

Altair

**Housing the Green Revolution**  
**Pioneering the way forward**  
**January 2021**



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## Foreward

Over the last couple of months, we have seen a flurry of activity regarding the housing sector's plans for net zero. The most notable publications have been the Prime Minister's Ten Point Plan for the Green Industrial Revolution and the Climate Change Committee's (CCC) Sixth Carbon Budget. In both publications, the housing sector plays a central part.

Over two centuries ago, the UK led the world's first Industrial Revolution. Now, at the beginning of the second decade of the 21st Century, we are moving into a new era, the Green Industrial Revolution, in which the housing sector has a crucial role to play. It will provide an opportunity for job creation and growth in supply chains, whilst keeping tenant homes warm and reducing energy bills.

As we bounce back from the challenges presented by COVID-19, the ball must not be dropped in seeking to truly green our economic recovery. With fundamental changes to work patterns and social interactions, now more than ever, the role of our homes and how they fulfil our needs has been thrust into focus. There is a real opportunity for the sector to transform how homes are designed, occupied, and maintained, tackling user demands related to COVID-19, fuel poverty and emissions reduction.

The CCC's recent recommended pathway to reduce carbon emissions in homes requires a 78% reduction between 1990 and 2035, effectively bringing forward the UK's previous 80% target by nearly 15 years. For housing providers to tackle this challenge, a three-pronged approach is required across new and existing stock:

- 1. Behavioural change:** to help drive down or alter patterns in the consumption of energy
- 2. Energy efficiency measures:** to save energy
- 3. Reduced reliance on fossil fuels:** increasing the use of low-carbon alternatives.

As ever, the devil is in the detail. How organisations choose to expand and implement this high-level strategy will determine the impact on their business plans. Such changes do not have to come at too great a cost. Green policies can go hand in hand with growth if providers can strike a balance between elimination, reduction, substitution, and compensation measures.

We are excited to support the housing sector on this journey, helping registered providers tackle the challenge step by step, structuring the transformation in a pragmatic and cost-effective way.

As a sector, we firmly believe that by flipping this challenge on its head, there is a plethora of opportunities to tap into. The potential for knowledge sharing and cross-collaboration within the sector, to drive efficiency and performance, is hugely exciting. In embracing the forthcoming Green Revolution, this is the housing sector's opportunity to re-brand, attract the brightest talent, and future proof for the long-term.

**Annabel Gray**  
**Project Director**  
**Altair Ltd**

# Introduction

## Sustainable housing in 2020

Following the release and completion of the sustainability survey Altair released to the market in September 2020, this paper seeks to set out the key findings and our thinking on how to move the environmental sustainability agenda to centre stage. The report also aims to share knowledge on how to successfully roll out this change to make it stick and provide some tips to those at the beginning of their net zero journey.

At a global and central government level, 2019 was a milestone year for positive progression of the environmental agenda and finally putting it in the spotlight with some commitment. The IPCC (Intergovernmental Panel on Climate Change) reported that the world is heading towards significant global problems sooner than expected as emissions keep rising. Furthermore, the United Kingdom became the first major economy in the world to pass a law to bring its greenhouse gas emissions down to net zero by 2050. For the UK to achieve its regulatory target, the housing sector will have to play a big role especially with the ongoing demand for affordable homes year on year.

Altair's sustainability survey sought to understand how the sector is responding to the climate crisis. Key themes which the survey focused on were:

- Board level representation
- Measuring the impact
- Developing sustainability strategies
- Setting environmental targets
- Net zero homes pilots
- Resource capacity and capability to deliver on strategies
- Cross sector collaboration

Following analysis, Altair have pulled out key findings which have been explored further in the following sections of this paper:

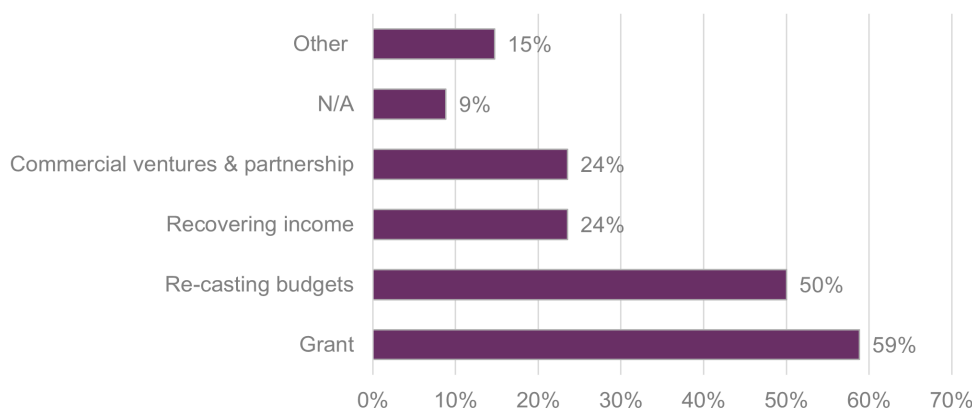
- Section 1: Plugging the funding gap
- Section 2: Leaders in sustainability
- Section 3: Building the tenant relationship to drive change
- Section 4: Uncovering the competitive advantage of excellence in sustainability
- Section 5: Successfully setting environmental targets
- Section 6: Addressing the skills gap in the sector

To review the complete survey results, please refer to the appendix. If you would like to discuss any of the content further, please do not hesitate to contact us: [Annabel.gray@altairltd.co.uk](mailto:Annabel.gray@altairltd.co.uk)

## Section 1: Plugging the funding gap

Of the respondents which have committed to using retrofit approaches to achieve their net-zero carbon ambitions, 62% said that they were looking to use more than one method of funding to enable their activities, including grant funding, re-casting budgets, recovering income, and commercial ventures and partnerships. A selection of these respondents also identified the use of Green Bonds and lobbying the government to adopt the use of “warm rents”. The remaining 38% of respondents are currently planning to rely solely on grants to fund retrofit activities.

**How do housing organisations plan to fund their retrofitting activities to meet zero carbon ambitions?**



All providers responding to the survey agreed that grant funding would make up a portion of their expected funding method for retrofit activities. While 62% of providers confirmed that they would also be looking at other funding streams, 38% had not considered any other methods to enable the delivery of retrofit works. Despite the UK government’s commitment to net-zero by 2050, it is unlikely that any grant scheme implemented will cover the full cost of decarbonisation projects, or that all providers will be able to access the full amount of their funding requirements.

Recent decarbonisation initiatives include the Renewable Heat Incentive, available to those seeking to install renewable heating technologies, Energy Company Obligations for properties of EPC rating D and below, and the Social Housing Decarbonisation Fund Demonstrator (SHDF Demonstrator) announced as part of the Covid-19 economic recovery plan. The SHDF Demonstrator will provide up to £50m of funding which will be matched by successful local authorities and aims to upgrade the EPC rating of 2,000 of the worst performing affordable homes. The Government have also committed to a £2bn Green Homes Grant available to residential landlords, including both private landlords and affordable housing providers. The new Green Homes Grant may be claimed for the installation of improvements to reduce the energy requirements of homes, or to reduce the carbon-intensity of heat generation in homes, with two thirds of the cost up to £5,000 per property on offer. This will be welcomed by some providers, but with the total decarbonisation cost for the social housing sector estimated at £104bn, the current state aid available is merely a drop in the ocean.

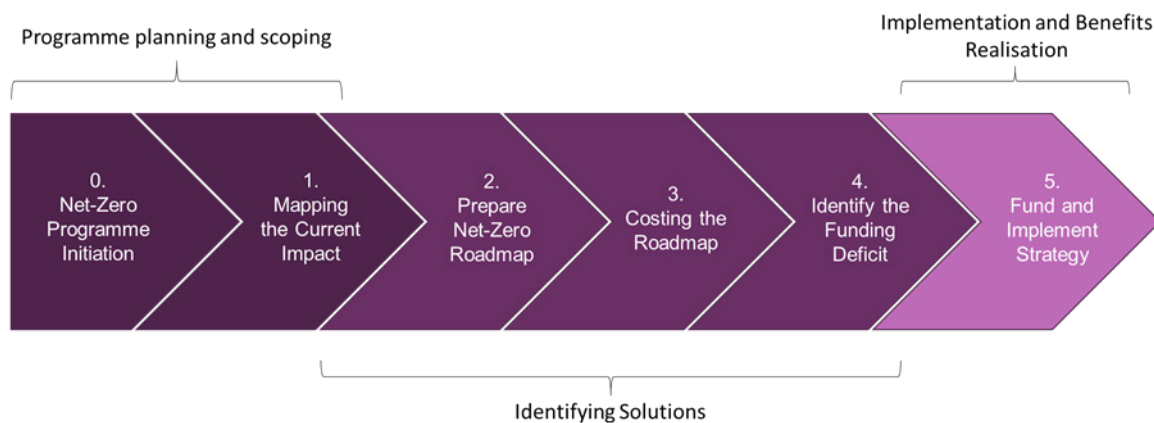
Based on other recent initiatives, including the Building Safety Fund and Affordable Homes Programme, funding will also only be available to providers with the capacity to write and submit extensive applications, leaving smaller and under-staffed providers to fund the entirety of their decarbonisation activities.

