INVESTING IN SUSTAINABILITY

Progress and performance among the UK's listed house-builders – revisited

SEPTEMBER 2005

Part of WWF's One Million Sustainable Homes Campaign

WWF

Insight INVESTMENT

HBOS plc

Foreword

HBOS plc, the parent company of Insight Investment, is one of the UK's largest financial services companies. Our commitment to corporate responsibility means that, as an organisation, we are accountable for our social, economic and environmental impacts on all our key stakeholders, such as customers, institutional and individual investors, colleagues, suppliers, and local and national government. Our commitment to corporate responsibility is set out in our statement of business principles called *The Way We Do Business*. The statement details the fundamental values and behaviours to which we aspire and to which we are committed. By doing things right, we believe that our customers, colleagues and shareholders will do well financially. We actively look for ways in which we can demonstrate our values through our day-to-day business activities.

The housing sector is one of the most significant business areas for HBOS and our many brands. Our share of the net UK mortgage market is 17 per cent and we are a major player in the home improvement loan and home insurance markets. The name Halifax is synonymous with our monthly House Price Index. We also have extensive corporate relationships throughout the sector, with equity investments, banking and lending relationships with most of the UK's house-builders – public and private. Bank of Scotland is also the largest lender to registered social landlords in the country.

As one of the UK's largest providers of finance to the housing sector, we recognise that we have the opportunity, and enormous potential, to promote greater sustainability in that sector. To that end, for the last three years we have been working in partnership with WWF – the global environmental organisation – in support of its One Million Sustainable Homes campaign, which is successfully helping to move sustainability from the fringes to the mainstream of UK housing. We concur with WWF that our homes and lifestyles lead to a wide range of environmental impacts – including emissions of high levels of the gases that cause climate change. If the UK is to achieve its greenhouse gas emissions reduction targets, much greater levels of energy efficiency must be achieved in both the new build sector and in existing housing stock. We are therefore exploring ways in which we might raise awareness of, and help to finance, greater energy efficiency among our customers through our marketing and our financial products.

We also continue to pursue a policy of responsible investment, through our asset manager Insight Investment. Insight works actively to promote high standards of corporate governance and corporate responsibility in the companies in which it invests. For over two years, Insight has been working with WWF to analyse and engage with major UK-listed developers on sustainability issues. In January 2004, we published the first benchmark of house-builders' performance and reporting on sustainability. This report follows up that work, charting the progress that those companies have made in demonstrating their commitment to sustainable development, both in terms of how they build their homes and how they report to stakeholders. I hope you will find the results encouraging, as I do.

Phil Hodkinson

HBOS plc, Finance Director and Director of Corporate Responsibility

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Executive summary

This report is the result of a partnership between Insight Investment, the asset manager of HBOS plc, and WWF-UK.

HBOS is one of the UK's largest providers of finance to the housing sector. As such, the company recognises that it has enormous potential to promote greater sustainability in that sector. To that end, for two years, HBOS has been working with WWF – the global environmental organisation – in support of its One Million Sustainable Homes (OMSH) campaign. Together, these two organisations have been exploring ways to move sustainability from the fringes to the mainstream of the UK housing sector. To achieve this, we are raising awareness of the environmental and social impacts of people's homes, and exploring incentives, such as new financial products, that would promote more sustainable lifestyle choices.

HBOS pursues a policy of responsible investment through its asset manager Insight Investment. Insight works actively to promote high standards of corporate governance and corporate responsibility in the companies in which it invests. In support of the OMSH campaign, Insight has been working with WWF over the last two years to analyse and engage with major UK-listed developers on sustainability issues. In January 2004, the first benchmark of UK listed house-builders' performance and reporting on sustainability was published, based on analysis carried out during 2003[1]. This report follows up that work, charting the progress that those companies have made in demonstrating their commitment to sustainable development, both in terms of how they build their homes and how they report to stakeholders[2].

RESULTS

Insight Investment and WWF are encouraged by, and strongly welcome, the substantial improvement in the practices and reporting of all 12 house-builders assessed in this year's benchmark, as demonstrated by the companies' much improved scores in Table I below. Nevertheless, there is still significant scope for improvement, as explained in detail in the report.

All companies were assessed against an extensive set of criteria that measure their approach to strategy and risk management, and how they address their impact on the environment and on society[3].

