local needs and create great places for people not just to live but to enjoy their lives. Hence, housing associations can offer investors, such as local government pension funds, the opportunity to invest in their local communities and respond to the growing demand of the UK public to see their pension investments have a positive impact.[23]

Chart 5: How social housing contributes to the Sustainable Development Goals

Source: The Good Economy

20. UN, Transforming our world: the 2030 Agenda for Sustainable Development, September 2015.
21. UN, Transforming our world: the 2030 Agenda for Sustainable Development, September 2015.
22. CLES, Toolkit: Housing associations as anchor institutions, October 2020.
23. Investing in a Better World: Understanding the UK Public's Demand for Opportunities to Invest in the Sustainable Development Goals, UKAID, PwC, The Good Economy 2019.

POSITIVE IMPACT CREATION IS INTRINSIC TO HOUSING ASSOCIATIONS' BUSINESS MODEL

The UK social housing sector has strong social values and a tradition of building financially strong business models driven by a social purpose.

Housing associations are non-profit organisations, often registered as charities, that fund their social housebuilding in a number of ways:

- By borrowing commercially from banks, private placements and bond issues.
- Through rental income paid directly by their residents (who pay below market rents), about 60% of whom rely or partially rely on housing benefit or universal credit.
- By building homes for private sector sale or rent and re-investing the profits into social rented homes.
- Directly from central government investment.

Any surpluses housing associations make are re-invested in housing including improving the quality of existing stock and building new, additional homes. This business model means wealth created through housing is retained in local areas or used to cross-subsidise social and affordable housing between neighbouring areas, rather than returned to shareholders nationally and globally.

The reinvestment of surpluses is a fundamental feature of housing associations' business model and one that is well-aligned to the delivery of social housing at scale. Increasing the scale of public and private investment into the social housing sector is vital to housing associations being able to deliver on new affordable housing, including much needed social rent.

Peabody

Housing associations are mostly non-profit organisations, originally formed by private individuals concerned about local housing provision, such as George Peabody, an American financier who lived in London. He is widely regarded as the father of modern philanthropy but could also be regarded as a founding father of social enterprise and impact investing. He founded what is now The Peabody Trust with an initial investment of £150,000 which grew to £500,000 in total. The Trustees stipulated that this should generate a 3% return, with the profits being reinvested into building more social housing in perpetuity. Today, Peabody owns and manages around 66,000 homes and its average rents are almost £500m a year lower than the market. Surpluses are reinvested into maintaining existing homes, building more homes and providing services.

THE SOCIAL HOUSING SECTOR HAS A TRACK RECORD OF MEASURING ITS SOCIAL VALUE

Measuring social value – or the non-financial impacts – of the social housing sector has gained increasing attention over the past five years. HACT, an industry-focused think/do tank established by the housing association sector, has played a leading role in social value measurement in the sector. HACT's Wellbeing Valuation Approach is one of the most widely used approaches. Another approach is Hyde's Value of a Social Tenancy methodology.

In January 2020, HACT established the UK Social Value in Housing Taskforce to take stock of where the sector is with regards to social value measurement and how to further develop common approaches. This ESG reporting standard complements the detailed social valuation and impact assessment work being led by HACT and others. This culminated in the publication of the Social Value Roadmap, published in summer 2020.

A new approach to analysing impact has been developed by the Impact Management Project (IMP), a global forum for building consensus on how to measure, manage and report on impact.. The IMP has developed a useful way for organisations to describe and assess their impact.[24] The IMP describes impact based on an analysis of five dimensions: who is being impacted, in what way, by how much, the contribution of the organisation to the change in outcomes and the risk of target outcomes not being met. Below we use the IMP approach to highlight some examples of the positive social and environmental outcomes of housing associations.

24. See www.impactmanagementproject.com

Chart 6: An example of applying the IMP to a housing association

DIMENSION	DEFINITION	SOCIAL OUTCOMES: RESIDENT QUALITY OF LIFE	ENVIRONMENTAL OUTCOMES: ENERGY EFFICIENT HOMES
WHAT impact is the housing association having?	The outcome experienced by the stakeholder when engaging with the enterprise	– Change in physical, mental and economic wellbeing	– Reduction in home energy consumption
WHO is experiencing the impact?	The type of stakeholder experiencing the outcome	– People who are unemployed, on low-incomes or claiming benefits e.g. disability benefit	– The planet (and current and future generations)
	Baseline level of outcome	– Initial disposable income – Baseline wellbeing	– Baseline emissions data
HOW MUCH impact is the housing association creating?	The scale of the outcome	– The number of residents provided housing by the housing association	– The number of homes with improved energy efficiency
	The depth of the outcome – i.e. the degree of change experienced by the stakeholder versus the baseline	– The extent to which residents experience a change in wellbeing following a move into a home – The change in rental costs experienced by residents, benchmarked against PRS and Local Housing Allowance	– The improvement in EPC rating of the housing associations' portfolio leading to lower carbon emissions
	Duration – how long does the impact last for?	– Length of leases	– Length of leases
How much **CONTRIBUTION** is the housing association making towards this impact?	The additional outcomes that will be experienced as a result of the actions of the housing association	– The number of residents who move into homes from the social housing waiting lists	– All improvements to energy efficiency that are beyond the housing associations legal obligations
What is the **RISK** of the impact not happening?	The indicators of risk that may undermine the delivery of the outcome	Execution Risks: – The housing association is unresponsive to resident requests and complaints – The housing association is not well governed and/or financially viable – Poor quality and/or small homes negatively effect resident wellbeing – Rental rates are not genuinely affordable for low-income households in local market contexts	Execution Risks: – Plans to improve EPC rating are not implemented

The UK social housing sector has strong social values and a tradition of building financially strong business models driven by a social purpose.

2. THE ROLE OF PRIVATE CAPITAL IN SOCIAL AND AFFORDABLE HOUSING

PRIVATE FINANCE HAS LONG PLAYED A ROLE IN THE UK SOCIAL HOUSING SECTOR

Private debt finance has played an important role in the delivery of social housing for decades. It enables housing associations to use their no loss on default history, regulated status, strong balance sheets and credit ratings to raise a multiple of their reserves and grants for the management of existing stock and delivery of more homes.

Drawn debt levels currently stand at £79.4bn against property assets of £164bn.[25] Of total available debt facilities of £101.9bn the majority is bank debt (£60.7bn) with debt from the capital markets on the rise and currently totalling £39bn (see Chart 7). With the decline of government investment combined with the pressure to build more homes in recent years, housing associations have increased borrowing levels and equity investment is becoming more prevalent, albeit the scale of this is still very small.

Overall the estimated composition of funding into the social housing sector is approximately 33% government investment, 40% bank debt, 26% capital markets debt and 1% equity.

Housing associations borrow directly from banks, and issue bonds publicly and via private placements in the institutional debt capital markets to raise finance. Some medium and smaller sized housing associations use aggregators such as The Housing Finance Corporation (THFC) to access the institutional market at cost effective rates.

Prior to 2008, housing association private finance was dominated by long term lending from UK banks and building societies. However, the global financial crisis saw banks reducing balance sheet exposures and capital models becoming punitive for the sort of long-term lending traditionally provided to housing associations. From around 2010 onwards, institutional investors were effectively asked to replace this long-term lending.

Since then, social housing has become an established and widely recognised asset class which is of increasing interest to a wide range of UK and international institutional investors, including asset managers, pension funds and insurance companies. Social housing is well suited to pension fund and insurance company investment with its long-dated returns, underpinned by government benefit payments and secured by property. Social housing is also an investment opportunity that has strong ESG and impact credentials.