## Housing the Green Revolution - Pioneering the way forward

Where providers are expecting to rely solely on grant funding, this may be symptomatic of an underestimation of the cost of decarbonisation. Are providers aware of the cost to decarbonise their portfolio? Research would suggest not. In a survey conducted by Inside Housing earlier this year, over two thirds of social landlords are not yet able to estimate how much it will cost them to reach net-zero. In order to understand the costs that will be required, providers must have a strong understanding of the state of their current portfolio and a high-level strategy based on driving behaviour change, energy efficiency and enabling the use of low-carbon heat, whilst balancing this with business as usual, and the requirement to deliver additional new homes.

In 2019, Altair was commissioned by Community Housing Cymru (CHC), the voice of housing associations in Wales, to help them understand how various alternative funding mixes would affect the ability of housing associations to balance the needs of decarbonisation with their ability to finance the building of new homes. We reviewed five case studies, in which we looked at the impact of decarbonisation programmes on housing association business plans, modelling funding methods including Dowry Gap Funding (for LSVTs only), capital grant funding, and government loans. We also researched the availability of other sources of funding including Energy Company Obligations and the Renewable Heat Incentive. Through this project, we found that in every scenario, the average cost of decarbonisation, even if 50% grant funded, will represent a major challenge to the financial plans of housing associations of all sizes and that additional funding will be required in the form of regional investment initiatives and cheaper debt funding where there is capacity while remaining compliant with existing covenants.

A key challenge faced in conducting this research project was the lack of available, relevant data held by providers on their stock condition, leading to uncertainty around the average cost of decarbonisation. To enable the development and implementation of effective decarbonisation strategies, providers should seek to follow a simple five stage process:



The Sixth Carbon budget by the Committee for Climate Change noted that total investment costs are less than £10,000 per household on average using their Balanced Pathway methodology, and that 63% of homes need spend no more than £1000 on retrofitting energy efficiency measures. Even with the most efficient decarbonisation strategy, it is expected that there will be significant funding gaps that must be met by external sources.

In our survey, most respondents expected at least some form of grant funding from the government to finance the required works, and other methods of funding being considered by providers include developing Joint Ventures (JVs) and partnerships, issuing Green Bonds, or accessing Sustainability Linked Loans. The creation of JVs will allow providers in similar geographies to run joint procurement activities and benefit

from greater economies of scale, greater purchasing power and the ability to install localised green energy options such as ground source heat pumps where individually this would not be viable.

Larger providers may look to issuing Green Bonds. Clarion Housing Group has set an excellent example in the sector, raising £350m in January 2020 through the issuance of a 15-year Green Bond that attracted significant interest from European investors. There is a growing trend of Green Bond issuances throughout Europe, with the EU's most recent green bond issuance seeing a four times oversubscription, driven primarily by investors seeking to improve their green credentials. It is crucial when considering debt funding that providers seek appropriate support from Debt Funding Advisors to ensure that they continue to meet their current debt covenants, and that they get the best deal on borrowing. ATFS are experts in debt advisory and conducting debt procurement exercises for their clients, working across a number of sectors, including housing, supporting clients in accessing affordable finance.

Sustainability and Green Linked Loans (SLLs) are also on the rise, with providers such as Bromford leading the way in the UK affordable housing sector. SLLs are ideal for providers seeking cheaper finance options in return for meeting sustainability performance targets (SPTs). The targets set must be ambitious and linked to the wider organisational sustainability strategy, and for Green Linked Loans, it must be made very clear how the funds are channelled directly into the proposed green project.

An ESG Social Housing Working Group including Clarion and Peabody Housing Associations, among others, is leading the way in this area. The group published a white paper in May 2020, detailing a set of 10 key themes and 45 underlying criteria to provide a standardised approach to ESG reporting within the affordable housing sector. These criteria are based on a range of international frameworks and standards, including the ICMA Bond Principles and are designed to ease the process for investors in identifying strong ESG investments, making the sector more attractive to investment, and provide housing associations with easier access to green finance.

For both Green Bonds and Sustainability or Green Linked Loans, a provider's access to funding is directly linked to their commitment to delivering green projects, and their ESG credentials. The success of Clarion's Green Bond issuance has been linked to them being the first UK Housing association to be accredited with the pan-European Certified Sustainable Housing Label. As investors are subjected to increased scrutiny of the sustainability of their portfolios, those who are able to prove their green ambitions and commitment to ESG will be at the front of the queue for further funding opportunities.

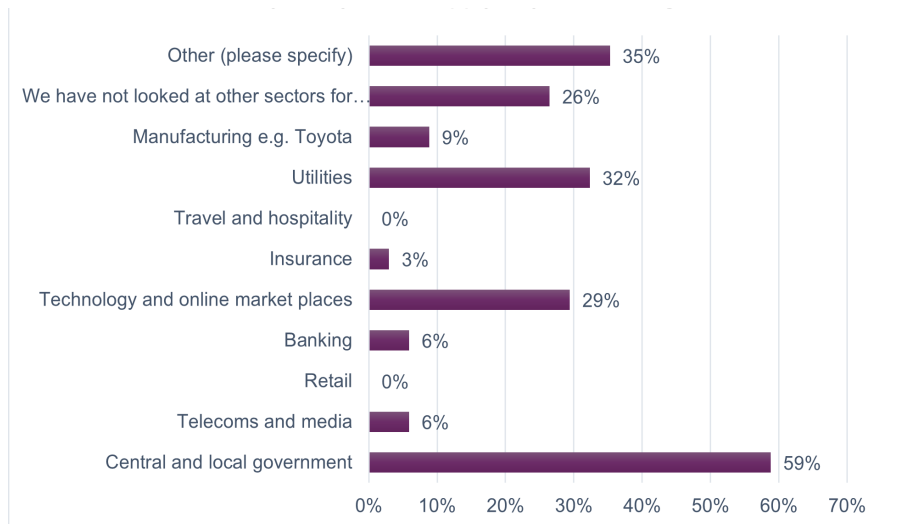
For all funding types, from government grants to JVs and investor funding, providers must also consider the stringent reporting requirements that accompany each method. Capacity to ensure compliance with these reporting requirements must be built into the overall cost of delivery.

As providers contemplate their decarbonisation strategies, one of the key considerations will be how they will be financed. It is unlikely that the government will provide complete funding for decarbonisation activities, and as a result, providers must proactively seek the most suitable funding option to fill the gaps. Providers who have a clear understanding of their stock, a clear roadmap to decarbonisation and who can show that they are committed to ESG will be the best positioned to deliver their net-zero ambitions.

## Section 2: Leaders in sustainability

Our survey has shown that housing organisations look to only a small number of sectors to learn about approaches to sustainability that they can apply to their organisation and over 25% have not looked to other sectors at all. The sector appears to be heavily reliant on central and local government to steering their sustainability approaches. This section reviews the benefits of exploring outside of the housing sector to find lessons learnt on sustainability approaches and how this can aid housing organisations looking to develop their sustainability plans.

### Which other sectors do you look at to learn about approaches to sustainability that you can apply to your own organisation?



Technology and utilities were sectors that were looked at by around 30% of organisations, respectively. Most notably, central and local governments were looked at the most, with 59% of organisations taking the lead on their sustainability approaches from them. The construction and development sector were also specified by several respondents as driving the focus of their sustainability approaches. Furthermore, 26% of organisations do not look to other sectors for sustainability approaches. This may be because they do not recognise or understand the benefits of this exercise, or because they are simply waiting for direction from central government and/or the regulator which is arguably a more reactive approach.

Based on this, housing providers need to question where and how they are taking inspiration for their sustainability approaches. For housing associations wanting to veer away from solely relying on central government or regulatory guidance; we advise they take influence and lessons learnt from sectors which are making ambitious and innovative strides forward in order to create a more proactive approach to sustainability.

Below are two examples of retail organisations who have taken a proactive approach to sustainability and have seen significant results and benefits from it. Not only are the lessons learnt from these organisations valuable, but they highlight the importance of cross-sector and out-of-sector collaboration to drive the overall sustainability agenda and progress in the housing sector.

### M&S

Marks & Spencer's 'Plan A' was a multi-year sustainability plan that was launched in 2007 and has been updated several times (2010, 2014 and 2017) to reflect the evolution of the business and the risks and opportunities that social and environmental issues pose for the company. Since then, M&S became the first major retailer to become carbon neutral in 2012 with 100% of their electricity from renewable sources. Emissions from their stores, offices and warehouses have also been cut by 75% since the plan was introduced, with an aim to reach 80% by 2030. Plan A's framework revolves around three strands: people, product and planet and links its goals to the UN sustainable development goals. The extensive detail within the plan to every corner of the business is not only why Plan A has been highly praised but has also delivered drastic results ahead of their competitors. Plan A highlights the success of a proactive approach to sustainability. Furthermore, housing providers can take lessons from Plan A's effective monitoring of its results and ambitious target setting which focuses on M&S' largest environmental impacts.