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[1] The analysis for the 2003 assessment was based on information available and engagement up until the end of September 2003. The full report, Building Towards Sustainability: Performance and progress among the UK's leading house-builders, was published in January 2004 and can be found on WWF's website: www.wwf.org.uk/sustainablehomes. Thirteen companies were included, Countryside Properties among them.

[2] The analysis for 2005 was based on reported information available at 31 May 2005 and further engagement with companies up until the end of July 2005. Only 12 companies were included; Countryside Properties declined to take part following its privatisation earlier in the year.

[3] The criteria are available in Appendix 1 of the report.

Table I: Overall average scores

	2003 average	2005 average
Scores based on engagement	47%	68%
Scores based on reporting	35%	52%

On the whole, the companies now demonstrate a better understanding of the relevance of sustainability issues to their business. This appears to be driven by two important factors: first, at a corporate level, the increased emphasis on non-financial risks and opportunities, and secondly, at a project level, through increasingly demanding planning requirements.

The majority of companies engaged actively, providing detailed evidence and feedback throughout the assessment. We believe that the companies have performed much better in this year's analysis in part due to the ongoing, constructive dialogue maintained between the companies, Insight and WWF over the last two years.

Box 1: Housing's contribution to the UK's Ecological Footprint

WWF's Living Planet Report 2004[4] states that we are no longer living within the sustainable limits of our planet. If everyone in the world lived as we do in Europe, it would take three planets to sustain the global population. The environmental impact of the housing sector is already considerable. Household energy and water consumption is placing some of the greatest pressure on the global environment. Our homes account for around 30 per cent of the UK's carbon emissions, and 56 per cent of all water use. In addition to the lifetime environmental costs of housing, the construction process can place a huge drain on our natural resources: the construction industry produces 70 million tonnes of waste materials per year. A staggering 19 per cent of this total, or 13 million tonnes, consists of materials that are delivered to site and never used. Fifty-five per cent of all timber used in the UK is used in housing construction[5]. It is therefore clear that were houses built according to sustainable principles, we could significantly reduce resource consumption and increase resource efficiency, reducing our ecological footprint.

MARKET LEADERS

There are three clear leaders in this 2005 benchmark: Crest Nicholson (84 per cent), The Berkeley Group (84 per cent) and George Wimpey (83 per cent). These three developers stand out because they take an increasingly comprehensive, strategic and systematic approach in responding to policy and market imperatives to deliver sustainable homes and communities. They have integrated sustainability into their business strategies and have set clear objectives and measurable targets for the business as a whole. And, because they have begun to collect data across all operations, they are able to monitor their progress in achieving those objectives and targets. They can provide numerous examples of good practice on a range of issues at site-

[4] The Living Planet Report: http://www.panda.org/news_facts/publications/general/livingplanet/index.cfm

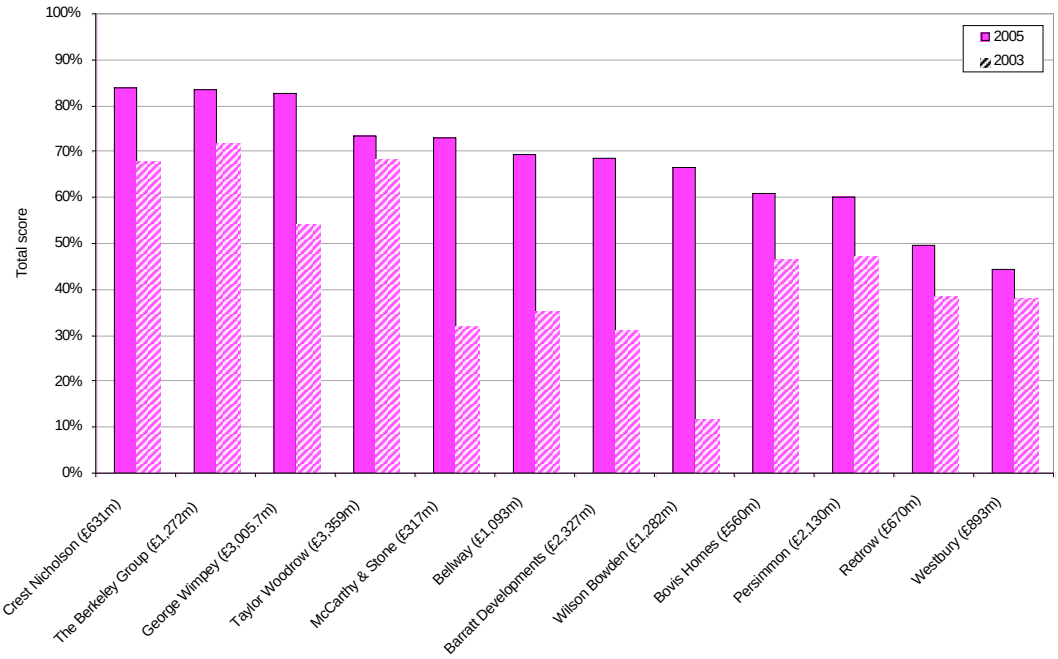
[5] The majority of facts in this section were taken from the House of Commons Environmental Audit Committee Report, Housing: Building a Sustainable Future, First Report of Session 2004/05.See: http://www.publications.parliament.uk/pa/cm200405/cmselect/cmenvaud/135/135.pdf