Chart 7: Cumulative investment from the capital markets (2013-2019)

Source: Regulator of Social Housing, Quarterly Surveys
https://www.gov.uk/government/collections/quarterly-survey-of-private-registered-providers

25. Regulator of Social Housing, 2019 Global Accounts of private registered providers, December 2019. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852013/2019_Global_accounts_of_private_registered_providers.pdf

Sustainability-Linked Loans

Several banks are taking an increasingly proactive approach to ESG and in some cases providing incentives to improve environmental and social performance in the form of sustainability-linked loans (SLLs). SLLs are corporate purpose loans whose structure is designed to incentivise borrowers' commitment to meeting key social- and environmental-based performance targets. Under the terms of such loans, a component of the interest rate is dependent upon the borrower meeting specific sustainability indicators that have been agreed with the lender.

This innovative financing mechanism has become increasingly popular in the UK social housing sector in recent years, with several housing associations taking such loans including Optivo, L&Q, Peabody and Clarion. In Peabody's case, the interest rate margin is linked to delivering an agreed number of accredited childcare qualifications under its childcare training programme. For Optivo, L&Q and Clarion, the terms of their respective deals are linked to supporting an agreed number of residents into employment.

As of November 2020, around £0.5 billion of SLL deals have been completed within the UK social housing sector. These deals have come from several banks including BNP Paribas, who offered the sector's first SLL in 2018, as well as NatWest, Sumitomo Mitsui Banking Corporation (SMBC) and First Abu Dhabi Bank. Lloyds have also revealed that they intend to deliver SLLs within the UK housing sector and we expect more lending institutions to develop such products.

Peabody's CFO at the time, Susan Hickey, discussing their SLL, stated: "This loan facility will contribute to our wide-ranging activities including delivering the low-cost homes that are desperately needed". Furthermore, she mentioned "the savings we'll make on interest payments by facilitating affordable childcare will be directly invested into the Peabody Community Foundation."

RAPIDLY INCREASING CAPITAL FLOWS TO GREEN, SOCIAL AND SUSTAINABLE BONDS OFFERS AN OPPORTUNITY FOR HOUSING ASSOCIATIONS

There has been a significant increase in the issuance of green, social and sustainable bonds globally in the last decade aligned to both the International Capital Market Association's (ICMA) and the Loan Market Association (LMA) Green, Social and Sustainability Bond Principles. Total green bond issuance was valued at around $258 billion in 2019 and Social and Sustainability bonds reached a level of $65 billion with an increase in social bond issues linked to the Covid response. European and Asian institutions have been the largest issuers.[26]

There is a big opportunity for UK housing associations to list their bonds as Social and/or Sustainability bonds and access a larger pool of investors, potentially with positive benefits on pricing. Capital raised through bond issuance can be used to finance the development of new homes and for retrofitting and refurbishment to meet safety and environmental standards.

Listing such bonds requires housing associations to measure and report on their ESG credentials. Cross Keys Homes was the first housing association to issue a Green Bond in 2014. In 2020, Clarion became the first housing association in the UK market to issue a Sustainability Bond (see box). MORhomes has further opened access to such finance for the UK social housing sector. It is a wholesale lender that issues bonds and represents over 60 housing associations who are its shareholders and borrowers. MORhomes has developed a Social Bond Framework, accredited by Sustainalytics, under which it issues social bonds to raise financing for its shareholder housing associations. It is currently developing a Sustainability Bond Framework using the same approach MORhomes is an early adopter and the Sustainability Bond framework includes a pre-borrowing questionnaire which will use the core criteria from the Sustainability Reporting Standard.

The ESG reporting approach presented in this report has been designed to align with both the ICMA and LMA Social and Sustainability Bond Principles and can help housing associations meet the reporting standards required by the ICMA and LMA (see box on page 24).

26. Climate Bonds Initiative, Green Bond Highlights 2019, February 2020.

Clarion and ESG – the journey so far

When developing its sustainability strategy, Clarion recognised that it could further improve its impact on lives, communities and the economy in which it operates. It saw a clear alignment to the UN Sustainable Development Goals which helped structure its approach. It also saw that it needed to better articulate its efforts to stakeholders, not least the funding community. This led to the establishment of a Sustainable Housing Finance Framework from which it would look to raise funding for specific projects of a sustainable nature.

The Group also wanted to benchmark its activities against others in and outside the housing sector, and so decided to undergo an external assessment of not only its Social Housing Finance Framework but its entire approach to sustainability. This led to the Group's accreditation in November 2019 with Ritterwald's pan-European Certified Sustainable Housing Label, which considers green and social indicators and is aligned to ICMA Green and Social Bond principles. To give further assurance to institutional investors it then sourced an expert opinion from a sustainability rating agency.

Sustainability credentials were used in the marketing of a 15-year 1.875% bond which Clarion issued in January 2020. The bond proceeds will be used for the development of new build energy efficient affordable homes. It was the first Sustainability Bond from the sector and generated significant investor interest, including overseas accounts who had not previously invested in UK housing associations, many of whom were looking to invest exclusively in sustainability funds.

THE SECTOR IS WITNESSING THE ENTRY OF MAINLY EQUITY FUNDED FOR-PROFIT HOUSING PROVIDERS

In recent years, the social housing sector has also seen the entrance and rise of for-profit registered providers (FPRPs) such as Sage (90 % owned by Blackstone, the world's largest private equity investor), L&G, Grainger and British Land, as well as specialist housing funds, such as Funding Affordable Homes (FAH), now part of Cordings Real Estate Group, and ReSI, now managed by Gresham House. This has also been linked to the recent inflow of private capital into the market with private equity investors setting up FPRPs in order to access the regulated social and affordable housing sector. Social housing strategies are also being developed by large real estate investment firms, such as CBRE Global Investors, LendLease and M&G, which raise and manage investment from institutional investors, including European pension funds and insurance companies. However, the number of homes owned by for-profit providers is still a very small fraction of the not-for profit sector (less than 6,000 homes in 2019 compared to 3 million).

Equity funding models have different investment strategies, business models and return expectations. These range from those aiming to acquire and own housing assets over a 20-40 year period and provide liability matching for long-term pension investors seeking returns of circa 5-7% Internal Rate of Return and those willing to take on development risk and finance new build housing seeking returns of circa 10-12%.

To date, the UK social housing market has seen low levels of UK institutional investment compared to Europe.[27] However, as these new funds develop a track record and demonstrate their risk, return and impact credentials, institutional investment, including from UK pension funds, is expected to increase.

27. See Ritterwald's paper on "Institutional investments in social and affordable housing in Europe", May 2020
https://www.ritterwald.de/publications/institutional-investments-in-social-and-affordable-housing-in-europe

EQUITY-FUNDING MODELS BRING OPPORTUNITIES, BUT RISKS NEED TO BE MITIGATED

Equity-funding models bring opportunities, but risks need to be mitigated. Equity models, backed by institutional investors, bring new large-scale sources of capital to the social housing sector, and have a role to play in helping to tackle the housing crisis. There are opportunities for mutually beneficial partnerships between private investors, local authorities, and housing associations.

Private investors are becoming increasingly prominent as developers and owners of social homes and partnering with housing associations to provide housing management services through long-term leasing arrangements. Such arrangements can effectively enable housing associations to provide more homes without further borrowing. Such funding arrangements can be particularly useful for small and medium-sized housing organisations which have reached the limits of their borrowing capacity.

The entry of institutional investment also has the potential to drive up quality and management standards particularly in the private rented sector, which is dominated by large numbers of small, unregulated landlords as well as within segments of the social housing sector e.g. specialist supported housing. Institutional investors, such as CBRE Global Investors, L&G and M&G, have long track records in real estate development and bring these skills into the social housing sector. Some private investors have a strong focus on sustainability standards and bring a focus on sustainable design and construction methods and how to maximise energy efficiency and minimise carbon emissions.

However, the entry of for-profit providers and equity funders also brings risks. The Regulator for Social Housing has warned that profit-motivated investors may bring in funding models that create systemic risks to the social housing sector. Lease-based funding models have raised particular concerns including the fact that index-linked payments by housing associations may become less affordable over time; that lease structures can leave housing associations bearing most of the financial risk such as voids and repairs; and that for-profit providers may unscrupulously take advantage of more generous local authority rent regimes designed to help house those with additional needs. These are critical risks that must be avoided. All investors in social housing should be expected to adhere to high standards of social responsibility and ensure their funding models do not place partner housing associations or the wider sector at risk.