### Unilever

In 2010, consumer goods giant Unilever launched their ten-year Unilever Sustainable Living Plan (USLP) to decouple their growth from their environmental footprint, whilst increasing their positive social impact. The USLP consists of three major targets which were underpinned by nine commitments and targets spanning across their social, environmental and economic performance in their value chain. Since the launch, the USLP has:

- Halved Unilever's water use in their manufacturing operations
- Achieved a 65% reduction in CO2 emissions in manufacturing since 2008
- Switched to 100% renewable electricity
- Reduced the waste impact per consumer by 32% since 2010
- Reduced the waste sent for disposal per tonne of production by 96%
- Increased the amount of raw materials that are sustainability sourced from 14% to 62%

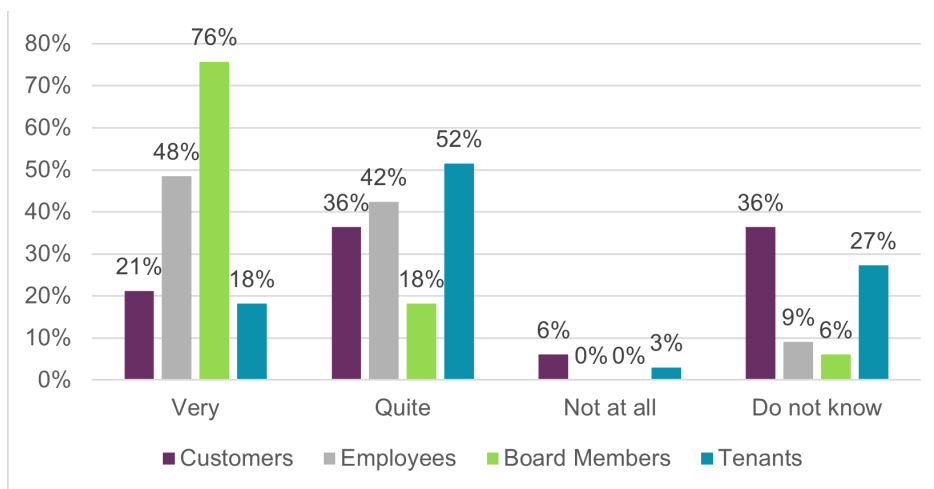
At the 10-year review stage, whilst achieving most of the ambitious aims that Unilever set out, they recognised some areas of their business, such as changing their consumers behaviours, were harder to achieve. As such, their future sustainability goals were shaped and focused from these areas. This case study highlights the significance of initiatives to drive behavioural change for an organisation's sustainability strategies. We recommend reviewing how your organisation is tackling this as it will likely become a considerable part of the challenge for the housing sector.

Overall, to become leaders in sustainability, housing organisations need to take a more proactive approach to shaping their sustainability strategies, particularly looking to out of sector organisations to collaborate or share knowledge of their success stories and lessons learnt. Currently, there is an over-reliance on central and local governments to act and subsequently guide the sector's sustainability approach. If organisations are seeking to become environmentally sustainable changemakers, and leaders in the long term, a proactive approach must be taken.

## Section 3: Building the tenant relationship to drive change

100% of survey respondents noted “reduced fuel / energy poverty for tenants” as a primary driver for developing sustainability strategies, with tenant wellbeing and social responsibility also ranking highly. However, 27% of respondents were not aware of how important sustainability is to their tenants.

**How important is sustainability to each of your key stakeholders?**



It is clear from the responses we received that the wellbeing of residents is at the heart of housing associations developing and implementing their green agenda. For a sector based on delivering positive social outcomes this is, perhaps, unsurprising. But despite tenants being a core focus, a vast number of providers are unaware of their residents’ views on sustainability, or their understanding of how meeting net zero targets may impact them.

For both improving the livelihoods of tenants and meeting sustainability targets, it is vital that the voice of the resident is heard. An understanding of the needs and perspective of residents will enable providers to develop strategies that place residents at the centre and pave the way for a more successful transition to net carbon-zero homes. Without this, providers are likely to face resistance, particularly where strategies require invasive works within residents’ homes and changes to how they are used.

In the very primary stages of decarbonisation strategy development, providers must engage with residents to the greatest possible extent to create a strong understanding of their primary drivers and concerns, so that these may be addressed in any proposed strategy. This may be done through methods already adopted by providers, including tenant panels, or through hosting focus groups and surveys to enable all residents to make their voice heard. Communication between providers and their residents is of increasing importance where leaseholders and shared-ownership residents are involved in a provider meeting their carbon-zero targets, as there may be an expectation that the leaseholder contributes towards a portion of the retrofit works; particularly where works are planned for mixed-tenure blocks.

Strategies that address residents’ immediate concerns, while contributing to the wider carbon-zero goal, will enable providers to support their residents and gain the trust and track-record that they will require to deliver large-scale change.

Similarly, the communication strategies used by providers will have a significant impact on the success of any decarbonisation programme. Providers will be required both to gain buy-in to the initial retrofit decarbonisation works in resident's homes and to drive behavioural changes in how homes should then be used. In doing so, and using the knowledge of residents' drivers gained in the strategy development stages, providers should seek to base their communication strategy on the six-sources of influence to enable successful change:

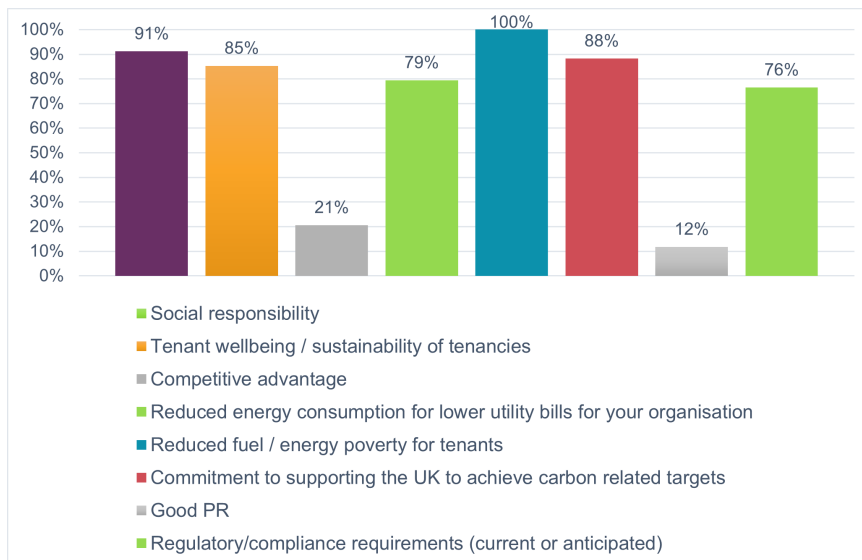
<i>Making the undesirable desirable</i>	Incentivising and encouraging tenants to use their homes in the most resource efficient way.
<i>Surpassing limits</i>	Developing and offering educational materials to tenants on how to use their homes more efficiently, particularly if any new technology or material changes are made.
<i>Harnessing peer pressure</i>	Setting up a tenant group of environmental champions who can support the changes being made and lead their local community in embracing the changes.
<i>Finding strength in numbers</i>	Demonstrating that everyone must be part of the change and driving economies of scale across groups of homes. Creating an atmosphere of 'togetherness'.
<i>Designing rewards and demanding accountability</i>	Putting in place a framework to encourage the embracing of the change, including measurable positive actions leading to reward or vice versa.
<i>Changing the environment</i>	Undertaking works to contribute to sustainability targets and putting in place technologies that enable tenants to support the push to carbon-zero.

From the beginning of their existence, housing providers have sought to take care of their residents, understanding that they cater for a wide range of people and their needs. The journey to net-zero homes is not one that can be avoided. It is inevitable that this will create some disruption to residents. Through effective engagement with residents, providers can ensure that their strategies deliver directly positive change to residents, whatever their concerns, while also enabling the delivery of long-lasting changes to the environment.

## Section 4: Uncovering the competitive advantage of excellence in sustainability

Only 21% of those surveyed believe that having a sustainability strategy and targets will drive a competitive advantage for them. Furthermore, only 12% of respondents saw this as an opportunity to drive good PR. In this section we look to explore the many ways which organisations can use sustainability to build a competitive advantage and move up the value chain.

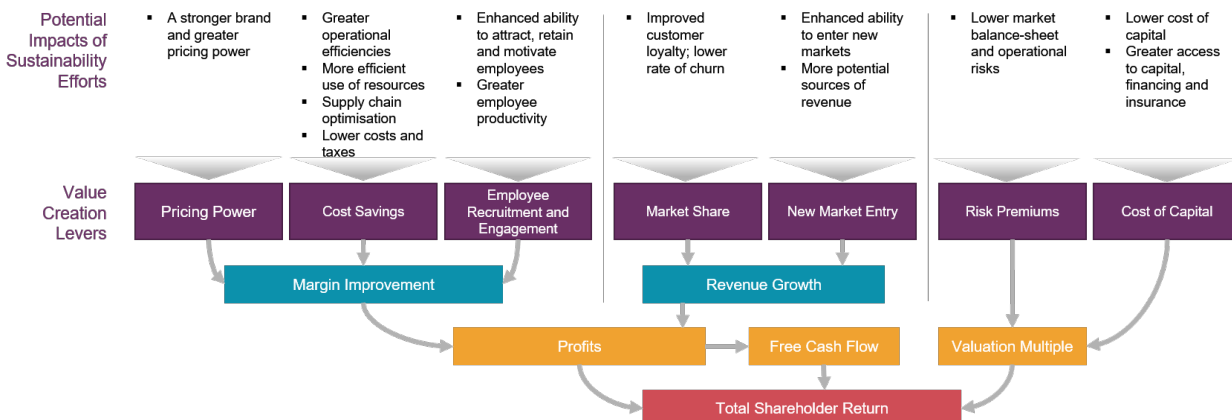
### What are your key drivers for setting targets and developing a sustainability strategy?