level, and have begun to understand how their sustainability initiatives add value to their businesses.

However, other house-builders appear to be finding it difficult to keep pace with the evolution of government policy, particularly within the planning process, and are failing to put together comprehensive programmes to respond effectively; their approach is still principally compliance driven, and operates on a site-by-site basis.

As shown in Figure I below, 10 of the 12 companies score 60 per cent or above, compared with only three in the 2003 assessment; and the difference between the highest and lowest scoring companies was much reduced, to 42 per cent, this year. The rankings have also changed considerably.

Figure I: Company ranking based on scores after engagement, in 2003 and 2005



REPORTING LAGS PRACTICE

Perhaps surprisingly, despite the increased quality of the disclosure across the sector, companies' reporting still does not fully reflect their increasingly good practices. This suggests that they need to work harder to ensure that their reporting provides a full and fair reflection of their sustainability programmes in order to gain full recognition from stakeholders of their efforts to address the social and environmental impacts of their developments.

Table II: Comparison of scores based on reporting and scores based on engagement

Company	Scores based on reporting	Scores based on engagement
Crest Nicholson	72%	84%
The Berkeley Group	72%	84%
George Wimpey	60%	83%
Taylor Woodrow	58%	74%
McCarthy & Stone	52%	73%
Bellway	56%	70%
Barratt Developments	59%	69%
Wilson Bowden	37%	67%
Bovis Homes	52%	61%
Persimmon	50%	60%
Redrow	33%	50%
Westbury	29%	45%

ACROSS THE BOARD IMPROVEMENT

As shown by the graph below, companies' scores improved on all three sets of criteria.

Figure II: Average score based on engagement by section, in 2003 and 2005

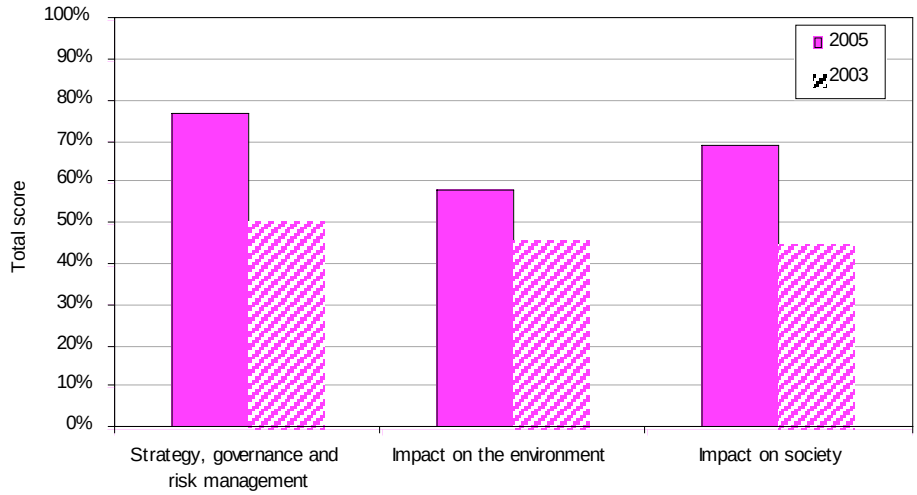


Figure II shows that, since the previous analysis, performance has increased in all aspects of sustainability assessed. The most noteworthy improvement was in relation to the strategy, governance and risk management criteria. Scores in relation to the environmental and social

criteria have not increased as much; this is in part because it is more difficult for companies to deliver strong environmental and social performance on-the-ground and provide evidence of having done so.