Ultimately, the motivations underpinning investment into the social and affordable housing sector is critical. It is of fundamental importance that equity funding is aligned with and supportive of creating social value, not just financial value, and that financial returns are fair and do not extract excessive profit from the sector.

We see the approach to ESG measurement and reporting proposed in this report as the first step in creating a sector-standard approach which will help hold all investors and housing providers to account for delivering social and environmental benefits underpinned by good governance.

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ESG INTEGRATION AND IMPACT INVESTING ARE ON THE RISE

The world's sustainable investment market is now valued at £22.8 trillion, a 34% increase in two years.[28] ESG integration into investment strategies has grown globally by 69%, between 2016 and 2018. The Investment Association estimate the size of the UK sustainable investment market to be £2 trillion. At least 22% of the total UK asset management industry is now sustainably invested.

What is distinctive about the rise of ESG compared to previous iterations of responsible investment is that ESG is largely applied through the lens of financial materiality. That is, embedding ESG factors into capital markets is widely regarded to not only contribute to more sustainable markets and better societal and environmental outcomes, but to make financial sense.[29] This idea was put forward, with the term ESG first coined, in a 2005 report entitled 'Who Cares Wins'.[30] The report was the result of a joint initiative convened by the UN Global Compact, the International Finance Corporation (IFC) and the Swiss Government involving institutional investors, asset managers, analysts, government bodies and regulators.

Following the publication of this landmark report, the Principles for Responsible Investment (PRI) was launched the following year at the New York Stock Exchange, with the principles providing a global framework for investors to consider ESG issues. Since its inception 14 years ago, the PRI has grown to contain more than 2,500 signatories from over 60 countries.[31] This huge global growth represents a move towards a critical mass of ESG investing, with the integration of such factors increasingly seen as a part of fiduciary duty. This is reflected in the new UK Stewardship Code 2020 launched by the Financial Reporting Council which requires all signatories, including asset owners and asset managers, to consider ESG factors across all asset classes, including real estate.

Alongside this focus on ESG is the rise of impact investing across the financial markets. Emerging in 2008 in a publication from the Rockefeller Foundation, the term 'impact investing' began primarily as a conversation on how to use capital differently. As with ESG, it is a component of a broader shift towards a more responsible, sustainable and inclusive form of capitalism, sometimes called stakeholder capitalism.

While impact investing started as an investment approach developed by specialist impact investors focused on delivering financial returns alongside positive social and/or environmental impact, it is rapidly entering the mainstream. It is seen as part of a larger movement to shift the cultural mindset of the mainstream financial sector to look beyond profits and prosperity to creating benefits for people and planet. The increasing public recognition of the climate emergency has helped drive this mainstream interest. Impact investments can be made across all asset classes, including corporate debt, private equity and real estate.

Based on the Global Impact Investing Network's (GIIN) Annual Investor Survey, the impact investing market is estimated to have grown from roughly $25 billion in 2013 to $715 billion at the end of 2019, up from $502 billion at the end of 2018.[32] This substantial growth in the scale of the market has been galvanised by increasing discussions around how best to harness the potential of the capital markets to address global challenges.

The launching of the Sustainable Development Goals (SDGs or Global Goals) helped to provide a focus on what needs to be achieved to solve key global issues, and for many impact investors have become a unifying context which informs impact objectives and key performance indicators. Yet whilst also helping to provide a focus for efforts, the targets set out by the SDGs revealed a $2.5 to $3 trillion financing gap.[33] If such targets are to be achieved, impact investing will have a central role to play in scaling up the mobilisation of private capital towards investment opportunities that aid achievement of the Global Goals.

> **"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."**
>
> The UK Stewardship Code 2020, Financial Reporting Council (FRC)

28. Global Sustainable Investment Alliance (GSIA) 2018 Investment Review http://www.gsi-alliance.org/wp-content/uploads/2019/06/GSIR_Review2018F.pdf
29. Forbes, The Remarkable Rise of ESG, July 2018.
30. Ivo Knoepfel, Who Cares Wins: Investing for Long-Term Value, October 2005.
31. Principles for Responsible Investment, 2019.
32. GIIN, 2020 Annual Impact Investor Survey, June 2020.
33. UNCTAD, World Investment Report 2014. Investing in the SDGs: An Action Plan, 2014.

The Spectrum of Capital diagram (see Chart 8) is used to depict the broad range of financial and impact objectives that exist within the investment market. Impact investments range from 'finance-first', delivering competitive financial returns, to 'impact-first', which tolerate higher risk projects or below-market financial returns.

Impact investments in social housing can be made across the spectrum of capital and have a range of financial returns. Those that deliver most impact will have investment strategies designed to "Contribute to Solutions" e.g. the provision of homelessness accommodation or new affordable housing for those in social need.

Chart 8: The Spectrum of Capital

Choices and strategies for investors on the 'spectrum of capital'.

Source: Bridges Fund Management and Impact Management Project

The social housing sector has a growing need for additional investment. This Sustainability Reporting Standard will help the sector access the increasing global demand for sustainable and ESG integrated investments.

ESG AND IMPACT INVESTMENT PRESENT AN OPPORTUNITY FOR THE SOCIAL HOUSING SECTOR

The substantial rise of both ESG and impact investing provides an opportunity for housing associations to reach a far broader universe of investors. Social housing represents a particularly attractive proposition for both ESG and impact investors since it is an area that attracts significant amounts of market capital whilst clearly delivering something socially beneficial

In the face of diminished capital grant funding for the social housing sector, there is an immediate opportunity for housing associations to tap into this growing interest to attract new sources of capital. Public money evidently has a core role to play in underpinning the sector, but for housing associations to help tackle the country's shortage of truly affordable housing, new capital providers must be incentivised to enter the sector.

The social housing sector has been described as appearing to be 'a natural home' for investors seeking to make an impactful investment alongside a financial return, with measurable outputs and proven return expectations. As described by the editor of Social Housing, "There is no shortage of outputs in the social housing sector when it comes to social value – irrespective of debate around how they are reported. We have a regulated, not-for-profit, asset-backed sector with a core social purpose to deliver homes and services to communities, including to some of the most vulnerable people in our society".[34] Yet being able to communicate their ESG credentials effectively is crucial if housing associations are to succeed in doing so. ESG data is an increasingly important means for allowing investors to identify organisations that are well-positioned for the future and that have the potential to contribute to positive impact. The Sustainability Reporting Standard is focused on enabling housing associations to communicate effectively to investors the ESG factors that are material to their business model.

DIFFERENTIATING BETWEEN ESG AND IMPACT REPORTING

The approach presented in this paper is focused on building a sector-standard way of reporting on ESG factors. However, it also lays the groundwork for impact reporting.

Both ESG and impact reporting reference an organisation's impact on social and environmental issues. However, ESG reporting typically focuses on disclosures that are within an organisation's control and therefore easily captured from 'inside' the reporting organisation (internal focus). Whereas impact reporting strives to directly measure changes to planet or people resulting from an organisation's activities. This necessarily has an 'external' focus with outcomes often more accurately captured from 'outside' the reporting organisation (external focus).

Corporate ESG reporting has historically been focused on avoiding harm, mitigating risks and managing reputations. Impact reporting has historically been focused on how organisations can make a positive contribution to the societal and environmental challenges the world faces.

Yet, ESG reporting is evolving to include positive contributions, whilst impact reports are evolving to include negative impacts and the associated risks. Thus, the lines between both forms of reporting are becoming increasingly blurred, and we have designed this Sustainability Reporting Standard for social housing with this progression in mind.