The sustainability agenda is both powerful and unique as it has the potential to affect every value-creation lever in an organisation over the short term and longer term. There are very few other business issues which can be viewed as having such a broad scope of impact. We have demonstrated in the diagram below how sustainability can harvest value throughout an organisation.

### How sustainability affects value creation

Most survey respondents who considered themselves experts in sustainability, as well as most thought leaders, say their companies have found a compelling business case for sustainability-related investments – one reflecting multiple tangible and intangible costs and benefits.



Implementing sustainability strategies does not need to be seen as a drain on economic success but the opposite. A study undertaken by KMPG showed that 55% of CEOs believe that organisations must look beyond purely financial growth to achieve long term success. Outside of our sector, there has been considerable movement from businesses towards a 'double bottom line' accountability model whereby performance is measured against social & environmental impact and not just fiscal performance. With this approach, organisations could meet a market need but simultaneously achieve their sustainability objectives.

Organisations which are able to embed a sustainability angle into their business strategy will help to reduce their risks, drive down costs, improve revenue, and build intangible value such as brand loyalty, all of which will contribute to a competitive advantage. Below we have set out specifically what areas of competitive advantage housing providers could capitalise from having a solid sustainability agenda.

### 1) Partnerships with local authorities

As seen in recent years, local authorities and central government have been pushing sustainability to the forefront of their agendas. By showing alignment to this shift, housing providers can stand out from their competitors and become a more attractive partner to local authorities. Providers which are unable to demonstrate such synergies are likely to struggle to form longstanding partnerships with the likes.

### 2) Opportunities to innovate and disrupt

For most, driving sustainability at organisational level is an exploratory journey especially for organisations developing sustainability strategies and targets for the first time. In designing and implementing such strategies and targets, providers are likely to increase the probability of creating new technologies or market offerings for their customers and driving smarter ways of working. In other words, innovation breeds innovation.

For example, with their efforts to produce more efficient jet engines, General Electrics (GE) subsequently propelled the company's success in bringing new materials and greater efficiency to the turbines which were key to delivering low-cost wind power.

Closer to home, Swan Housing now operate a factory to manufacture modular homes. Not only does this lead to quicker on-site delivery of their regeneration schemes, environmental benefits are created during the construction and in-use stages of the development lifecycle, for example, the use of cross laminated timber acts as a carbon sink and reduces emissions from delivery trucks and the absence of carbon-intensive concrete.

It is therefore worth housing providers considering what other opportunities can be unlocked while developing sustainability practices and how could this shake up the sector for the better.

### 3) Employee retention & attraction

Generation Z and millennials, born between 1981 and 2012, will soon represent the majority of the workforce. What they value therefore matters now more than ever. Following a survey undertaken by Amnesty International among 18-25 year olds, across 22 different countries, 41% of respondents cited global warming as the most important issue facing the world.

More and more, we are seeing these generations expecting employers or future employers to take a leading and active role in the sustainability agenda. A survey undertaken in 2019 revealed that more than 70% were more likely to choose to work at a company with a strong environmental agenda, and to stay with an employer in the long term if it had a strong sustainability plan. Millennials are due to make up three-quarters of the workforce in the next six years. With them due to take centre stage alongside Generation Z, it is critical for housing providers to show their commitment to the sustainability agenda

to ensure they attract and retain the best talent. There is a huge opportunity to snap up the smartest graduates and apprentices who might not have yet considered a career in the housing sector.

### 4) Access to sustainability funding

Last year sustainable investments were valued at US \$30 trillion and this is set to grow by 127% by 2027. This is a fast-growing market and the opportunities for housing providers to take advantage of sustainable investments is substantial.

With grant funding unlikely to be sufficient to support housing providers to decarbonise their housing stock, there will be a need to look elsewhere to bridge the deficit. To stand the best chance of accessing alternative funding, providers should demonstrate excellence in environmental social governance (otherwise known as ESG).

Bidding for funding is a competitive playing field, with organisations being benchmarked against the competition by capital providers, enabling them to distinguish which organisations are more superior in terms of risk management and corporate governance. With this exercise, investors look to identify organisations which demonstrate management acumen in terms of resilience to uncertainty around regulatory carbon and environment control and other such ESG factors. Providers which can demonstrate excellence in sustainability leadership should expect to be rewarded with lower-cost capital investment. By accessing this source of funding, providers will reduce pressure on their current budgets and be able to commence their decarbonisation journeys earlier than planned, enabling a more proactive approach than reactive.



### 5) Customer demand

Research demonstrates that customers are increasingly wanting to use products and services that embrace sustainability. One recent report revealed that certain products with sustainability attributes showed twice the growth that their traditional counterparts did. Associations with ethical and eco organisations is becoming the new status symbol for consumers.

In the housing sector, providers should aim to meet this shifting customer demand by designing homes which address environmental and health issues as well as operating cost. With a large portion of housing providers customer's sitting in fuel poverty, surely those which are seen to be addressing this issue, hand in hand with sustainability, will be positively ranked by their customers, driving up customer satisfaction ratings. By adopting this approach, providers can simultaneously deliver homes in line with their net zero targets and customer demand to deliver excellent customer satisfaction.

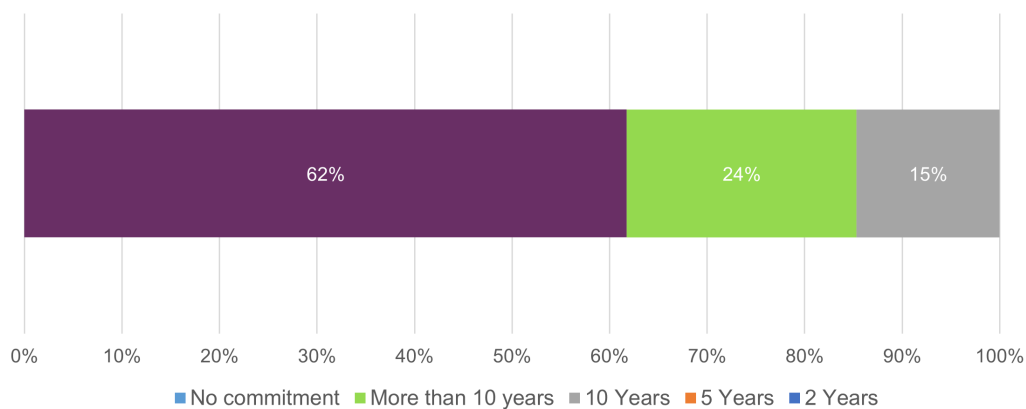
As demonstrated above, the driver for sustainability does not always have to be the "stick" such as legislation. Although the "stick" is due to become more prominent, we anticipate the housing providers which step out of their comfort zone first, by properly placing sustainability at the forefront of their agenda will be able to capitalise early from having done so. To paraphrase, the early housing provider catches the worm.

It is time for organisations in the sector to review what strategies they are looking to implement to ensure they have positioned themselves competitively for the future. For organisations struggling to do so, time spent clarifying the business case for sustainability will be an effective way to accelerate decisive corporate action.

## Section 5: Successfully setting environmental targets

Our survey revealed that only 15% of the sector are planning to be carbon neutral within the next decade and over half still have no commitment at all. In this chapter, we explore the importance of target setting and what considerations organisations will need to make when setting their sustainability objectives.

**Timescale to becoming a carbon-zero organisation**



59% of the organisations we surveyed described their approach to sustainability as being ‘Eco Aware’, meaning they have sustainability targets in place but do not yet have a definitive plan on how to meet them. 21% of organisations are still yet to consider how they will react to the challenges that climate change poses and what their environmental impact is.

Our survey also highlighted the extent to which organisations have not yet considered their sustainability targets. Very few organisations are setting timescales for their decarbonisation targets, with 62% of respondents to our survey making no commitment to becoming carbon neutral at all. Furthermore, almost 70% of organisations are yet to commit to developing a carbon zero home.

These statistics need to be higher if organisations and the sector as a whole want to play their part in decarbonising the UK economy. Ultimately organisations will be unable to achieve this if they themselves do not set explicit commitments to achieve and measure against.

### What does this tell us about the required next steps for organisations in the sector?

Setting targets and making commitments is one of the first key milestones which organisations need to complete to begin their journey to net zero.

