

BUILDING A SUSTAINABLE FUTURE:

UK home builders' progress in addressing sustainability Autumn 2007

EXECUTIVE SUMMARY

Introduction

The imperative to address sustainability issues in the housing sector has never been stronger. The acute shortage of housing, especially affordable housing, combined with issues of land availability and the recognition of the urgent need to address climate change, has made building sustainable homes and communities one of the government’s key priorities.

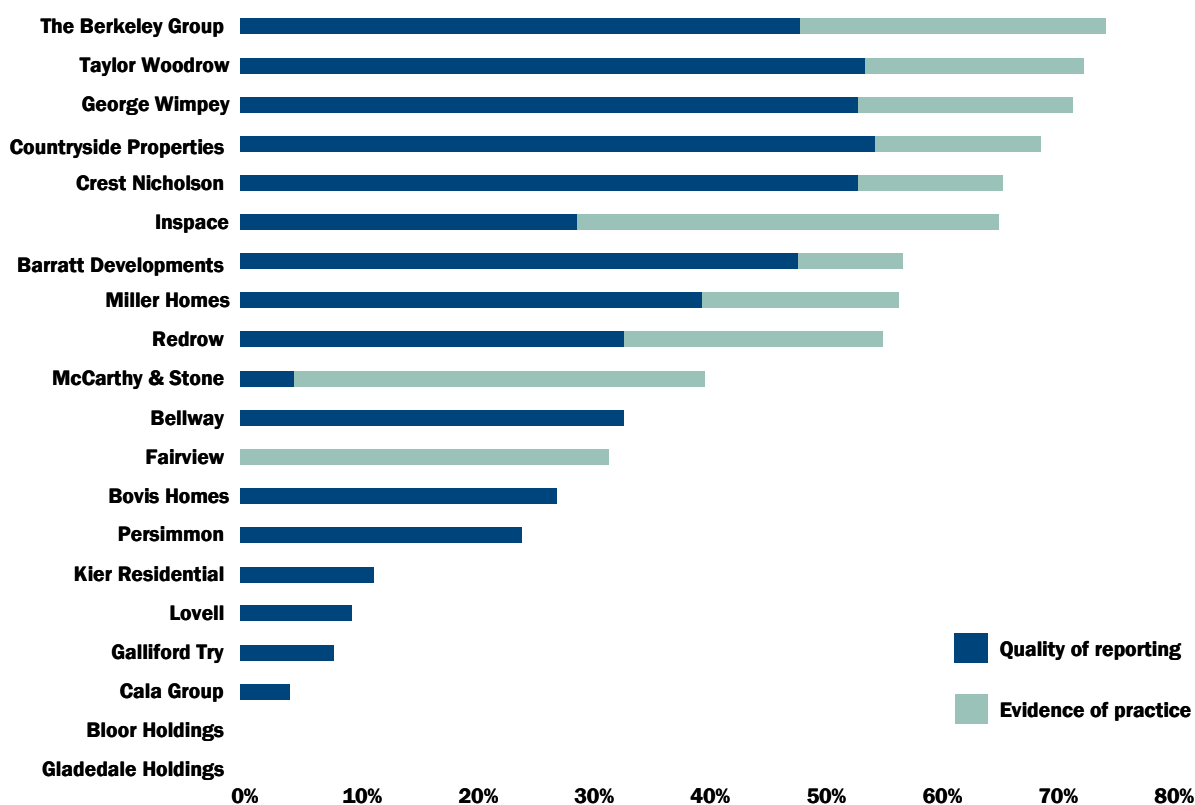
In response to this challenge, the NextGeneration initiative (see Box A) brings together many of the UK’s top home builders with three key stakeholders: a major investor in the sector (Insight Investment), a well-respected non-governmental organisation (WWF-UK) and the public sector funder of affordable housing (The Housing Corporation).

This review of the UK’s Top 20 home builders – responsible for delivering over 95,000 homes each year – aims to provide a detailed picture of how the sector is facing up to the challenge of building sustainable homes and communities. The benchmark report draws an important ‘line in the sand’ for the home building industry – it acknowledges the progress that has been made to date, but also highlights the enormity of the political, commercial and practical challenges ahead.

Overall results

As Figure A indicates, three leading companies emerge from the benchmark – The Berkeley Group, Taylor Woodrow and George Wimpey (subsequently merged to form Taylor Wimpey).