In 2019, the UK government supported the establishment of the Impact Investing Institute. The Institute brought together the work of the Implementation Taskforce for Growing a Culture of Social Impact Investing in the UK, led by Dame Elizabeth Corley and the National Advisory Board on Social Impact Investing led by Sir Harvey McGrath. The mission of the new Institute is to accelerate the growth and improve the effectiveness of the impact investing market so that more capital contributes to achieving the SDGs.

The Impact Investing Institute has been a member of the core working group. Big Society Capital and The Good Economy have partnered to further develop an impact reporting approach for social housing. This will apply many of the ESG criteria but relate these to positive impact objectives and targets, e.g. how much of an association's housing is genuinely affordable looking at a person-centric test of affordability. Such an approach is particularly relevant to new funds which have explicit impact investing strategies. Work on this impact reporting approach is underway and will be further developed in consultation with a core group of partners over the coming months.

34. Social Housing, Could housing associations put the social in ESG?, September 2019.
https://www.socialhousing.co.uk/comment/comment/could-housing-associations-put-the-social-in-esg-63039

3. THE SUSTAINABILITY REPORTING STANDARD FOR SOCIAL HOUSING

PURPOSE

The purpose of this Standard is to create a consistent, comparable and transparent approach to assessing the ESG performance of housing associations. The drive to create a standardised way to report on ESG performance has been led by a partnership between housing associations, lenders and investors in the social housing sector.

Housing associations are increasingly being asked to complete individual ESG questionnaires by banks and institutional investors which are being required to assess and monitor the ESG performance of their investees. These questionnaires are typically not specific to housing and therefore do not allow housing associations to demonstrate their ESG credentials in an appropriate way.

This project brought the social housing sector together to develop a consistent, sector wide approach to ESG reporting which is acceptable to both the housing associations producing the information and the lenders and investors using it.

The approach to the development of the standard is in line with the Impact Investing Institute's recommendation that market participants should work together to "develop common approaches, create system wide tools, and sector/theme specific metrics and KPIs, and share clear, accessible data sets". The social housing sector is the first sector to develop a sector-standard approach to reporting.

PROCESS

This Standard was developed in partnership with housing associations (Peabody, Clarion, Optivo, and Sovereign), investors (Insight and M&G), professional advisors (Centrus, Savills and Trowers & Hamlins) and impact investment specialists (Big Society Capital and the Impact Investing Institute). This original working group was later joined by Legal & General, The Guinness Partnership, Home Group, NatWest Group, Pension Insurance Corporation and The Housing Finance Corporation. The process was led by The Good Economy, a specialist impact advisory firm.

1 **Review of existing ESG Questionnaires.** The Good Economy reviewed nine different ESG questionnaires that are being actively used by lenders and investors to the housing associations sector to assess the ESG performance of housing associations. The recurring themes, questions and criteria were identified, compared and contrasted.

2 **Partnering with Ritterwald (a European real estate consultancy) which has developed a Pan-European Label to certify the sustainability of housing companies.** Ritterwald, a German consultancy, in collaboration with the European Federation for Living has developed a Certified Sustainable Housing Label ("the Label") to assess the positive impact of affordable housing providers for the investor market. This is gathering interest across Europe and Clarion was certified in late 2019, utilising it in its recent Sustainability Bond Issue. For these reasons, we partnered with Ritterwald to develop the criteria. Specifically, using their Environmental and Social criteria as a starting point in the development of this approach. A close working relationship has now been established with Ritterwald.

3 **Align with global ESG and impact reporting standards and frameworks.** These ESG criteria are specific to housing associations and relevant to the wider affordable housing market. However, it was important to the working group that they follow best practice identified by the Impact Investing Institute and align with emerging global corporate ESG and impact reporting standards and metrics so that results can be easily mapped and achieve broad acceptance within the lender and investor community.

The criteria have been mapped to the following global approaches and reporting standards:

- Sustainable Development Goals (SDGs) – all themes and criteria have been aligned to specific SDG goals and indicators.
- International Capital Market Association (ICMA) and the Loan Market Association (LMA) – see box on next page.
- Sustainability Accounting Standards Board (SASB) – criteria are mapped to SASB criteria.
- Global Reporting Initiative (GRI) – criteria are mapped to GRI criteria.
- Task-Force on Climate Related Financial Disclosures (TCFD) – relevant TCFD reporting requirements have been considered within the environmental criteria.

The full mapping can be found in the accompanying **Sustainability Reporting Standard – Criteria** spreadsheet.

Sustainable Finance Instruments

This Standard will help housing associations with the issuance of sustainable finance instruments in the bank and bond market. There are two major types of instruments in this regard:

- **Use of proceeds based**: Commitment to invest proceeds raised in projects with social and/or environmental benefits. Governed by the ICMA Green, Social and Sustainable Bond Principles and the LMA Green Loan Principles
- **KPI-linked based**: Pricing of instrument (partly) linked to the housing provider achieving a sustainability target. Governed by the ICMA Sustainability Linked Bond Principles and the LMA Sustainability Linked Loan Principles.

These principles are voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of sustainable finance instruments.

Aligning with the Sustainability Reporting Standard will help housing associations with the preparations and marketing of a sustainable finance instrument.

Use of proceeds instruments

With regards to use of proceeds instruments, the ICMA principles set out four core components:

- Use of proceeds: establishing the specific use of the funds/sustainability projects
- Process for project evaluation and selection
- Management of proceeds
- Reporting on the impact performance of the sustainability projects.

Use of proceeds and reporting are particularly relevant to this ESG framework. With regards to use of proceeds, applying the ESG reporting criteria can help a housing association determine 1) a pool of assets that are already performing strongly and 2) investments that are needed to improve its score in areas where it is underperforming. Both aspects can be financed through a sustainable use of proceeds instrument. Relevant ICMA and LMA use of proceeds categories for each ESG metric are set out in an accompanying appendix to this report: Autumn 2020 - SRS Criteria.

KPI-linked instruments

ICMA principles for KPI-linked instruments are based on five core components:

- Selection of Key Performance Indicators
- Calibration of Sustainability Performance Targets
- Bond characteristics
- Reporting
- Verification.

This Standard supports the selection of KPIs and reporting requirements. In terms of the first, using metrics from this Standard allows housing associations to demonstrate that they are in line with best practice industry standards comparable across their peer group. With regards to reporting, a housing association can readily provide this to investors through the reporting that is undertaken as part of its adherence to this Sustainability Reporting Standard.

Alignment with this Sustainability Reporting Standard will likely also have a broader marketability benefit. Banks and investors analyse a sustainable finance instrument in the context of an organisation's overall ESG strategy and disclosure. The production of an ESG or sustainability report aligned with this Sustainability Reporting Standard will be reviewed positively in this regard.

4 Workshops with subject matter experts

The definition of the specific criteria were refined during a series of workshops with subject matter experts from within the working group organisations, including Heads of Sustainability, Community Investment and Legal and Governance from the housing associations and credit analysts and ESG analysts from investors. The process ensured the criteria remained both useful for investors, and relevant and measurable for housing providers.

5 Sector-wide consultation

Between May 2020 and July 2020, sector-wider feedback was sought on the specific criteria. During this period the working group received 53 submissions of written feedback, the group also ran a series of webinar on the criteria, attended by almost 400 people. The feedback was analysed and used to revise the criteria. The full feedback statement was published alongside this report.

PRINCIPLES

The criteria were developed based on three underlying principles.

1 **Where possible, use criteria that are already being measured and recorded and could be published in Annual Reports.** Housing associations already capture and report on significant volumes of data. We wanted to use metrics that are publicly reported where possible and aligned with internationally recognised global reporting standards. This offers practicality for those producing the data and gives assurance and confidence to those receiving and monitoring it.

2 **The criteria should work for small and large housing providers.** The criteria should be useful for any housing association. We expect medium and large housing providers to be early adopters, however smaller housing providers should also be able to use the approach to report their ESG performance in a standardised way.