Box 2: Methodology

Twelve house-builders are analysed in this year's report – the same companies as in the first benchmarking assessment, with the exception of Countryside Properties which declined to be included in this year's analysis following the company's privatisation earlier this year. All companies are listed on the FTSE All Share, and together account for approximately 41 per cent of all housing units completed in the UK in 2004.

The companies were evaluated using the same criteria as in the previous benchmark conducted in 2003. The criteria are grouped under three sections – Strategy, Governance and Risk Management, Impact on the Environment, and Impact on Society.

The following commentary provides a summary of the findings of the companies' performance in each of the three areas.

COMPANIES NEED TO TAKE A MORE STRATEGIC APPROACH TO SUSTAINABILITY

In common with the 2003 analysis, companies scored most highly on the first set of criteria. These are designed to assess: the extent to which companies' boards are driving their programmes to address sustainability; how well companies are assessing sustainability-related business risks; whether they are dedicating sufficient resources to implementing sustainability initiatives; and whether they are adopting appropriate policies and reporting on their efforts to operate more sustainably.

On the whole, the companies have significantly improved their scores in this area – this year the average score was 75 per cent compared to 50 per cent in 2003. Scores improved on all criteria in this section of the assessment, but particularly for risk management and board commitment. Most companies' boards now consider sustainability issues on a regular basis. However, few companies were able to articulate effectively a coherent and comprehensive sustainability strategy, either in their reports or during the engagement process. Most still seem to employ a more piecemeal and reactive approach, resulting in a series of ad hoc initiatives. Ideally, companies should have a clear sustainability strategy, with specific priorities and objectives, to provide coherence and direction to the business, arrived at by assessing key business risks and opportunities.

Furthermore, none of the companies explicitly states how addressing sustainability contributes to business and financial performance in their annual report and accounts. To provide greatest relevance to investors, companies should seek to demonstrate how sustainability supports or enhances shareholder value. Performance data and information on cost savings and other fiscal benefits should be included in financial reporting as data becomes more robust and reliable.

MORE CONCERTED EFFORTS ARE NEEDED TO REDUCE ENVIRONMENTAL IMPACTS

All companies also improved their scores in relation to their management of environmental impacts. The average score in this regard has increased from 46 per cent in 2003 to 58 per cent this year. However, this was the lowest score of all three sections and where performance has improved least compared to the last analysis. (This is partly due to the large number of criteria against which companies are assessed, and the level of data required to demonstrate good practice.)

Scores improved for all the environmental issues covered by the analysis, with the exception of transport. Perhaps not surprisingly, the greatest improvement was in areas where regulatory or planning requirements have been tightened (for example, the use of EcoHomes standards has been significantly influenced by the requirements of the social housing sector), or where the greatest immediate financial savings could be made (for example, construction waste). Encouragingly, at least one company was able to provide an example of very good performance on every single issue; were these simply to be adopted more widely, the environmental impacts of house-building in the UK could be reduced enormously.

Notably, none of the companies has yet adopted a comprehensive strategy on climate change, either in terms of addressing how climate change might impact their business nor in terms of how they could contribute to reducing the greenhouse gas emissions of their developments or their customers' lifestyles. Even average Standard Assessment Procedure ratings vary substantially between companies.

Most companies are not using their considerable purchasing power to encourage suppliers to offer more environmentally sound products. The developers are still in the early stages of developing environmental procurement policies and engaging with their suppliers to ask them to supply materials and products with high environmental standards. Even where they do demand certain standards, such as FSC-certified timber, they do not have systems to verify that the products they receive meet those standards.

A notable weakness in almost all of the companies assessed was that they failed to set clear targets on a range of environmental issues or to present performance data in relation to key impact areas, thus making it hard to compare their performance year-on-year, or to that of their peers.

MAXIMISING POSITIVE SOCIAL CONTRIBUTION

Companies have also improved their scores on the 'impact on society' criteria; they have increased from 45 per cent in 2003 to 69 per cent this year, demonstrating better performance against all criteria. However, the socio-economic facets of sustainability are often the least developed aspects of companies' sustainability strategies.

Health and safety is clearly one of the highest priorities for house-builders – their scores on this issue have improved significantly. It is therefore encouraging to find that performance in this

area has improved since 2003. Ten out of the 12 companies publicly disclose their reportable[6] injury (or RIDDOR) rate, compared to only four companies in the previous survey. However, they typically do not report those rates per 1,000 or 100,000 employees; were they to do so, a more meaningful comparison would be possible year-on-year, and in comparison to other developers.