For organisations to make realistic, achievable, and smart environmental sustainability commitments, they must first reflect on their current impact. This involves spending time to map the baseline carbon footprint and understand the current “as-is” position. Whilst this may seem like a daunting process, it is a vital first step to programming how an organisation will achieve long-term environmental sustainability. Most importantly, organisations should not panic if the results of this stage are worrying but instead should see it as an opportunity to reflect and plan.

By undertaking these first crucial steps and understanding the baseline, it will shape an organisation's future approach to effectively setting aspirational sustainability targets.

Once the "as-is" is known, a high-level road map should be developed to assess the process and associated costs that will be required to becoming carbon zero. From here, targets can begin to be designed. If targets are set before this stage, they may risk being unrealistic and unachievable in the timeframe.

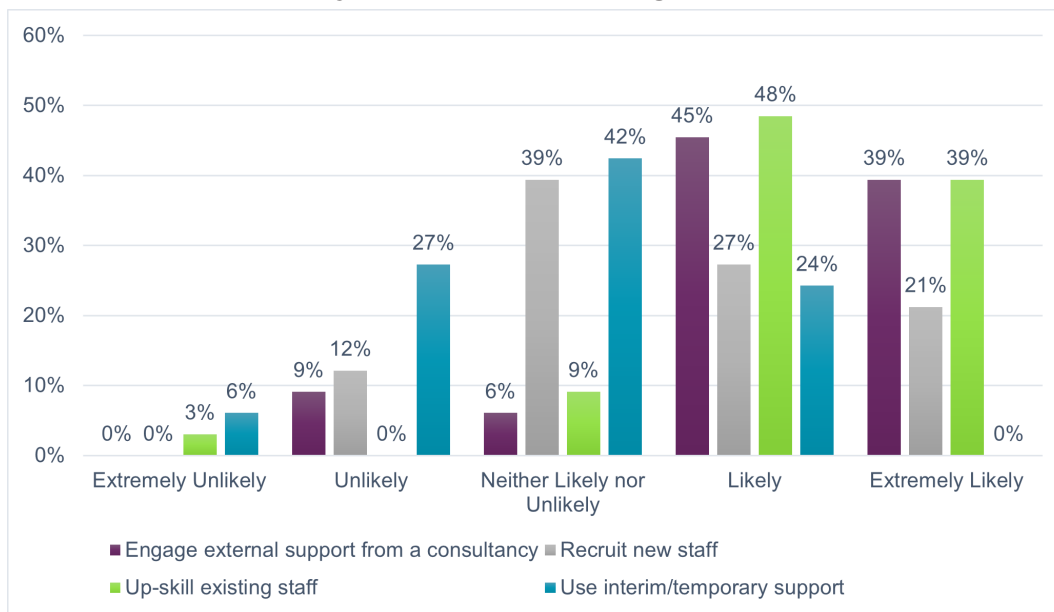
It is important for decarbonisation targets and commitments to be set and considered against the backdrop of what can be achieved (or is achievable) in the timeframe and what risks or issues could inhibit it. Organisations should also identify what climate change risks could threaten and what opportunities may enhance their business plans, ensuring targets are designed to complement these. Once these factors have been assessed, senior management should stress test these key performance indicators to assess their suitability, feasibility and acceptability. This includes scrutinising what is achievable with the organisation's human resource capacity, within the timeframe, and if the targets are affordable within the forecast budget. Ultimately these targets should aim to ensure they reduce the exposure and impact that climate-related risks could have on an organisation but also the impact an organisation has on the environment.

In conclusion, housing providers should reflect on their current baseline when shaping their decarbonisation and sustainability targets to create intelligent, realistic and aspirational long-term targets. Target setting is the first critical milestone in what could be a 20/30 year-long net zero programme and it is therefore crucial that the correct approach is taken upfront to set these targets.

## Section 6: Addressing the skills gap in the sector

Our survey revealed 73% of the organisations who responded felt that they do not have the necessary skills in-house to develop an appropriate organisational sustainability strategy. To address this gap, 87% of organisations are looking to up-skill existing members of the workforce. In this chapter, at a high level, we explore the possible approaches and routes to achieving this.

**How will you address the skills gap identified?**



Before upskilling any employees in the sustainability arena, housing providers will need to ask themselves a number of questions to assess the current state of play and their future sustainability aims.

The first point of action should be for organisations to have a relatively good map of what activities, initiatives and timescales will need to be implemented on the road to net zero so they can ensure not only sufficient resource capability but also capacity. In achieving this, organisations will need to assess what resources are available in-house and which roles in the future should fall under the sustainability remit.

Although a foundation level understanding of sustainability across all levels of resource is essential, certain personnel will be required to have more in-depth understanding at various levels of seniority. Being able to define what the core attributes, expertise and knowledge requirements are for these in-depth roles is essential. If it is not clear for an organisation what “good looks like”, analysis of existing resources against these requirements is a nonstarter. Again, across the organisation, understanding what the basic sustainability knowledge requirements for employees are is crucial so benchmarking against this can take place. Ensuring this knowledge will also aid with the implementation and embedding of any future sustainability strategy.

To help determine the future success of a sustainability programme, sponsorship of this should be present at board level. In establishing which board member may be best suited to this role, skills mapping should take place. There are various techniques which can be used to undertake this exercise such as 1-to-1 interviews, surveys, and observation days. However, it is how this data is collated and analysed which matters; Altair’s tool, Aptitude, can be used to support these tasks. Altair Aptitude is a competency and succession planning tool which quantifies processes and aligns future planning and recruitment of

members to your organisation's strategic objectives. The tool allows the user to easily identify current gaps in board, committees and individuals' skillsets while outlining scenario planning for the loss of multiple board members. Governance teams are better informed for training requirements and when recruiting members for board and committees.

When assessing the various in-house skills set requirements at director, manager and delivery level, a similar approach can be adopted to the board level assessment. Altair recommend that at inception of a skills mapping exercise, the project sponsor should be engaged with to understand the team or board being reviewed. If the team or board is new or less established, Altair usually recommend a skills assessment approach which relies on objective analysis, e.g. utilising CVs, performance indicators and / or interviews with the individuals being reviewed. A board or team which is more experienced, established, effective and is engaged in the skills review may alternatively complete a self-assessment of their skills against a series of skills indicators and / or scenarios. These results can then be moderated by reviewing and discussing them with a senior member of the team or Chair to ensure accuracy of the self-assessment scores, mitigating some self-assessment bias.

Once organisations have been able to confirm the skills gaps, time should be spent assessing and designing how best to upskill the chosen members of staff, recognising that a variety of teaching techniques will be required. Upskilling efforts may range from online seminars, to external residential training courses, mentoring/shadowing an expert, or more formal qualifications and examinations. Time should also be spent with an HR or learning and development professional to ensure a diverse training programme is designed.

It is easy to look at skills mapping as a solo exercise, but it should be reviewed in conjunction with the implementation and embedding requirements of the key personnel to ensure the desired sustainability upskilling becomes part of BAU. This piece of work is as important as the initial skills mapping. So that skills mapping and training efforts are not wasted, employees must be given time to reinforce, refresh and practice their learning. This time allocation will help to aid knowledge transfer through osmosis and embed the associated new practices throughout an organisation's operations.

To underpin resource upskilling and CPD in sustainability across the workforce, efforts should also be dedicated to updating an organisation's performance management framework, ensuring the sustainability requirements of the housing provider runs throughout. The performance management framework should look to re-design objective setting, employee incentivisation, training requirements, KPIs and structured manager meetings. These initiatives will drive a behaviour change throughout the wider workforce, whilst ensuring the specific sustainability efforts of identified specialists' resources are measured and rewarded, collectively driving continual improvement.

## Summary

On review of the results of the Altair sustainability survey, the key takeaway message is that it is not too late for the housing sector, specifically a housing provider, to commence their journey to net zero. Although some positive progress has been made, as a sector the survey results suggest we have some catching up to do. It is therefore important that 2021 becomes our year to drive forward the Green Industrial Revolution and grab the low hanging fruits for change.

This can seem like an intimidating journey. It is our recommendation that organisations start somewhere and dedicate the necessary time and resource to undertake and consider the following key steps:

- Mapping your current impact on the environment. This must be the absolute first step. Until this impact is known, it will be next to impossible to plan a decarbonisation programme, design targets, understand what funding and expertise is required to deliver net zero.
- Think about who is going to deliver this transformation programme. Assess in-house capability and capacity as soon as possible. If gaps are apparent, these will need to be plugged. Although upskilling existing resource is more sustainable, remember it takes time to do it properly. Put a plan in place for this and don't be afraid to rely on external expertise to support training and development of in-house resources.
- Designing the decarbonisation programme will require the most energy and expertise as striking a balance on cost, time and quality is essential. A well thought out decarbonisation plan will set the direction for action and help organisations understand the wider impact on their business plans.
- Get setting targets. Until this has been completed there is no commitment to the change. Make sure timescales attached to these are achievable, ambitious but align with funding and engagement requirements.
- Only start costing up decarbonisation once the plan has been created and do not forget there are finance options available such as grant funding. With the Green Bonds and Sustainability and Green Linked Loans markets on the rise, housing providers could be the perfect candidate for them if their Environmental Social Governance is in order.
- Do not suffer in silence. All those who participated in the survey have voiced their support to be involved in a cross sector working group to share lessons learnt and their thinking on decarbonisation for their respective organisations. In addition, do look further afield to track record outside of the sector, there are some great success stories we can learn from.
- With a high percentage of participants noting the importance of sustainability to their tenants, kick off engagement with them. Without tenant buy-in to your decarbonisation programmes this will be a barrier to change. Work hard to understand what motivates and influences your tenants and leaseholders.
- Finally, try not to view achieving net zero as a hinderance on your business plans but an opportunity. If properly designed and implemented across your organisation a competitive advantage can be capitalised from it.