Figure A: Top 20 overall performance



These results are broadly encouraging: they indicate that a number of companies in the sector have recognised the pivotal importance of sustainability issues to their business operations and are responding strongly. However, there is a large gap between where the industry is now and where it needs to be by 2016 if the government’s vision for all new homes to be zero-carbon is to be realised.

Box A: NextGeneration

Previous to this year's NextGeneration benchmark, Insight Investment and WWF-UK jointly benchmarked the performance of the UK's major publicly listed home builders on sustainability practice and reporting in 2004 (13 listed companies) and 2005 (12 listed companies).

NextGeneration was launched to build on the success of these previous benchmarking exercises and to expand their reach and ownership. Set up as a multi-stakeholder initiative, NextGeneration aims to drive best practice on sustainability into the heart of the housing sector by encouraging the industry itself to embrace more sustainable house designs and delivery. It is intended to be a platform through which developers can both identify the sustainability-related risks they face and develop a good understanding of how best to address the related opportunities.

NextGeneration is supported and directed by The Housing Corporation, WWF-UK and Insight Investment, all of whom sit on its Executive Committee. Upstream acts as a secretariat to the initiative, carrying out the analysis for the benchmarking and delivering a range of services to NextGeneration members.

In addition, a Steering Group with representatives from the Executive Committee and member companies helps to guide the evolution of the initiative and ensure good governance.

The first output of NextGeneration is this, the 2007 benchmark of the UK's top 20 home builders based on the number of units built during the last financial year (2005/06). The benchmark incorporates two sets of scores: the first that rates the quality of reporting of the sector on sustainability and the second that rates its performance in this area.

The sector and the government face three key challenges in delivering sustainable communities: sustainability, availability and affordability. In light of the importance of all of these issues, the government has pledged to put housing at the heart of its future policy programme and the political agenda that has emerged reflects the prioritisation of housing issues. The government's target is to build three million more affordable and more sustainable new homes by 2020.

Methodology

The benchmarking is undertaken in two phases:

Phase One: A benchmark of the top 20 companies' publicly available information (corporate responsibility reports, annual reports and accounts, corporate websites) to assess their strategy, governance and risk management, impact on the environment and impact on society. All companies are awarded a score to reflect the quality of their reporting.

Phase Two: Eleven of the top 20 home builders have joined NextGeneration as members. Detailed engagement and qualitative evidence review of the members revealed further information of what is going on behind the scenes, in addition to what is reported. Members are awarded a second score to reflect their sustainability practice.

A score of 100% in either phase would not indicate that a company was completely 'sustainable' but that it had achieved best practice as defined by the NextGeneration criteria.

Some companies chose not to disclose more information, stating that they would rather keep some of their initiatives confidential in the belief that they provide commercial advantage. This is a compelling indication of the increasing recognition of the business benefits a strong sustainability programme can yield.

Good progress is evident

It is very encouraging to see many of the UK's largest home builders acknowledging the challenges ahead and coming together through the auspices of NextGeneration to benchmark their performance and share best practice. Some good practice is emerging:

- 70% of home builders report publicly on their approach to sustainability;
- 65% have published a corporate sustainability policy;
- 65% have waste management strategies in place; and
- 60% have set targets to improve the energy efficiency of their homes.

Achieving the government's targets

While the detail of what sustainability encompasses and what a sustainable home is can be debated indefinitely, what cannot be denied is that sustainability is no longer a fringe issue in the home building industry. The current debate concerning the provision of sufficient land, the effectiveness of the planning system, the structure of the home building industry and market demand are all inextricably linked to the delivery of sustainable homes and communities.

The *Housing Green Paper*, the *Code for Sustainable Homes*, the *Building a Greener Future* policy document and the *Draft Strategy for Sustainable Construction* together lay out the government's vision for achieving zero-carbon homes by 2016 and thus set out a demanding agenda and set of standards for home builders.

It is clear from in-depth discussions with the NextGeneration members that they are struggling to keep up with the very rapid pace of change in this area and have yet to fully grasp the implications of sustainability for their businesses:

- While 60% of home builders recognise climate change as a significant issue to the sector, none has a climate change policy in place;
- Only 25% have an understanding of the carbon footprint of their operations; and
- Only 15% of companies have sustainable procurement policies.