The companies' scores for stakeholder engagement have also improved since the last assessment, although there is still a considerable gap in understanding with regards to best practice in stakeholder engagement processes. Few companies have yet fully identified, at group level, their key stakeholders and developed strategies to engage with them and address their concerns systematically. And many simply undertake stakeholder consultation exercises, rather than genuinely involving the community in the project design.

Increasing the provision of affordable housing is a key element of the government's sustainable communities plan and thus an important issue facing developers, especially those that operate in the south of England, where supply is weakest. Some of those companies surveyed have, or are developing, strategies to deliver affordable housing, rather than simply responding on an ad hoc basis to planning authority demands. However, many companies are reluctant to expand into this sector because margins are much lower than on private housing.

Providing employment and training are valuable ways in which companies can demonstrate their contribution to this dimension of sustainability. It was therefore encouraging to find that the number of companies addressing employment issues had substantially increased. Several companies provided examples of how they have worked with local employment agencies or other appropriate partners to provide opportunities for local people and/or the long-term unemployed.

How people live, work, travel and consume in their day-to-day lives makes a significant contribution to the impacts of homes over their lifecycle. While some of the companies are starting to engage more actively with their customers to promote more sustainable lifestyles, few companies do so consistently for all developments. The majority of companies do not provide information to their customers about the often-impressive environmental characteristics of their homes, nor about how they could lead more sustainable lifestyles once they move into their homes. Developers are therefore missing a valuable opportunity to enhance their reputation and demonstrate how their development will enhance their customers' quality of life, both by reducing occupants' environmental impacts and by saving them money.

CONCLUSIONS AND RECOMMENDATIONS

The increasing emergence of drivers for sustainable homes coupled with the increasing demand for new homes in the UK now makes an even more compelling and urgent case for house-builders to integrate sustainability into their business strategies. Business benefits available to companies can include: gaining planning permission more easily; winning more contracts with clients or partners that demand high sustainability standards; mitigating business risks; making

[6] RIDDOR reportable incidents are all incidents that are legally reportable under the UK Reporting of Incidents, Diseases and Dangerous Occurrences Regulations 1995.

savings through greater efficiency and lower resource use; enhancing their reputation with a wide range of stakeholders and differentiating themselves within the market.

The extensive analysis of, and dialogue with, 12 major UK house-builders over the five months of the benchmarking process has yielded a number of recommendations for both companies and government, which we hope will be of value and widely adopted.

Recommendations for house-builders

All UK house-builders, publicly listed and privately owned, should, with respect to sustainability strategy and management systems:

1. Take a strategic, proactive and systematic wide approach to addressing sustainability issues.
2. Adopt a comprehensive, board-approved sustainability policy that integrates environmental, social and economic issues and relates clearly to the overall business strategy.
3. Set clear objectives, management and performance targets and develop a group-wide strategy for measuring and achieving them. Commit to continuous improvement.
4. Establish more rigorous and formal procedures to identify and manage non-financial risks. Integrate these into the central risk register and ensure that the board or a board committee reviews these risks regularly.
5. Articulate clearly in annual reports and accounts how the company's sustainability programmes mitigate risk and add value to the business. Prepare to report according to the new Operating and Financial Review standard from 1 April 2006.
6. Develop a communications strategy and reporting protocol that utilises annual reports, sustainability reports, the group's website(s), media and marketing releases. Report against selected key performance indicators and normalise data to allow comparison year-by-year and between companies.
7. Identify all key stakeholders at group and site level and develop a strategy to engage with them proactively and regularly.
8. Innovate and experiment with new technologies and solutions to environmental and social problems; roll out successful initiatives across all operating units. Encourage units to share ideas and solutions. Partner with expert organisations to share risk and costs.

The final report also includes detailed recommendations concerning each of the impact areas covered by the survey. In particular, the issue of climate change is highlighted as a key impact area that WWF and Insight recommend house-builders address at both a strategic and project level.

Recommendations for the government

1. Ensure that planning policy and supporting guidance is applied consistently across the UK.
2. Produce clear guidance to accompany PPS1, including definitions of sustainability.

