Is the housing sector measuring up on ESG?

Having a successful environmental, social and governance strategy is becoming increasingly important. This *Inside Housing* survey, in association with Inenco, asks how the sector is prioritising the issue

ESG is an acronym that has been heard a lot recently in the social housing world. It stands for environmental, social and governance, and it refers to a way of measuring the performance of an organisation in terms of its environmental and social impacts and risks, and quality of governance.

Investors have been using ESG criteria to select, assess and filter investments since the mid-2000s – and in response, the corporate world has become rather slick at producing ESG strategies and reports. These usually go into detail about the impact of a business on the environment and society – both positive and negative. This could be anything from greenhouse gas emissions of supply chains and water consumption of products, to the impact on local economies and workers' rights.

For the housing world, environmental, social and governance issues have been central concerns for a long time. Producing an ESG strategy has perhaps been less of a focus for social landlords. But that is changing, in part driven by investors seeking to put their money into housing associations in loans and bonds that are directly tied to ESG criteria.

In partnership with Inenco, *Inside Housing* has surveyed the sector to uncover its current approach to developing ESG strategies – and to identify any gaps along the way. We garnered responses from across the sector – and the picture presented by the survey results, according to Dan Pardesi, head of social housing at Inenco, is one of fragmentation and gaps in knowledge.

"The overall context is they know [developing an ESG strategy] is important, they want to do it, but they are not always sure how to," he says. "What comes across is a fragmented approach – whether that's different departments having responsibility, or the information that's available, or what they want to do as a business. And if an organisation is fragmented, then that can weaken the likelihood of success."

The importance of ESG

There is good news, too. A solid 44% of respondents said their organisation has an ESG strategy in place – a higher figure than ever before, according to Mr Pardesi. Of the remainder, 29% do not have a strategy while 27% are unsure, which suggests that even though ESG is growing in importance, there is still ground to cover.

Another gap is highlighted in the responses to the question: how important is ESG funding to your organisation's ability to meet its future objectives? A huge majority – 88% – said this kind of funding is either very or quite important; taken together with responses to the previous question, it is clear there is a significant divide currently separating much of the sector's desire to move forward in this area and its ability to do so. So how might this gap be bridged?

The key here is measurement – how to determine an organisation's progress towards its ESG goals, and what to measure it with. ESG investors are extremely interested in data, and they have a phrase to explain why: what gets measured gets managed.

The survey asked whether respondents had set any key performance indicators (KPIs) to measure their environmental progress. Only around half – 51% – replied that they had, while 29% said no and a further 20% said they are unsure. Without KPIs in place, it is much harder for an organisation to gauge its performance and its progress. In turn, those indicators have to be underpinned and informed by what has become another indispensable consideration and valuable resource: data.

But as the survey results illustrate, the processes involved in collecting and using data are not always straightforward. What data should be collected, and by whom? Is it timely enough and of sufficiently robust quality to be useful? And which individual or team within an organisation is responsible for collecting, collating and reporting this information?

Formulating a benchmark

This is still a problem for many organisations. The survey asked whether respondents have the data they need to measure their progress against their strategy, and just 21% said they do so to a large extent, while 45% said they do to some extent. One in five has the data to a limited extent, and 14% to a very limited extent.

A follow-on question then asked: if you do not have the data you need, what is the main reason why?

Complexity and patchiness emerged as trends among the responses. "Even though we have [the data], it has taken two years to get in a good place and there are still gaps, particularly around the supply chain," said one respondent. "There has generally been poor data collection across the business historically," said another. "It is too complicated to get accurate figures," replied a third.

Successfully developing a strategy – along with the factors that encompasses, such as data collection and benchmarking – must begin with having the right resources within the organisation. The survey asked whether respondents are confident that they have the right expertise within their organisation to drive a sustainability strategy. Just over a quarter – 28% – replied that they do, to a large extent. Of the remainder, 48% said they have to some extent, 15% to a limited extent and 9% only to a very limited extent. In other words, around three-quarters of respondents reported a shortfall in their organisation's ability to develop a strategy – a significant increase on the 57% who, as reported above, said they plan to access funding linked to their ESG strategy.