3 **Focus on the questions that are important.** We only included criteria if they added necessary information and were seen as relevant, meaningful and capable of being answered. There is a constant tension between asking for more information and making the process too complex. Where investors would like to understand certain aspects in more detail, they may ask follow-up questions and where these are consistently focused on particular areas then over time the criteria could be developed in order to reflect this.

HACT Social Value Measurement Approach

Many housing associations use the Social Value Bank, and the HACT Value methodology to report on their Social Value. This process monetises specific outputs and outcomes delivered by a housing association. It goes into a high level of specific detail, so it complements our broad ESG approach. The Standard specifies organisation-wide criteria to report against, across a broad range of ESG themes. Monetisation data from HACT Value provide good inputs to some of our specific Social criteria.

The criteria have been designed to enable all housing associations to use them, without requiring lots of additional data collection and analysis. For many criteria we have not specified the exact indicator to use. Instead the Standard requires housing associations to report against the metrics they already use. For some this will be indicators and values they have developed using HACT's Social Value Approach.

HOW THE CRITERIA ARE STRUCTURED

Within the three high level areas: "Environment, Social and Governance" we identify a set of themes aligned with the UN Sustainable Development Goals (SDGs). Environmental themes relate to management of housing stock whereas social criteria relate to residents and the local community.

Chart 9: Structured approach behind the criteria

Chart 10: Summary of the Criteria Themes

ESG AREA	THEME #	THEME NAME	DESCRIPTION
SOCIAL	T1	Affordability and Security	This theme seeks to assess the extent to which the housing providers provides long-term homes that are genuinely affordable to those on low incomes. The theme is made up of five criteria including the tenure mix of new and existing properties, the security of tenure and fuel poverty.
	T2	Building Safety and Quality	This theme seeks to assess how effective the housing provider is at meeting its legal responsibilities to protect residents and keep buildings safe. The theme is made up of three criteria, disclosing gas safety checks, fire risk assessments and meeting Decent Homes Standards
	T3	Resident Voice	This theme seeks to assess how effective the housing provider is at listening to and empowering residents. The theme is made up of three themes that cover board scrutiny, complaint handling and resident satisfaction.
	T4	Resident Support	This theme seeks to assess the effectiveness of the initiatives that the housing provider runs to support individual residents. The theme is made up of two criteria that cover: What support is provided? and How successful is it?
	T5	Placemaking	This theme seeks to highlight the wider set of activities that housing providers undertake to create well-designed homes and places that meet local needs and provide great places for people to live and enjoy. The theme is made up of one criterion, a space for the housing provider to give examples of their placemaking or placeshaping work.
ENVIRONMENTAL	T6	Climate Change	This theme seeks to assess how the activities of the housing provider are impacting on climate change, and how they are mitigating the physical risks of climate change. This theme considers current practice, as well as the changes being made to improve performance in the future. The theme is made up of six criteria, including the distribution of EPC ratings, emissions data, climate risk mitigation plan and environmental strategy.
	T7	Ecology	This theme seeks to assess how the housing provider is protecting the local environment and ecology. The theme is made up of two criteria around managing pollutants and increasing biodiversity.
	T8	Resource Management	This theme seeks to identify the extent to which the housing provider has a sustainable approach to materials in both the construction and management of properties. The theme is made up of three themes that cover sourcing materials, water management and waste management.

ESG AREA	THEME #	THEME NAME	DESCRIPTION
GOVERNANCE	T9	Structure and Governance	This theme seeks to assess the housing provider's overall structure and approach to Governance. The theme is made up of six criteria covering the regulator, code of governance, risk management and ownership.
	T10	Board and Trustees	This theme seeks to assess the quality, suitability and performance of the board and trustees. The theme is made up of eleven criteria including demographics of the board and the experience and independence of the board.
	T11	Staff Wellbeing	This theme seeks to assess how staff are supported and how their wellbeing is considered. The theme is made up of five criteria including salary information, additional support for staff and average sick days.
	T12	Supply Chain Management	This theme seeks to assess if the housing provider procures responsibly. The theme is made up of two criteria assessing how social value and environmental impact are considered.

TYPE OF CRITERIA

The 48 criteria are provided in Annex 1. These criteria are divided into "Core" and "Enhanced".

The set of Enhanced criteria are not less important, however it is expected that some of the Enhanced criteria might be too challenging or time consuming for some housing providers to complete initially. These will become aspirational criteria that will be completed in later years, and give housing providers more options to demonstrate their performance. However, all Core criteria are required to be reported against.

HOW TO USE THE CRITERIA

It is expected that housing providers will report on their ESG performance on an annual basis, using the Sustainability Reporting Standard. The form of the report is not mandated, however it is expected that this will not be part of the annual accounts of the housing provider. Instead it is expected that the housing provider will produce a standalone document, published on their website.

It is also expected that investors will start to use these criteria in their own ESG assessments of investees. Therefore, in time, instead of issuing a new bespoke survey, investors will be able to view the most recent Sustainability Reporting Standard report.

As of 10/11/2020 there were 39 housing providers and 31 lenders/investors signed up as "Early Adopters" of the standard, who have committed to reporting against the final version of the Sustainability Reporting Standard for Social Housing on an annual basis, or integrating the Sustainability Reporting Standard for Social Housing into organisational policies, processes and/or products.

In addition, there were 16 organisations involved in the sector who have committed to promote adoption and implementation of the Sustainability Reporting Standard for Social Housing.

ONGOING GOVERNANCE OF THE SUSTAINABILITY REPORTING STANDARD

The Sustainability Reporting Standard is a voluntary reporting standard, designed to be used by both the social housing and financial sectors. Therefore it is important that the standard is owned and managed by practitioners from these sectors. To that end the Social and Affordable Housing Sustainability Reporting Standards Board ("the Board") is being setup.

The Board will be made up of practitioners from the social housing and financial sectors, as well as key sector bodies. All appointments to the Board will be made through a public recruitment process.

The Board's objectives will be to:

- Develop, issue and promote the Sustainability Reporting Standards for the social and affordable housing sector, investor community and wider stakeholders.
- Issue guidance and promote good practice to support implementation of the sustainability reporting standards and seek feedback from reporting practitioners and users.
- Oversee a post-implementation review of the reporting standards.
- Regularly review the standard, taking account of new regulatory standards and performance measures as well as developments in global corporate reporting standards.
- Issue new versions of the standards periodically.

The development of this voluntary disclosure framework has been met with widespread support and positive engagement from across the social housing sector and from lenders and investors. The Working Group would like to thank all those involved in the development of the Standard. We have now passed further development to the Board. We look forward to the further development and wide adoption of the Standard as an exemplar of how to develop industry-led ESG reporting standards that can play a critical role in measuring, managing and reporting social and environmental outcomes.