3. Recommend the use of Regional Sustainability Checklists for Developments alongside planning policy, to complement the Code for Sustainable Buildings when it is introduced.
4. Ensure that the Code for Sustainable Buildings sets standards no less demanding than the EcoHomes 'Very Good' standard and encourage, and provide incentives for, its uptake within the industry.
5. Ensure better enforcement of building regulations and adopt the principles proposed by Hampton of adopting a lighter touch compliance regime with companies that perform well on sustainability issues, as demonstrated by analyses such as this.
6. Provide clearer guidance regarding the role of house-builders in delivering the social objectives of sustainable communities, and explore initiatives with them to achieve those objectives.
7. Introduce fiscal incentives to stimulate and reward developers and householders who adopt more sustainable practices.
8. Engage proactively with other private sector actors in the housing market to explore whether new products and services could be introduced to help to achieve its vision of sustainable communities in the UK.

Insight and WWF hope that companies will continue to make progress towards building more sustainable communities and stand ready to support their efforts, and those of the government, in doing so.

Introduction

THE HBOS/WWF PARTNERSHIP

WWF launched its One Million Sustainable Homes (OMSH) campaign at the World Summit on Sustainable Development in Johannesburg in 2002. The aim of the campaign is to move sustainability from the fringes to the mainstream of UK housing and to help bring about the development of a million new and refurbished sustainable homes by 2012.

WWF's extensive consultation with a wide range of stakeholders at the early stages of the OMSH campaign revealed six central barriers to more sustainable housing, one of which was the perception that the financial community was uninterested in the sustainability of the housing sector. As outlined in the foreword, in 2003, WWF approached HBOS, one of the UK's largest providers of finance to the housing sector, to propose that the two organisations work together, to explore ways of promoting sustainability in the UK housing sector and the links between sustainability and business performance.

As part of that initiative, Insight Investment, the asset management business of HBOS, and WWF set out to analyse how well 13 listed UK house-builders understood, and were responding to the imperative of sustainable development. The results of that analysis, undertaken in 2003, were published in our first report *Building Towards Sustainability* in January 2004. Between March and August 2005, we repeated the analysis, using the same criteria, to assess the progress made by 12 of those companies[7]. This report sets out our findings.

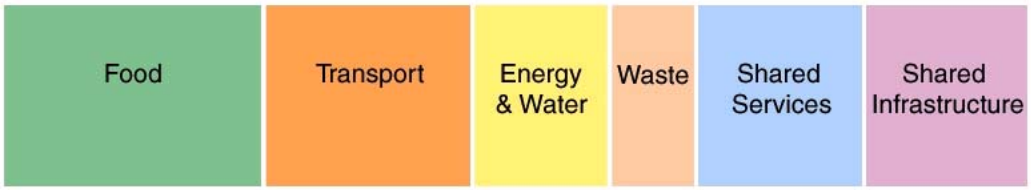
THE IMPACT OF HOUSE-BUILDING IN THE UK

If everyone in the world lived as we do in Europe, it would take three planets to sustain the global population. WWF's *Living Planet Report 2004*[8] demonstrates that we are no longer living within the sustainable limits of our planet. Our ecological footprint – the area required to produce the food and fibre we consume, absorb the waste from our energy consumption, and provide space for our infrastructure – already exceeds the Earth's biologically productive area by 21 per cent.

[7] Countryside Properties is not included in this year's analysis following the company's privatisation earlier this year.

[8] The Living Planet Report: http://www.panda.org/news_facts/publications/general/livingplanet/index.cfm

THE UK'S THREE PLANET LIFESTYLE



Adapted from *'Taking Stock'* - An Ecological Footprint of the South East, 2003, SEI et al

The environmental impact of the housing sector is already considerable. Household energy and water consumption is placing great pressure on the global environment. Our homes account for around 30 per cent of the UK's carbon emissions, and 56 per cent of all water use. In addition to the lifetime environmental costs of housing, the construction process can place a huge drain on our natural resources: the construction industry produces 70 million tonnes of waste materials per year. A staggering 19 per cent of this total, or 13 million tonnes, consists of materials that are delivered to site and never used. Fifty-five per cent of all timber used in the UK is used in housing construction[9]. It is therefore clear that were houses to be built according to sustainable principles, we could significantly reduce resource consumption and increase resource efficiency, thus reducing our ecological footprint.

From a social perspective, the nature and quality of the built environment can play a significant role in communities' well-being:

- Seventy-nine per cent of people living in the least deprived areas of the UK enjoy where they live, compared with 46 per cent in the most deprived areas[10].
- 8.6 million people aged 16 and over declare themselves to be disabled, representing 15 per cent of the UK population[11]. This is a significant proportion of the population, and highlights the need for buildings to be built with flexibility and ease of use in mind.