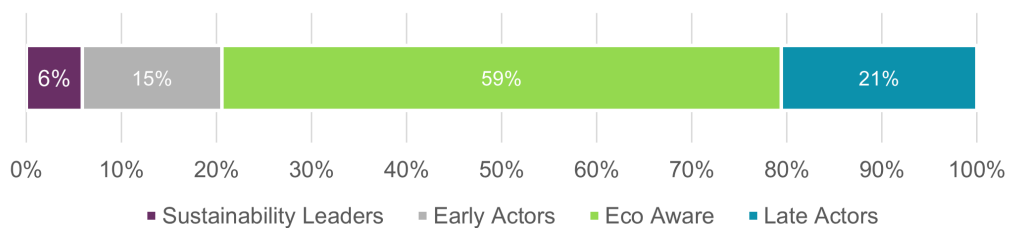
In summary, although this is an extensive and long-term transformation programme, the key is to act now. There is huge potential to strengthen and future proof the sector on this journey through improved collaboration, efficiency, performance and the attraction and retention of the brightest talent.

If you would like support to explore anything in this report further, please do not hesitate to contact Altair.

## Appendix: Survey results

### Your organisation's approach to sustainability

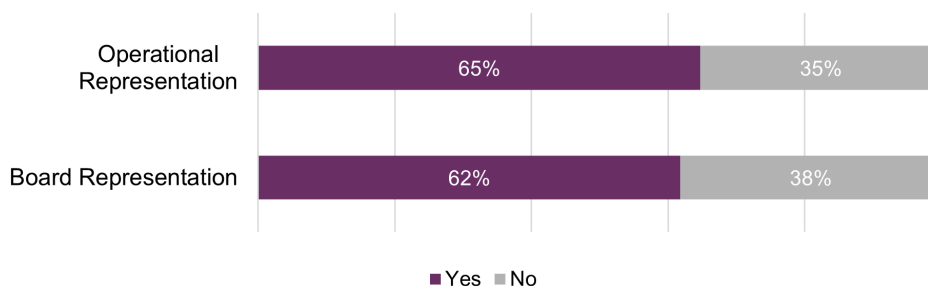
1. How would you describe your organisation's approach to sustainability?



Participants were asked to identify which of the following labels described their organisation's approach to sustainability:

- **Sustainability leaders** – We have sustainability targets in place and are actively future-proofing our organisation against the climate crisis.
- **Early actors** - We have sustainability targets and a strategy in place, but we are also as concerned about managing performance, reputation, and other risks as we are about being ahead of the curve in delivering our strategy.
- **Eco aware** – We have sustainability targets in place, but we do not yet have a definitive plan on how to meet them.
- **Late actors** – We recognise sustainability as a challenge to the organisation but have not yet considered how we will react or what our impact is.
- **Sceptics** – We have not considered sustainability as a risk, nor is it likely to be a focus in the near future.

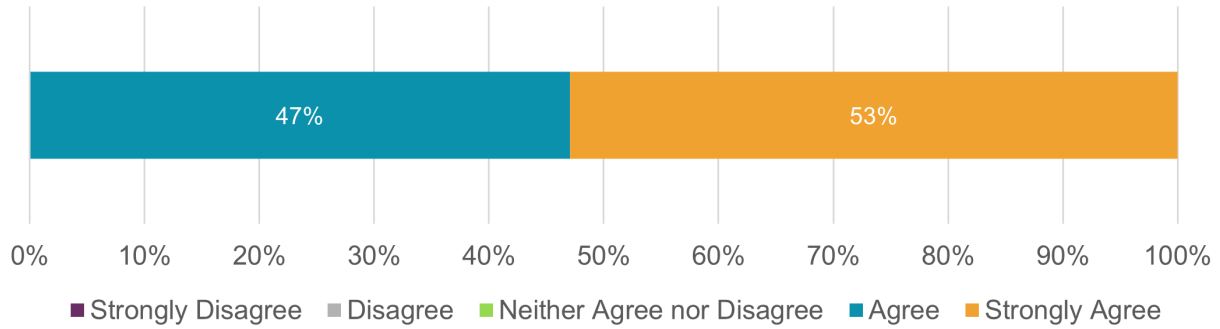
2. Sustainability representation



Participants were asked where in their organisation, if at all, there are roles relating to sustainability, environment, or climate change. Respondents were first asked if sustainability was represented at Board level (Board Representation) and then if there is a specific role or team leading on sustainability within the organisation (Operational Representation).

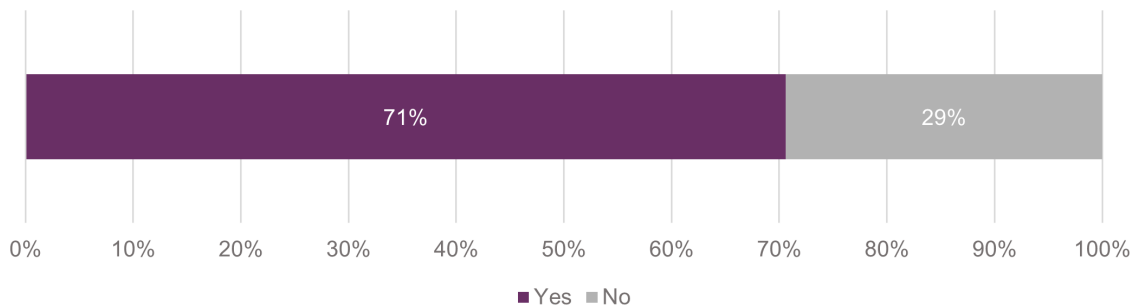
## Targets and strategy

3. “Environmental sustainability is important to our business”



Participants were asked to evaluate the extent to which environmental sustainability is important to their business. All participants agreed with the statement with 53% strongly agreeing.

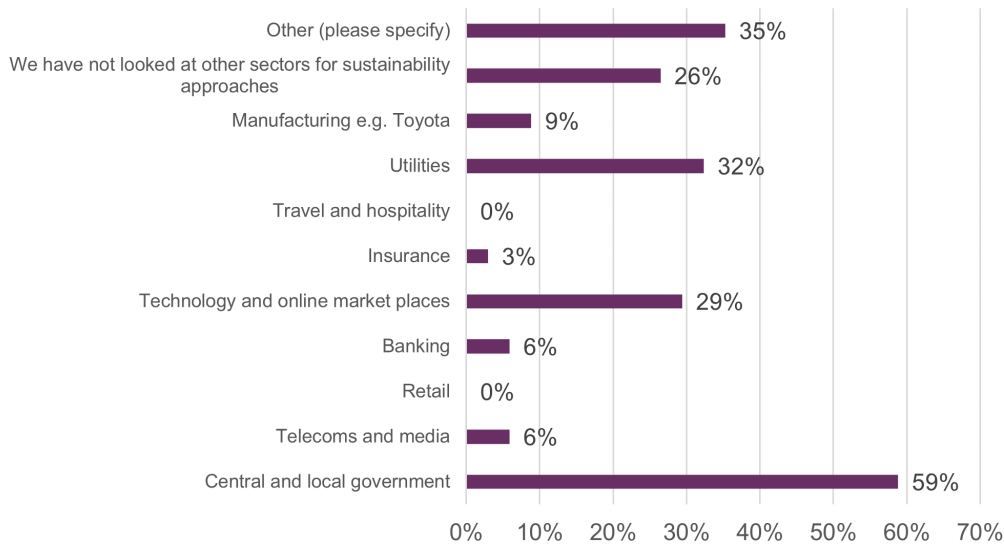
4. Do you have any sustainability targets set?



Participants were asked if their organisations had set any sustainability targets and, if so, what these targets were. Responses included net zero by 2050, various SAP and ESG targets for homes, as well as waste reduction targets for offices. Those who have developed strategies also referenced staggered targets, including percentage reductions in CO<sub>2</sub> emissions and waste. Several organisations that responded “No” confirmed that their targets are in development but not yet confirmed.