ANNEX 1: ESG CRITERIA

	THEME #	#	TYPE OF CRITERIA	CRITERIA	MEASUREMENT UNIT	NOTES	RATIONALE
AFFORDABILITY AND SECURITY	T1	C1	Core	For properties that are subject to the rent regulation regime, report against one or more Affordability Metric: 1) Rent compared to Median private rental sector (PRS) rent across the Local Authority 2) Rent compared to Local Housing Allowance (LHA)	% of PRS rent % of LHA rent	Rent compared to PRS: The % difference between the rent of units split by number of beds, and the median private rental sector rent for the same number of beds, using local authority median rent data - found on: www.ons.gov.uk/ people populationandcommunity/ housing/datasets/private rentalmarket summary statisticsinengland Rent compared to LHA: The % difference between rent and the relevant Local Housing Allowance	Providing affordable housing is a core purpose of regulated Housing Providers. They exist to help provide housing to households who cannot afford to rent or buy in the open market. Standardised measures to demonstrate affordability are difficult to define and will vary depending on local market housing costs. Two metrics are proposed - rent levels compared to private market rents or compared to Local Housing Allowance. In areas with very low market rents, we recognise comparisons to the LHA are more relevant. The Working Group recognise that affordability has the most meaning when the costs of housing are compared to income – Affordable rents are typically defined as costing no more than 35% of a household's net income.
	T1	C2	Core	Share, and number, of existing homes (homes completed before the last financial year) allocated to: General needs (social rent), Intermediate rent, Affordable rent, Supported Housing, Housing for older people, Low-cost home ownership, Care homes, Private Rented Sector	% properties, number of properties	Both % and number of homes should be provided to get an understanding of scale and composition of tenure type	This breakdown by tenure type demonstrates the extent to which a Housing Provider provides accommodation which will target those with a higher level of social need for affordable housing (i.e. social rent and supported housing = higher social need, whereas low-cost home ownership and private rental sector = lower social need). Housing Providers are already required to disclose this information to the Regulator for Social Housing (RSH) as part of the annual Statistical Data Return (SDR). This criterion therefore does not add to the reporting burden whilst offering insight into both an organisation's scale and a breakdown of its stock by tenure type.
	T1	C3	Core	Share, and number, of new homes (homes that were completed in the last financial year), allocated to: General needs (social rent), Intermediate rent, Affordable rent, Supported Housing, Housing for older people, Low-cost home ownership, Care homes, Private Rented Sector	% properties, number of properties	Both % and number of homes should be provided to get an understanding of scale and composition of tenure type	By understanding the breakdown of a Housing Provider's homes completed in the last financial year, we develop an understanding of the organisation's intent and the nature of their growth plans, particularly the extent to which their future stock will target those with a higher level of social need.
	T1	C4	Core	How is the Housing Provider trying to reduce the effect of fuel poverty on its residents?	Qualitative response		This criterion highlights the effects of fuel costs on the affordability of homes for residents, demonstrating the Housing Provider's consideration of additional costs for residents, as well as their focus on maximising the energy efficiency of homes.
	T1	C5	Enhanced	What % of rental homes have a 3 year fixed tenancy agreement (or longer)	% of homes		Security of tenure is a key differentiator between social housing and the private sector and evidence suggests this security makes a huge difference to people's lives and ability to find work, access informal and formal local support networks and services and build family lives. Good practice in the housing sector is now to offer long term tenancies to general needs residents where possible.

	THEME #	#	TYPE OF CRITERIA	CRITERIA	MEASUREMENT UNIT	NOTES	RATIONALE
BUILDING SAFETY AND QUALITY	T2	C6	Core	What % of homes with a gas appliance have an in-date, accredited gas safety check?	% of homes		This criterion is included to ensure that the Housing Providers' portfolio of homes are fitted with adequate and safe fittings and appliances, in the interests of resident safety.
	T2	C7	Core	What % of buildings have an in-date and compliant Fire Risk Assessment?	% of buildings	Housing Providers should also state their standard inspection cycle, e.g. Fire Risk Assessments are completed on an annual basis	This criterion is included to ensure that the Housing Providers' portfolio of homes are regularly assessed for their level of fire risk, in the interests of resident safety. This is a particularly topical issue given the events of Grenfell Tower in 2017, with an increased onus on Housing Providers to take a more proactive role in dealing with issues relating to resident safety.
	T2	C8	Core	What % of homes meet the Decent Homes Standard?	% of homes		The Decent Homes Standard (DHS) is a government-agreed technical definition on the statutory minimum requirement for a home to be classed as 'decent'. This is a standard national criterion that provides insight into the condition of a Housing Provider's stock.
RESIDENT VOICE	T3	C9	Core	What arrangements are in place to enable the residents to hold management to account for provision of services?	Qualitative response	Possible approaches to receiving scrutiny include: Resident members on the board, Resident Scrutiny Panels, Resident boards/forums	Resident scrutiny of the board is a key criterion providing insight into the influence afforded to residents within the Housing Provider's decision making process. Residents are the ultimate beneficiaries of the Housing Provider's services and therefore they should have sufficient means to scrutinise the decisions of the board and communicate feedback on key tenancy-related issues.
	T3	C10	Core	How does the Housing Provider measure Resident Satisfaction and how has Resident Satisfaction changed over the last three years?	Qualitative response	Suggested response could include: Is there a resident survey, what happens to the results? Are there targets? Are they on track to achieve their targets?	Resident satisfaction provides a direct indication of resident perception of the standard of service that the Housing Provider is providing. The organisation's performance in terms of residents satisfaction should be measured against stated targets so that an assessment of their success in this area can be tracked over time. Housing Providers generally report their performance in terms of residents satisfaction that is specific to their organisation (i.e. there is no industry-wide standardised metric) and so this criterion should be reported in a way which best suits the organisation.
	T3	C11	Enhanced	In the last 12 months, how many complaints have been upheld by the Ombudsman. How have these complaints (or others) resulted in change of practice within the Housing Provider?	Qualitative response		The manner and timeliness with which Housing Providers deal with resident complaints is an important indicator of the standard of service that they provide. The Housing Ombudsman advises Housing Providers to "be fair, put things right, learn from outcomes." The working group felt that reporting on complaints that have been escalated to the Ombudsman could be a standard reporting criteria.

	THEME #	#	TYPE OF CRITERIA	CRITERIA	MEASUREMENT UNIT	NOTES	RATIONALE
RESIDENT SUPPORT	T4	C12	Core	What support services does the Housing Provider offer to its residents. How successful are these services in improving outcomes?	Qualitative response	Reference services that help residents: Increase skills and gain employment, Increase their income and better manage their money (ie this includes work to increase access to benefits and reduce debt), Improve their physical health, Improve their mental health For each service, include: Description of the service, How many residents have directly benefited from the service, KPIs used to measure success.	Measuring the success of an organisation's community investment is a key mechanism in ensuring that the organisation is aware of its progress in this area and is transparent in terms of its performance.
PLACEMAKING	T5	C13	Enhanced	Provide examples or case studies of where the Housing Provider has been engaged in placemaking or placeshaping activities	Qualitative response	Provide examples of how, through a 'whole organisation approach' your development, housing management and community investment teams have worked with residents and external partners to bring about positive changes to a particular place, spanning the physical realm, the local community and local services. Detail your measures of success.	Investment in placemaking or placeshaping activities provide tangible demonstrations of a Housing Provider's commitment to not just providing housing, but to creating places that are designed to promote people's health, happiness and wellbeing. Such activities demonstrate a willingness to go beyond the organisation's statutory responsibilities and evidence a resident-centred approach.
CLIMATE CHANGE	T6	C14	Core	Distribution of EPC ratings of existing homes (those completed before the last financial year)	% of Homes rated A, % of Homes rated B, % of Homes rated C, % of Homes rated D, % of Homes rated E or worse		Disclosing the distribution of a Housing Providers' EPC rating across its existing portfolio provides insight into the overall energy efficiency of their current stock. This is a standard measure that is used across the housing and real estate markets.
	T6	C15	Core	Distribution of EPC ratings of new homes (those completed in the last financial year)	% of Homes rated A, % of Homes rated B, % of Homes rated C, % of Homes rated D, % of Homes rated E or worse		The distribution of the EPC ratings of a Housing Provider's newly constructed homes provides an insight into the Housing Provider's growth plans from an environmental perspective. This criterion demonstrates the extent to which a Housing Provider is committed to ensuring its future stock of housing is more energy efficient than older units.