[9] The majority of facts in this section were taken from the House of Commons Environmental Audit Committee Report, *Housing: Building a Sustainable Future, First Report of Session 2004/05*. See: http://www.publications.parliament.uk/pa/cm200405/cmselect/cmenvaud/135/135.pdf

[10] HM Government, *Securing the Future – delivering UK sustainable development strategy*, 2005.

[11] Disability Online for CSR Practitioners: Keeping Global Business in Touch. See: http://www.employers-forum.co.uk/www/pdf/DisabilityOnline.pdf.

- Estates designed using the Secured by Design (SBD) principles of 'designing out crime' experience between 54 per cent and 67 per cent less crime than equivalent non-SBD estates[12].
- A recent survey by Halifax found that nurses are priced out of the housing market in 93 per cent of the UK's towns and cities, as are 90 per cent of fire-fighters, 77 per cent of teachers and 71 per cent of police officers[13].

While new homes built every year in the UK are the equivalent of only 1 per cent of the existing housing stock, their environmental and social impacts are significant and look set to mount. The government's Sustainable Communities Plan, published in 2003, projected that total building rates will need to increase to around 180,000 houses per year until 2016 to meet housing demand[14]. Following this, in March 2004, the Barker Review concluded the current rate of private house-building in England (approximately 140,000 new homes per year) would need to nearly double to reduce house price inflation. This would involve increasing the number of completions by between 70,000 to 120,000 units a year, to around 260,000 completions per year[15].

Major house-builders are viewed by the government as being instrumental in enabling it to deliver its Sustainable Development Strategy; they are therefore likely to come under increasing pressure to address the immediate and long-term impacts of their developments. The government has outlined its commitment to tackle those impacts through introducing new legislation, planning policy and building regulations, and has called on other stakeholders to work with it to identify and implement other measures to reduce the sector's environmental impacts and maximise its positive contribution to society.

THIS REPORT

The rest of this report provides:

- A summary of the key factors that have emerged since the first assessment undertaken in 2003 that are driving house-builders to address sustainability.
- Detailed analysis of the findings of the 2005 benchmarking analysis, highlighting where progress has been made and challenges for the future.
- A series of conclusions and recommendations addressed to both government and developers.

[12] Secured by Design Focus, Winter 2000/01. See: http://www.securedbydesign.com/focus/issues%5CSbD_Focus_Issue_1.pdf

[13] Halifax Key Worker Annual Review, 2005. See: http://www.hbosplc.com/media/includes/21.05.05%20Key%20Worker%20Affordability.doc

[14] House of Commons Environmental Audit Committee Report, Housing: Building a Sustainable Future, First Report of Session 2004/05. See: http://www.publications.parliament.uk/pa/cm200405/cmselect/cmenvaud/135/135.pdf

[15] www.hm-treasury.gov.uk/media/0F2/D4/barker_review_report_494.pdf

The business case for sustainability

The first report, published in January 2004, outlined why sustainability is a key business issue for UK house-builders and outlined the business case for responding to it. Since then, the drivers for house-builders to embed environmental, social and ethical responsibilities into their businesses have strengthened and show no signs of abating.

THE PUBLIC POLICY CONTEXT

"Creating Sustainable Communities means putting sustainable development into practice. Sustainable Communities must combine social inclusion, homes, jobs, services, infrastructure and respect for the environment to create places where people want to live and work now and in the future" *– Rt. Hon. John Prescott MP, Deputy Prime Minister, February 2005*

In January 2004, the government published its revised sustainable development strategy *Securing the Future*. Building on the Sustainable Communities Plan, the strategy focuses on the need to create "sustainable communities in the UK that embody the principles of sustainable development at a local level". In addition to focusing on the environmental impact of the homes we live in, the strategy also highlights the need to address the social dimensions of creating sustainable communities. The government sets out in the strategy how it intends to meet the priorities it has set itself. In some cases this is through existing pieces of legislation; in other cases it will be through amending existing legislation or through the introduction of non-statutory initiatives.

Since we produced our last report, several new government Acts have been passed that seek to place sustainability at the heart of policy on the built environment. These include:

- The Sustainable and Secure Buildings Act 2004, which has extended the power of the Secretary of State to make building regulations for the following purposes: furthering the protection or enhancement of the environment, facilitating sustainable development, and furthering the prevention or detection of crime.
- The Planning and Compulsory Purchase Act 2004, which introduced the statutory purpose for planning to achieve sustainable development and to find more innovative ways of consulting local communities. Regional and local planning bodies will be required to demonstrate how Local Development Frameworks contribute to sustainable development.