The sector will need to change very rapidly if it is to meet government targets. To help facilitate this evolution, the government needs to significantly step up the support it provides to the sector to ensure that developers are able to play their part in delivering sustainable communities. This includes ensuring robust policies and frameworks for implementation are in place. Sector reviews such as the Callcutt Review of Housebuilding Delivery and the Office of Fair Trading market study are welcome, but more recognition and rapid action in order to respond to the pressures faced by the sector is needed.

The evolving marketplace

There is also the remaining question of the marketplace. Choosing a home is not like purchasing other 'products': most, if not all, decisions are driven primarily by location even among the most sustainable consumers. However, several recent surveys have found that most home buyers do care about environmental issues, particularly climate change, and they would like (and indeed expect) a new home to be energy efficient. And while a minority say they would be willing to pay more for sustainability features, most would not – thus presenting developers with a difficult challenge: how to deliver more sustainable homes cost-effectively.

The key findings are summarised below and are expanded upon in the full report, available at www.upstreamstrategies.co.uk

Detailed review of results

The 2007 results show significant variation in the performance of the top 20 home builders with scores ranging from 74.6% to 0%, and a sector average score of 38.8%. NextGeneration members outperformed non-members with average scores of 59.8% and 13.1% respectively. This is not surprising, given that members were able to provide additional non-public information to support their scoring.

Listed home builders (49.0%) also performed better on average compared with the private companies (28.7%). It should also be noted that six companies chose not to fully disclose their approach to sustainability in their corporate reporting or websites, and are also not NextGeneration members. They are Kier Residential, Lovell, Galliford Try, Cala Group, Bloor Holdings and Gladedale Holdings. Their appearance as the bottom six companies does not therefore necessarily reflect their actual sustainability performance, but rather reveals a lack of disclosure in this area. As with any company not currently a member of NextGeneration, we encourage these developers to join their peers and engage with the initiative to showcase their approach to sustainability and performance in this area.

The detail within each of the three sections of the benchmark – strategy, governance and risk management; impact on the environment; and impact on society – reveals commendable areas of best practice and interesting case studies. However, home builders need to translate the best practice they exhibit on a few developments into effective procedures to ensure the delivery of similar standards across all of their developments.

Strategy, governance and risk management

Companies achieved an average score of 50.5% in this section, the highest of the three, reflecting the fact that a number of companies have well-developed strategies in place across their businesses.

Increased disclosure through reporting

As many as 70% of the companies produce a dedicated sustainability report and/or use web sites to disclose their approach to sustainability. For the majority, these reports cover environmental, social and economic performance, providing stakeholders with greater transparency on company performance.

Analysis revealed that while the scope and breadth of sustainability reporting in the home building sector has significantly improved, there are still areas where greater transparency could be achieved – notably risk management, performance data and target setting. This would ensure that companies provide stakeholders with a clearer view of their approach to sustainability, as well as their commitments for the future, and would bring the level of sophistication of their reporting closer to that seen in other industry sectors.

The difference between the Phase One and Phase Two analyses also shows that companies are not including all their initiatives in their public disclosure. Companies with a good degree of disclosure need to ensure that this is as a result of a deliberate strategy to withhold information that may provide them with commercial advantage as opposed to simply neglecting to publish relevant information. Companies lower down the rankings need to get on the first rung of the reporting ladder, ensuring that at least very basic information on their approach to sustainability issues is incorporated in their annual report and accounts, or in a separate report, and on their websites. These forms of communication are the first port of call for many stakeholders.

Strategy and reporting not effectively accounting for value and risks

While 60% of all companies have identified the key sustainability risks faced by their business, only 35% have begun to assess the commercial implications of these risks. This means that few companies are in a position to assess how sustainability adds value to their businesses. Examples of such benefits include:

- Cost savings related to good waste management: Taylor Woodrow, one of four companies to score 100% for construction waste management, disclosed in its 2006 report that the cost of waste per home had decreased to £291 from £351 in 2005 despite increasing landfill tax;
- Health & safety (H&S) insurance savings: one company reported an annual saving of £1 million in its insurance costs due to making improvements in its H&S systems;
- Gaining planning permission: The Berkeley Group disclosed in its 2006 Sustainability Report that it believes that full stakeholder engagement in the planning process at its Kingsway Square development meant it only took 13 weeks to obtain detailed planning permission for the project (including Section 106 agreements), listed build consent and conservation area consent.

These commercial benefits are rarely aggregated and articulated by companies to their investors or others – something that the leading companies should seek to do.