	THEME #	#	TYPE OF CRITERIA	CRITERIA	MEASUREMENT UNIT	NOTES	RATIONALE
CLIMATE CHANGE	T6	C16	Enhanced	Scope 1, Scope 2 and Scope 3 green house gas emissions	kg CO2 equivalent	If you are not tracking Scope 1,2, or 3 emissions, but plan to in the future, when are you aiming to report on these emissions?	Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions account for other indirect emissions, capturing value chain emissions. This is a standard and easily comparable reporting requirement which is asked for by many investors to provide an insight into the environmental impact of an organisation's activities. We recognise that some organisations may only be able to report Scope 1 and 2 emissions as it can be difficult to capture data on Scope 3 emissions.
	T6	C17	Enhanced	What energy efficiency actions has the Housing Provider undertaken in the last 12 months?	Qualitative response	Include information about retrofitting, as well as new builds	This criteria directly aligns with the Streamlined Energy and Carbon Reporting (SECR) approach, and asks the Housing Provider to give specific details of their activities to improve energy efficiency, rather than just their business strategy.
	T6	C18	Enhanced	How is the Housing Provider mitigating the following climate risks: Increased flood risk, Increased risk of homes overheating	Qualitative response	Include information about both the likelihood, and the severity of these risks for your buildings, and include any mitigating actions that you are taking	Assessing the Housing Provider's consideration of flooding and overheating provides an indication of the climate resilience of the housing stock in the face of increasing risks of flooding and rising summer temperatures. Both of these measures were asked for by a number of investors during the consultation phase and are included as Enhanced reporting measures.
	T6	C19	Enhanced	Does the Housing Provider give residents information about correct ventilation, heating, recycling etc. Please describe how this is done	Qualitative response		Providing information to residents on sustainability matters such as correct ventilation, heating and recycling provides demonstration that a Housing Provider is committed to improving the sustainability of its portfolio. How residents manage their homes ultimately has a large influence on the environmental impact that a home creates and so communicating to residents how to do so in a sustainable manner is an important means whereby Housing Providers can manage the overall impact of their portfolio.
ECOLOGY	T7	C20	Enhanced	How is the Housing Provider increasing Green Space and promoting Biodiversity on or near homes	Qualitative response		Having a strategy in place to increase the amount of green space or biodiversity on or near homes demonstrates both a Housing Provider's commitment to minimising environmental impact as well as its investment in improving quality of space for residents. Tracking and measuring the success of a biodiversity strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out.
	T7	C21	Enhanced	Does the Housing Provider have a strategy to actively manage and reduce all pollutants? If so, how does the Housing Provider target and measure performance?	1. Yes. 2. No, but planning to develop a strategy. 3. No, no plans to develop a strategy	Pollutants include, but are not limited to: Mould, water pipes containing lead, diesel spills, disposal of paints	Having a strategy in place to manage and reduce pollutants provides a demonstration that the Housing Provider is committed to minimising the environmental impact that its activities have on the planet. Tracking and measuring the success of a pollutant reduction strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out.
RESOURCE MANAGEMENT	T8	C22	Enhanced	Does the Housing Provider have a strategy to use or increase the use of responsibly sourced materials for all building works? If so, how does the Housing Provider target and measure performance?	1. Yes. 2. No, but planning to develop a strategy. 3. No, no plans to develop a strategy		Having a strategy in place to increase the use of responsibly sourced materials in building works provides a demonstration that the Housing Provider is committed to minimising the environmental impact that its activities have on the planet. Tracking and measuring the success of a responsible sourcing strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out.

	THEME #	#	TYPE OF CRITERIA	CRITERIA	MEASUREMENT UNIT	NOTES	RATIONALE
RESOURCE MANAGEMENT	T8	C23	Enhanced	Does the Housing Provider have a strategy for waste management incorporating building materials? If so, how does the Housing Provider target and measure performance?	1. Yes. 2. No, but planning to develop a strategy. 3. No, no plans to develop a strategy		Having a strategy in place for waste management incorporating building materials provides a demonstration that the Housing Provider is committed to minimising the environmental impact that its activities have on the planet. Tracking and measuring the success of a waste management strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out.
	T8	C24	Enhanced	Does the Housing Provider have a strategy for good water management? If so, how does the Housing Provider target and measure performance?	1. Yes. 2. No, but planning to develop a strategy. 3. No, no plans to develop a strategy	The strategy should cover both resident homes and corporate operations	Having a strategy in place for good water management provides a demonstration that the Housing Provider is committed to minimising the environmental impact that its activities have on the planet. Tracking and measuring the success of a water management strategy is also an important mechanism in ensuring that the organisation remains invested in achieving the targets it has set out.
STRUCTURE AND GOVERNANCE	T9	C25	Core	Is the Housing Provider registered with a regulator of social housing?	Yes/No		This is a standard criterion which validates that the Housing Provider is regulated by the appropriate regulatory body.
	T9	C26	Core	What is the most recent viability and governance regulatory grading?	G1/V1 etc.		This is a standard criterion which is asked by many investors which provides information on the Housing Provider's Governance and Financial Viability assessment from the RSH. The resultant G/V grading signifies the Housing Provider's capacity to meet the Regulator's governance requirements and its capacity to mitigate its financial exposures effectively.
	T9	C27	Core	Which Code of Governance does the Housing Provider follow, if any?	Name of code		Registered Providers are required to follow an appropriate Code of Governance, this is also a sign of a Housing Provider's commitment to good governance, and provides a simple snapshot into the approach taken by the Provider. The majority of non-profit Housing Providers follow the National Housing Federation's Code of Governance issued in 2020.
	T9	C28	Core	Is the Housing Provider Not-For-Profit? If not, who is the largest shareholder, what is their % of economic ownership and what % of voting rights do they control?	Name, %, %		This criterion provides insight into the ownership and control of for-profit Housing Providers. It is a standard question asked by many investors of for-profit companies.
	T9	C29	Core	Explain how the Housing Provider's board manages organisational risks	Qualitative	Possible Answers will include: Risk Management Framework, Risk Register	Good governance is based on good systems and structures. The way a Housing Provider uses its Risk Management Framework provides a clear view into how they handle and mitigate the impact of organisational risk.
	T9	C30	Enhanced	Has the Housing Provider been subject to any adverse regulatory findings in the last 12 months (e.g. data protection breaches, bribery, money laundering, HSE breaches or notices) – that resulted in enforcement or other equivalent action?	Yes/No		This criterion is included to raise any issues that have adversely affected the Housing Provider in the last year. It serves an important purpose in ensuing that any issues relating to the organisation's governance must be disclosed to investors.

	THEME #	#	TYPE OF CRITERIA	CRITERIA	MEASUREMENT UNIT	NOTES	RATIONALE
BOARD AND TRUSTEES	T10	C31	Core	What are the demographics of the board? And how does this compare to the demographics of the Housing Provider's residents, and the area that they operate in? Add commentary if useful.	Qualitative response	Qualitative response to include: What % of the board are women? What % of the board are BAME? What % of the board have a disability? Average age of the board. Average tenure of the board	Board diversity evidences that a Housing Provider is not discriminatory in its selection of members to make up the organisation's highest governance body. The demographic composition of the Board is a standard question asked by many investors, with extra guidance here on the metrics that are required as part of this answer. The inclusion of resident demographics will help to give better context to the response.
	T10	C32	Core	What % of the board AND management team have turned over in the last two years? Add commentary if useful.	%		Board and management turnover provides an indication of the level of stability and continuity that has existed amongst those who are responsible for governing and running the Housing Provider.
	T10	C33	Core	Is there a maximum tenure for a board member? If so, what is it?	Yes/No, Length of tenure		Term limits for board members are generally agreed to serve the purpose of ensuring that boards do not end up with static membership, which can potentially discourage innovative thinking and the Board losing touch with what the organisation requires. This criterion provides insight into whether the Housing Provider has an appropriate policy in place to encourage systematic rotation of board members.
	T10	C34	Core	What % of the board are non-executive directors?	%		Non-executive directors play an important role in an organisation in bringing an impartial view to governance and management decisions. Since a non-executive is not a member of the management team, their view is generally agreed to add value and serve an important purpose since it is unaffected by the potential conflict of having to manage day-to-day operations. This criterion evidences the existence and representation of this more detached and impartial viewpoint within the Housing Provider's highest governance body. This is a standard question which is asked for by many investors.
	T10	C35	Core	Number of board members on the Audit Committee with recent and relevant financial experience	Number and description of experience		The Audit Committee should contain individual(s) with recent and relevant financial experience since the presence of such financial knowledge and experience should ensure that the organisation's audit process is fully compliant with the appropriate laws and regulations.
	T10	C36	Core	Are there any current executives on the Renumeration Committee?	Yes/No		A current executive sitting on the Renumeration Committee would be a significant conflict of interest and suggest wider issues of poor governance.
	T10	C37	Core	Has a succession plan been provided to the board in the last 12 months?	Yes/No		The recent presentation of a succession plan to the board indicates that an organisation has taken appropriate steps to prepare for future changes in the makeup of the organisation's senior management team. This evidences clear planning and preparedness in the Housing Provider's governance.
	T10	C38	Core	For how many years has the Housing Provider's current external audit partner been responsible for auditing the accounts?	Number of whole years		Where the same auditor has been used for many years, there is a concern that over time there will be a conflict of interest and therefore a lack of scrutiny. This is a standard question which is asked by many investors.