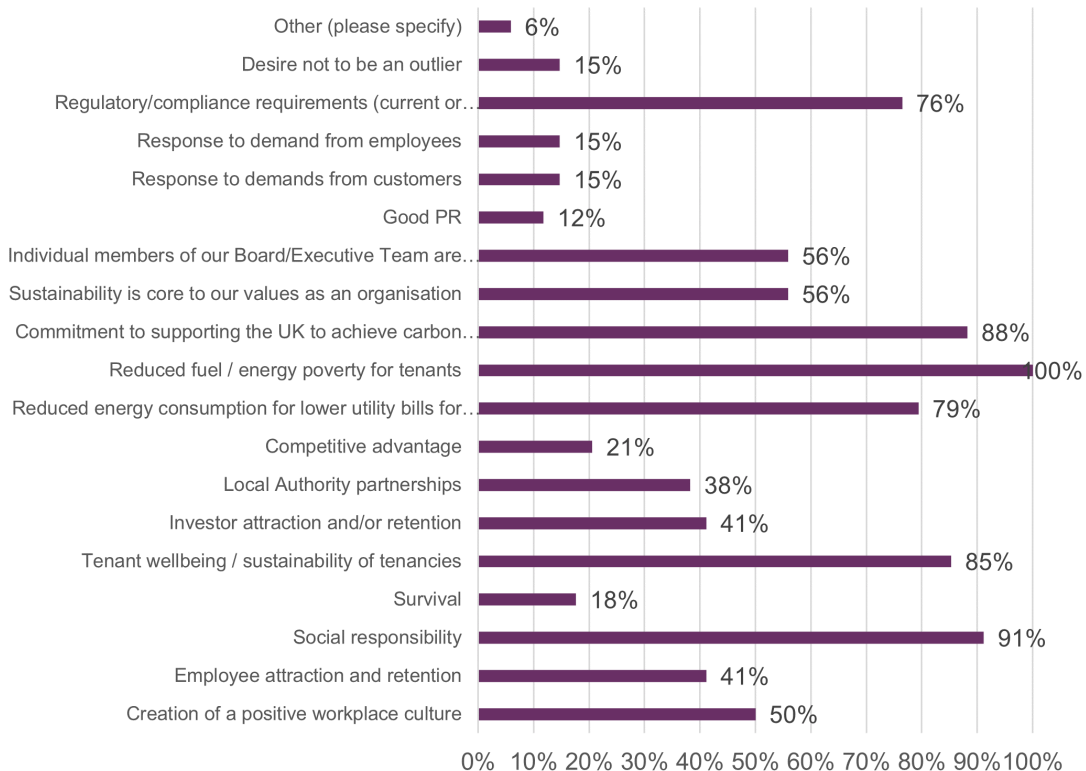
## Housing the Green Revolution - Pioneering the way forward

5. Which other sectors do you look to for approaches to sustainability that you can apply to your own organisation?



Participants identified which sectors that they looked at to learn about approaches to sustainability. Where respondents replied “other”, other providers, real estate and academia were cited as sectors that providers had used as examples. Respondents also noted that sharing good practice between housing providers was useful in developing sustainability strategies.

6. What are your key drivers for setting targets and developing a sustainability strategy?

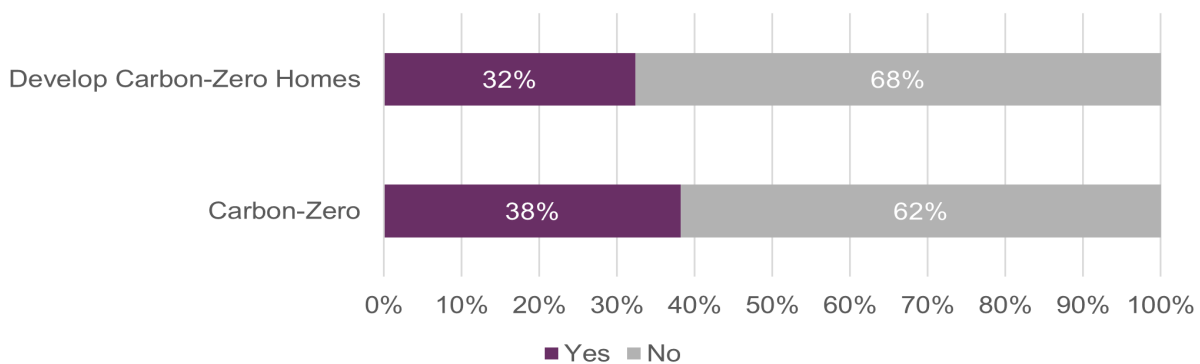


Respondents identified their key drivers for setting sustainability targets. Reduced fuel poverty, increased tenant wellbeing and social responsibility were cited most regularly, alongside a commitment to supporting the UK's net-zero by 2050 target.

### 7. Scope of strategy

Participants were asked to qualitatively summarise the scope of their sustainability strategies. The majority of respondents noted that their strategies focused solely on carbon reduction and falling in line with the government's net-zero targets. However, a number of respondents, identified long-term tenant and community sustainability as the main aim of their strategy.

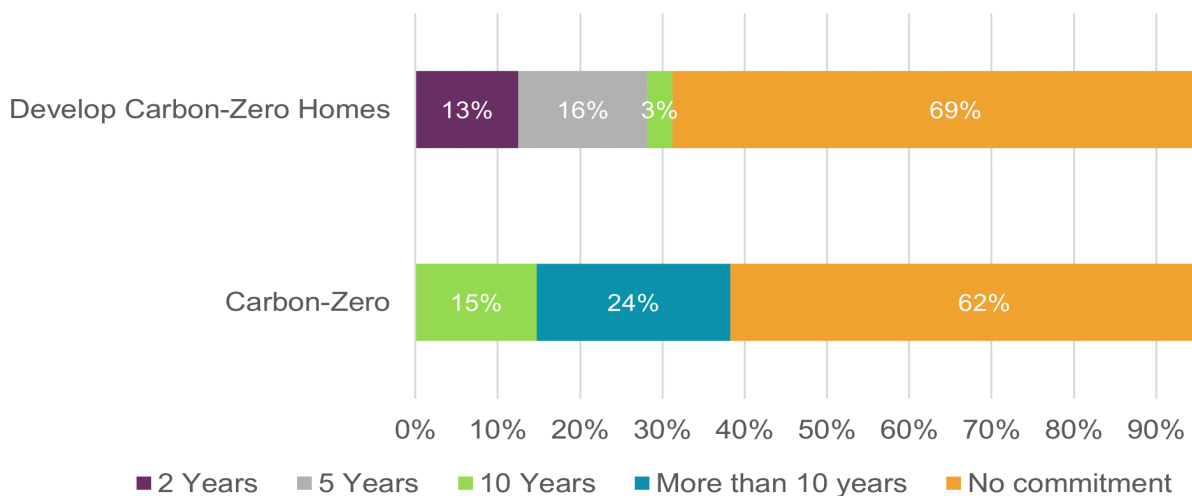
### 8. Carbon-Zero commitments



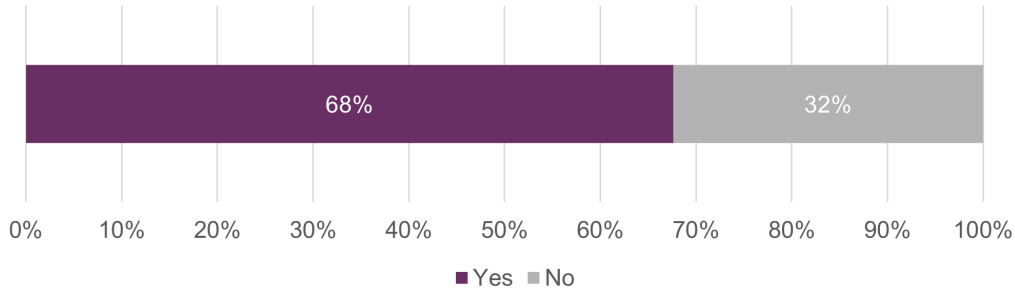
Participants were asked if they had made commitments to becoming Carbon-Zero and developing their own Carbon-Zero homes.

### 9. Carbon-Zero timescales

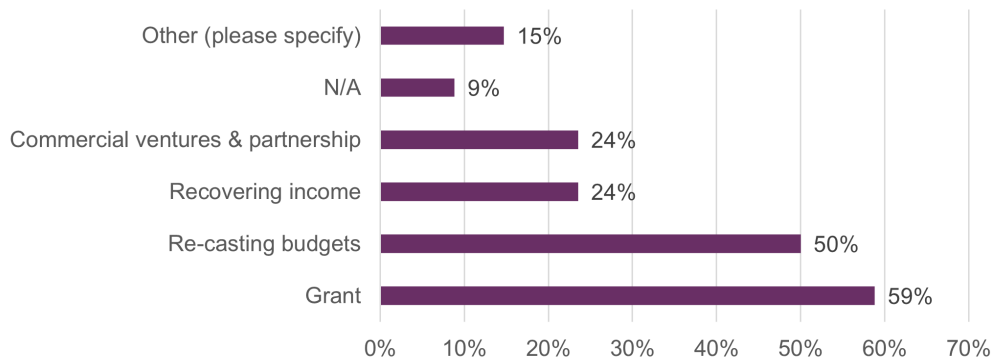
Respondents were asked to provide the timescales to which they are working to become Carbon-Zero.