Impact on the environment

Companies scored most poorly on their approach to addressing their environmental impacts, scoring 31.6% on average. This is particularly worrying as environmental issues are at the heart of the government's policy agenda – notably climate change, energy, water and waste.

Climate change issues not being addressed strategically

As arguably the most serious risk facing the housing sector today, and the key sustainability issue in the public consciousness, it might be reasonable to expect that climate change would be at the top of the sustainability agenda for home builders. However, analysis reveals that developers are not yet giving sufficient strategic weight to the key risk of climate change. While 60% of home builders say they recognise climate change as a significant issue for the sector, none of them currently has a climate change policy in place. Failing to address this issue at a strategic level means that companies cannot have a full understanding of the commercial implications – both risks and opportunities – that climate change poses to their business operations.

Some of the key risks include:

- Flood risk (particularly important concerning land acquisition strategies and land banks);
- Adaptability of homes being built for a visibly changing climate;
- Embodied energy in building materials; and
- Energy performance of dwellings.

In addition to the introduction of Energy Performance Certificates, climate change issues feature strongly in the forthcoming Code for Sustainable Homes; developers need to accelerate their efforts to prepare for, and comply with these new legislative and regulatory drivers.

Is the industry prepared for the Code for Sustainable Homes?

Potentially the area of greatest concern in terms of the environment is that the top 20 home builders achieved an average score of just 8.5% for their commitment to EcoHomes. It was clear from the evidence provided by the companies that they have only built homes to EcoHomes standards where required by planning or funding agreements; they have not taken their expertise in the social sector and translated it to private dwellings.

The Code for Sustainable Homes is broadly based on EcoHomes criteria and standards and, indeed, in most cases, exceeds those standards. It is clear that the industry needs to gear up very quickly to meet the statutory requirements for the assessment of dwellings against the Code. Moreover, as local planning authorities start using the Code as a way of setting minimum standards for all dwellings, home builders may find that a consistent approach across both private and affordable housing may be necessary.

The industry also has some more technical and practical challenges to address, such as:

- How will renewable energy requirements be delivered in the face of technological and cost uncertainties? One developer, Crest Nicholson, provided the only example of a zero-carbon development under construction.
- How will considerable reductions in water consumption be achieved and still provide homes that are appealing in the market place? Only 30% of home builders are currently measuring the performance of their dwellings in terms of water consumption.
- How do homes need to be designed to adapt to climate change?

Stepping up to waste legislation

Waste management is an area where home builders have clearly recognised the business benefits of a proactive approach and responded accordingly. With the challenge of impending legislation, 70% of home builders provided evidence of waste management being undertaken on sites, with 50% of companies providing performance data in relation to waste across all sites. However, even in this highest performing of the environment criteria, some home builders were unable to show that they are fully prepared for the Site Waste Management Plans legislation coming into effect in 2008.

Impact on society

Company scores for addressing their impact on society were relatively better than those for managing their environmental impacts, but not as strong as those for governance and strategy. The average score was 43% for all companies.

In much of the current dialogue on sustainability matters, socio-economic issues are a poor relative to the environment, rarely considered beyond the rhetoric of 'building sustainable communities'. Moreover, these issues are not well covered by the Code for Sustainable Homes, which sends the signal to developers that they are less significant. They are, however, important elements of sustainable communities and should be given greater attention. It appears that both government and the industry have focused on a few aspects of sustainability to the detriment of others, i.e. treating the interconnected elements as if they can be de-linked and delivered in a piecemeal fashion, or that certain aspects can just be ignored as they are less important. The reality is that sustainability is a multi-dimensional concept and should be delivered as a package.

Some social issues, such as affordability and design, are not addressed by this benchmark. By their very nature, these issues are relative to local communities and the local context, so it is difficult to benchmark the corporate approach to such issues. However, the Commission for Architecture and the Built Environment (CABE) has a Building for Life¹ standard which includes criteria addressing design issues in more detail.

Maintaining health and safety standards

The sector clearly takes the issue of health and safety seriously. Many of the top 20 home builders are providing evidence of implementing robust health and safety policies and management systems with 70% publicly reporting their RIDDOR² rate. However, with recent increases in the number of fatalities in the construction industry, home builders must continue to focus on this key issue. NextGeneration urges the industry to develop and adopt a standard RIDDOR measurement system, and companies to have their performance in this area externally audited so that the data disclosed is robust.