	THEME #	#	TYPE OF CRITERIA	CRITERIA	MEASUREMENT UNIT	NOTES	RATIONALE
BOARD AND TRUSTEES	T10	C39	Core	When was the last independently-run, board-effectiveness review?	Date		It is best practice to review board-effectiveness every three years. This is a recommendation in The UK Corporate Governance Code – July 2018.
	T10	C40	Core	Are the roles of the chair of the board and CEO held by two different people?	Yes/No		The role of the CEO is to act as the primary manager of an organisation, whilst the role of the Chair is to head up the board, which oversees the organisation's management. It is generally agreed that separating these roles aids accountability and corporate responsibility since management authority is distinguished from board authority. This allows both Chairperson and CEO to pursue respective duties without concern that one set of interests may negatively influence the other. This is a standard question which is asked by many investors.
	T10	C41	Core	How does the Housing Provider handle conflicts of interest at the board?	Qualitative		As Housing Providers grow, the likelihood for a conflict of interest increases. Therefore it is vital that they have an appropriate way of handling them when they arise.
STAFF WELLBEING	T11	C42	Core	Does the Housing Provider pay the Real Living Wage?	Yes/No	The Real Living Wage is Calculated and set by www.livingwage.org.uk	Where a Housing Provider pays the Real Living Wage, this gives a good insight into their approach to staff wellbeing. The Real Living Wage is based on independent calculations of the real cost of living in the UK. Accreditation demonstrates that the Housing Provider is committed to ensuring its employees and contractors earn a wage that meets the cost of living, not just the government minimum.
	T11	C43	Core	What is the gender pay gap?	% gap	Reporting should be in-line with government standards: www.gov.uk/guidance/gender-pay-gap-reporting-overview	Disclosing the gender pay gap provides a simple picture of gender equality in the workplace, and is now a standard corporate reporting metric.
	T11	C44	Enhanced	What is the CEO-worker pay ratio?	Number	Calculated as the ratio between the CEO and the median pay of workers. This criteria will use the Department of BEIS Methodology: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/755002/The_Companies__Miscellaneous_Reporting__Regulations_2018_QA_-_Publication_Version_2__1_.pdf	The CEO-worker pay ratio demonstrates a Housing Provider's pay dispersion between the CEO and the organisation's median earner. This is a standard measure which provides an insight into an organisation's pay equity. The matter of executive pay is a topical issue in the UK, with new regulations having come into force from 1st January 2020 making it a statutory requirement for UK listed companies with more than 250 employees to disclose their CEO-worker pay ratio. The working group believes Housing Providers will perform well on this measure compared to corporates.
	T11	C45	Enhanced	How does the Housing Provider support the physical and mental health of their staff?	Qualitative response		This criterion helps to demonstrate the actions taken by Housing Providers to support their staff in terms of their physical and mental health and wellbeing, providing an indicator of the Housing Provider as a good employer.
	T11	C46	Enhanced	Average number of sickdays taken per employee	Number of days		Reporting on the average number of days lost to illness per employee gives an insight into the Housing Provider's commitment to staff health and wellbeing.

	THEME #	#	TYPE OF CRITERIA	CRITERIA	MEASUREMENT UNIT	NOTES	RATIONALE
SUPPLY CHAIN	T12	C47	Enhanced	How is Social Value creation considered when procuring goods and services?	Qualitative Response		During the consultation, organisations recognised that the housing sector has the potential to deliver social value through its supply chain e.g. through contracting local businesses and social enterprises and creating job opportunities for residents. This criterion provides an opportunity for Housing Providers to describe how they take social value into consideration in their procurement policies and processes, including any alignment with the Social Value Act.
	T12	C48	Enhanced	How is environmental impact considered when procuring goods and services?	Qualitative Response		A Housing Provider's supply chain also has an environmental impact. This criterion provides an opportunity for Housing Providers to describe whether they seek to reduce the negative environmental impact of their supply chain e.g. by requiring contractors to reach certain sustainability standards.

ANNEX 2: BIBLIOGRAPHY

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EARLY ADOPTERS

The following organisations have signed up to become early adopters of the Sustainability Reporting Standard for Social Housing. The housing providers have committed to reporting against the Standard on an annual basis, while the lenders and investors have committed to using the Standard in their investment and credit policies, processes and/or product design.

Housing providers

Abri
Adra
Alliance Homes
Broadacres Housing Association
Catalyst Housing
CHP
Clarion Housing Group
ClwydAlyn
Curo Group
Dolphin Living
Gloucester City Homes
Grand Union Housing Group
Great Places Housing Group
The Guinness Partnership
Halton Housing
Home Group
Hyde Group
Jigsaw Homes Group
Karbon Homes
Lincolnshire Rural Housing Association
LiveWest Homes
Livin Housing
Magenta Living
Metropolitan Thames Valley
Midland Heart
Network Homes
Newlon Housing Trust
Octavia Housing
Optivo
PA Housing
Peabody
Platform Housing Group
Pobl Group
Rooftop Housing Group
Settle Group
Sovereign Housing Association
Stonewater Homes
Thirteen Group
Vivid Housing

Lenders and investors

Affirmative Investment Management
Affordable Accommodation Investment Management (AAIM)
Aviva Investors
BAE Systems Pension Funds Investment Management
Barclays
BlackRock Investment Management (UK)
Civitas Investment Management
Clydesdale and Yorkshire Bank
GB Social Housing
Henley Investment Management
HSBC UK Bank
Insight Investment Management (Global)
LaSalle Investment Management
LGIM Real Assets
Lloyds Bank Commercial Banking
M&G Investments
MORhomes
National Australia Bank
NatWest Group
Pension Insurance Corporation
PGIM Real Estate
Principality Building Society
Rathbone Greenbank Investments
Rothesay Life
Royal London Asset Management
Schroders
Scottish Widows
The Housing Finance Corporation
The International Business of Federated Hermes
Triple Point Investment Management LLP

ENDORSERS

The following organisations have signed up to become endorsers of the Sustainability Reporting Standard. As endorsers, these organisations commit to promoting the adoption and implementation of the Standard.

Adecoe
Bevan Brittan
Big Society Capital
Centrus
HACT
Impact Investing Institute
Low Carbon Journey
Money A+E
National Housing Federation
Ritterwald
Savills
Suss Housing
The Law Debenture Trust Corporation
The Sovini Group
TPAS
Trowers & Hamlins

SUPPORTERS

Both the Regulator of Social Housing and Homes England have expressed their support for the Standard.

"As the Government's housing delivery agency, Homes England works to increase investment into the affordable housing sector through our own funding and by connecting private capital and institutional investors with affordable housing providers.

The affordable housing sector, with its clear impact on social outcomes is uniquely placed to meet investors' environmental, social and governance (ESG) objectives. For this reason, we commend The Good Economy's work to develop an evolving approach to more consistent, comparable ESG reporting.

Bringing together registered providers, lenders and investors with a common approach is a big step towards providing investors with the accountability they need to unlock wider institutional investment into affordable housing."

Gordon More, Chief Investment Officer, Homes England

"We welcome sector stakeholders taking the initiative to improve social landlords' access to finance in a rapidly changing market."

Regulator of Social Housing

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