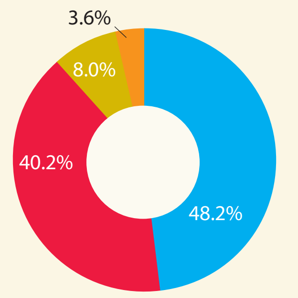
44%
Respondents who said their organisation has an ESG strategy in place

51%
Number who had set KPIs to measure environmental progress

21%
Those who have the data they need (to a large extent) to measure ESG progress against strategy

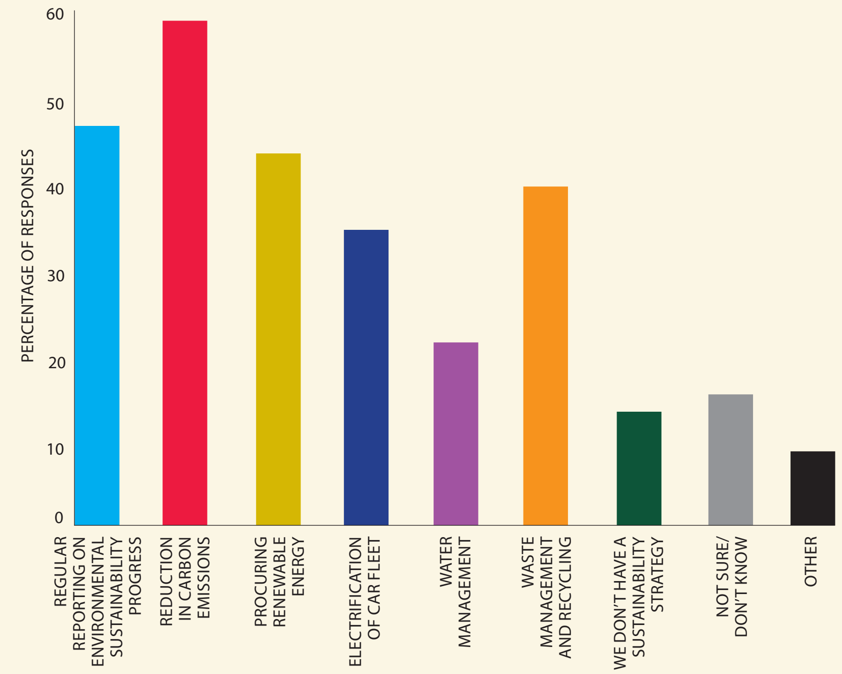
72%
Respondents who reported a shortfall in their organisation's ability to develop strategy

How important is ESG funding to your organisation's ability to meet its future objectives?



Source: Inenco/Inside Housing survey

Which of the following areas are part of your current sustainability strategy?



Source: Inenco/Inside Housing survey

Formulating a benchmark

Respondents were also asked about which areas form part of their sustainability strategies. The replies covered a range of approaches, which suggests a broad understanding that sustainability is not simply about reducing carbon emissions. That was still the most popular answer – 59% said reducing emissions is part of their overall strategy – but regular reporting on sustainability progress, procuring renewable energy, electrifying car fleets, and waste management and recycling all scored 35% or above.

As a whole, the survey highlights shortfalls in knowledge, resources and progress when it comes to developing ESG strategies, but it also highlights organisations' desire to move forward – and that in many cases, they understand where those gaps exist. So what next steps can providers take to close them?

"Having a clear strategy at the start, along with buy-in across the workforce, has to be the number-one step to move this forward for any organisation," says Mr Pardesi. "This shows there are still a lot of organisations which get how important this is but don't know how to go about doing it – that gap needs bridging. If they can't do it themselves, look for an expert who can." ●

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Dan Pardesi, Inenco