Sustainability and economic regeneration

While a number of the home builders provide some information about the extent to which they contribute to the local economy and employment, this is an area where they appear to be under-selling themselves. Many socio-economic dimensions of sustainability are the 'glue' that holds communities together; home builders should cover more of their initiatives in this area in their sustainability disclosure, including initiatives to provide access to employment opportunities and to maximise the benefits of inward investment.

A sustainability skills shortage?

Both the Housing Green Paper and the Draft Strategy for Sustainable Construction highlight concern over the lack of skills among the construction workforce needed to deliver sustainable communities on the ground. The Academy of Sustainable Communities has recently released a report, *Mind the Skills Gap: A review of the skills we need for sustainable communities*³, also indicating that there are significant labour shortages and that the skills gap is widening. The NextGeneration benchmark has shown that even the home builders with the most well-developed strategies are not always effectively delivering through their operations, and the sector's skills shortage is a contributory factor. With only half of home builders providing data in relation to the number of Construction Skills Certification Scheme site operatives that carry cards, there are clear training gaps which the industry must fill.

Better housing design

While 65% of home builders were able to provide examples of improving community wellbeing through various initiatives, only two companies provided evidence of achieving the Lifetime Homes standards across all developments. This raises questions as to the adaptability of the homes the sector is building at a time when the consultation document, *The Future of the Code for Sustainable Homes*, is addressing how it envisages the sector achieving Lifetime Homes across developments. While it highlights the need to address design issues in terms of demographic changes, as noted above, it also appears that the sector has not yet begun to think about whether current design techniques can deliver a housing stock capable of adapting to future climate changes.

¹ www.buildingforlife.org/

² RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

³ The Academy for Sustainable Communities, *Mind the Skills Gap – The skills we need for sustainable communities*, 2007, See: www.ascskills.org.uk/download/General/research/mind_the_skills_gap_full_report.pdf

The future

The government has committed to building many more homes each year than it has in the past, to ease a general housing shortage and particularly the dearth of key worker and affordable homes. This offers the prospect of growing revenues for the sector. But at the same time, the government has said that the industry must deliver sustainable homes to contribute to the 60% decrease in greenhouse gas (GHG) emissions the UK needs to achieve by 2050 – a commitment that will be embedded in law when the Climate Change Bill is passed in 2008. This challenge only becomes more pertinent in light of WWF-UK and other organisations calling for the government to increase this target to 80%.

Those companies that can capitalise on the building boom and find the most cost-effective ways of building sustainable homes will be tomorrow's winners. Critical to success will be investment in innovation and a willingness to break from the past to design and deliver homes that are both efficient and adaptable to the changing but uncertain future climate.

We therefore make the following recommendations to both industry and government in the hope that home builders will rise to the challenges of delivering sustainable communities and the government will provide the necessary support to help the sector achieve this.

Recommendations to the industry

- Seek to understand and better articulate the commercial implications – both risks and opportunities – of the sustainability issues facing the sector.
- Seek to understand the commercial value of sustainability to core business operations and include commentary on this in financial presentations.
- Develop a strategic approach to climate change by introducing corporate policies and setting short- and long-term targets aligned to the government's targets to reduce carbon emissions of both operations and product.
- Innovate and experiment to understand the commercial, technical and customer implications of building homes to the levels in the Code for Sustainable Homes and publicly share best practice.
- Implement a communications strategy to address how sustainable housing can be better marketed to the customer and to promote more sustainable lifestyles among occupiers.
- Think holistically about operations to ensure that cost savings in sustainable materials specification and construction waste management are captured by the whole business.

Recommendations to the government

- Ensure that the recent plethora of policy documents and legislation provides clear guidance for home builders in terms of achieving the 2016 zero-carbon housing target; indeed, provide a consistent definition of 'zero-carbon'.
- Ensure that future iterations (for example, the proposed review in 2010) of the Code for Sustainable Homes are holistic in their approach to addressing sustainability issues.
- Ensure the Code for Sustainable Homes is consistent with standards being set in other policy documents and legislation.
- Introduce incentives/sanctions to encourage home builders to build more sustainable housing.
- Ensure fiscal measures are in place to help home builders realise the commercial benefits of building sustainable housing – notably through stamp duty exemption and council tax reductions.
- Take a leading role in marketing sustainable homes to the house buying market.

We hope the findings of this process will enable home builders to identify the key challenges and opportunities, respond to these with clarity and assist government in understanding the very practical barriers that the sector has to overcome.

A full copy of the report is available at www.upstreamstrategies.co.uk

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