10. Do you have plans to retrofit your homes to meet Carbon-Zero ambitions?



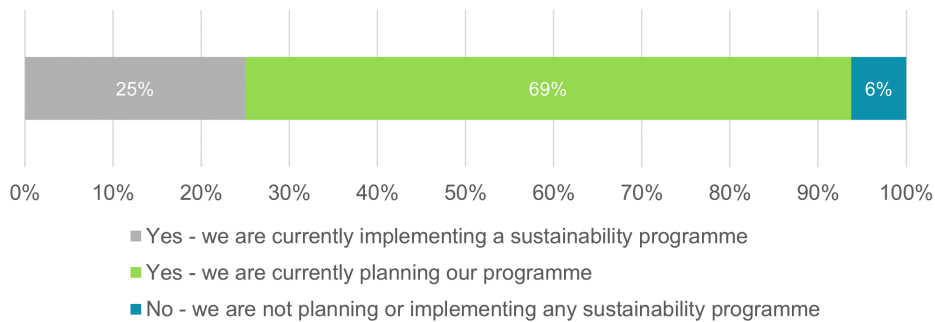
11. If so, how do you plan to fund these activities?



Respondents identified their organisation’s plans for funding retrofit activities. Most respondents (62%) noted that they were looking to more than one funding method, while the remaining 38% expect to rely wholly on grant funding. “Other” funding methods included Green Bonds and lobbying government for “warm rents” and capital support.

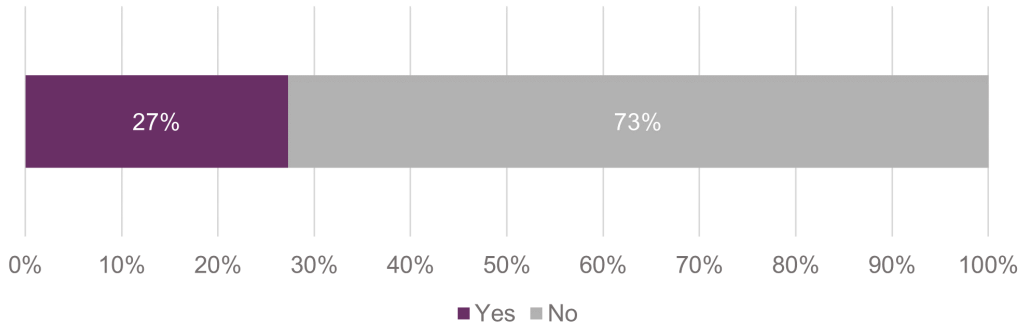
## Strategy implementation

12. Are you currently planning or implementing a sustainability programme?

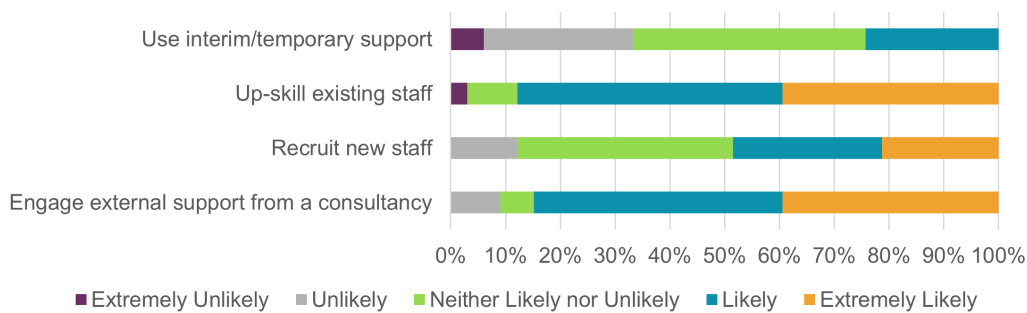


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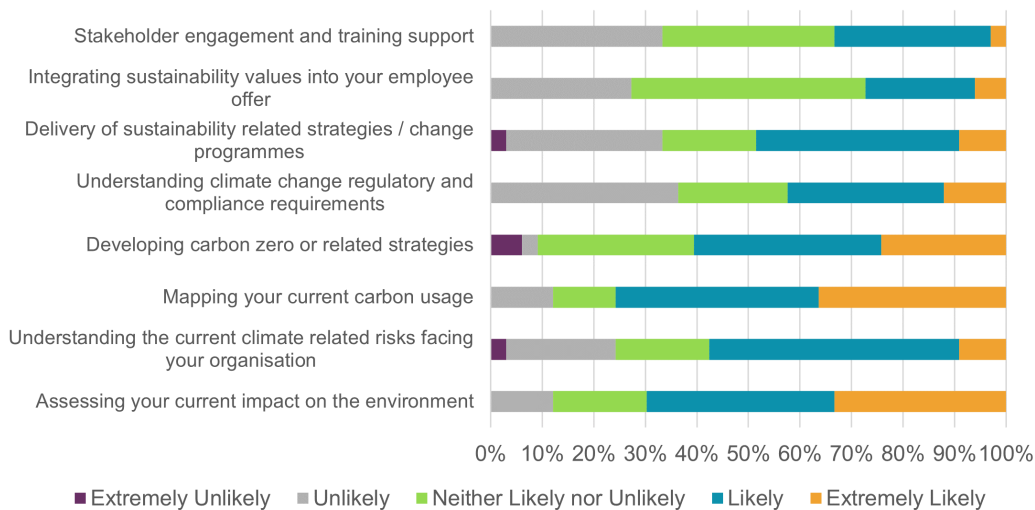
13. Do you have the skills in house to develop and implement an appropriate sustainability strategy?



14. How will you address the skills gaps identified?



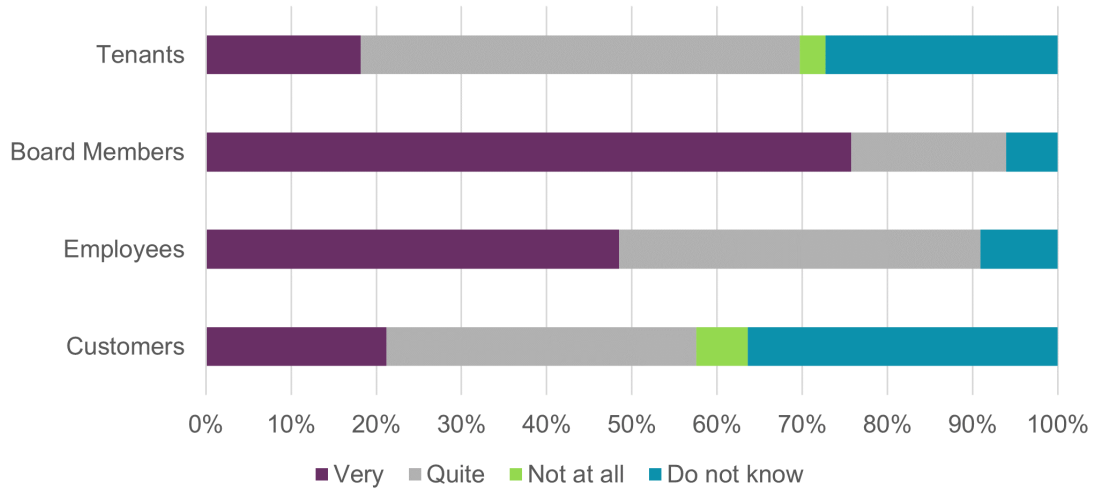
15. How likely are you to commission external support in the following areas:



Participants were asked to identify external organisations that would be considered to provide the support that is required on sustainability issues. Responses included a range of specialist consultancies providing support across the range of sustainability-related areas. Respondents also pointed to collaboration with other housing providers to support.

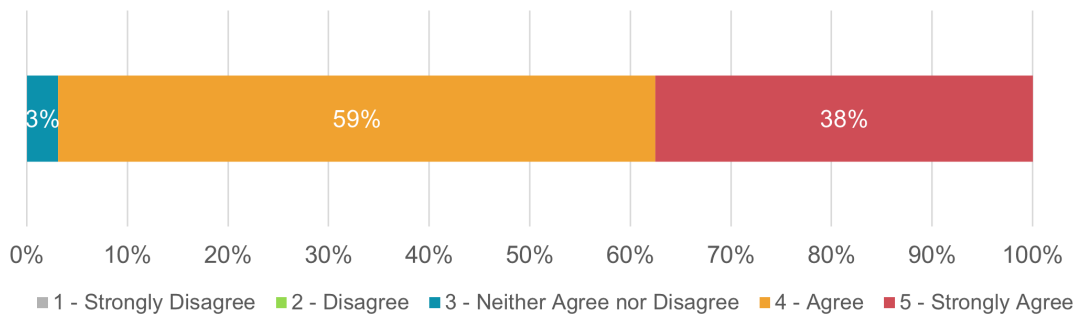
## Sustainability engagement

16. How important is sustainability to each of your key stakeholders?



17. Sector collaboration

Participants were asked to rate the extent to which they agreed that sector collaboration is essential to tackle climate related challenges:



18. Altair are seeking to facilitate a working group with Registered Providers with the aim of creating a housing sustainability charter to lobby central government with, to provide greater clarity on the standards and requirements expected to achieve zero carbon homes. Would you be interested in being a part of this collaboration?