In addition to these legislative changes, the government has also demonstrated its commitment to sustainable housing through its own procurement of new housing. A particularly important development in this regard is the proposed Office of the Deputy Prime Minister (ODPM) Code for Sustainable Buildings, highlighted in Box 1.

Box 1: The Code for Sustainable Buildings

In May 2004, the Sustainable Buildings Task Group published *Better Buildings, Better Lives*, detailing its recommendations for improving the sustainability of dwellings. One of the main recommendations was that a single national Code for Sustainable Buildings (CSB) should be established. The Group recommended that this Code should be non-statutory and be based on the Building Research Establishment's (BRE) EcoHomes and BREEAM codes, setting standards above those set out in the building regulations.

The government acted on these recommendations and set up a senior steering group to take the Code forwards in December 2004. A draft of the Code will go out for public consultation in autumn 2005, and the government has stated its commitment to requiring that all publicly-funded housing meets the Code's standards from April 2006. Given that government agencies including English Partnerships and the Housing Corporation are already committed to requiring BRE EcoHomes 'Very Good' standard from that date, the Code is expected to build on this and demand higher performance in relation to energy, water, waste and materials. Once established, the Code could provide an important benchmark quality standard in the housing market that may become of increasing interest to home-buyers and occupiers, as well as mortgage lenders and insurers.

It will be for the government to monitor the uptake of the Code by private developers. It is hoped that the sector will embrace the Code, also embracing the Code's standards in its private developments. It is uncertain whether this aspiration will be borne out; in the past, other voluntary codes (such as EcoHomes) have had limited uptake within the private sector without government intervention.

EFFECTIVE, LOW-COST COMPLIANCE WITH REGULATION

The government has indicated that it is committed to introducing new legislation and tightening existing legislation to achieve the objectives of the Sustainable Communities Plan. Companies need to be aware of emerging legislation, understand its implications for their business and prepare carefully to comply with it in the most cost-effective way possible. While some companies have ad hoc mechanisms in place to monitor forthcoming legislation and changes to regulation, formal sustainability management systems offer the most reliable way of doing this.

The critical issues of climate change and energy use are particularly high on the government's agenda. In the Energy White Paper *Our energy future: creating a low carbon economy*, the government committed to cutting carbon dioxide emissions by 60 per cent by 2050. As part of its pledge to reduce emissions, the government has committed to raising the average energy efficiency of domestic homes by a fifth by 2010 compared to 2000. The two most important legislative drivers at present are the EU Energy Performance in Buildings Directive, which will apply primarily through changes to Part L, and the introduction of the Home Information Pack in 2007, which will require energy labelling of all homes for sale. The government expects that changes to Part L of the Building Regulations in 2005 will deliver significant carbon savings, with the new revisions expected to demand a 20-25 per cent increase in the energy efficiency of new dwellings over 2002 standards.

Other significant legislative developments that house-builders should be aware of, and prepare to comply with, include:

- The Future of Transport White Paper, which was launched in July 2004. It examines the factors that will shape travel and transport over the next 30 years, and sets out how the government will respond to the increasing demand for travel, maximising the benefits of transport while minimising the negative impact on people and the environment.

- The Hazardous Waste (England and Wales) Regulations and the List of Wastes (England) Regulations, which came into force on 16 July 2005 replacing the Special Waste Regulations. As part of these regulations, any business producing hazardous waste now has a legal duty to register with the Environment Agency the premises where hazardous waste is produced.
- The Disability Discrimination Act 1995 (DDA), which has been implemented in phases. The final phase, Part III – Access to Goods and Services, was enacted in October 2004, and gives disabled people rights of access to everyday services.
- Part M of the Building Regulations – Access to and Use of Buildings (2004 Edition) – which sets out new requirements for access to and use of new buildings.
- The Work at Height Regulations, which came into force in April 2005. These regulations will impact heavily on the construction industry where falls from height remain the single biggest cause of falls and fatal injuries.

Moreover, the government is currently reviewing its approach to regulation and its enforcement, with a view to cutting red tape. Earlier this year, it commissioned the Hampton Review, to assess how it could reduce the regulatory burden on business. Hampton recommended that businesses with the poorest records of meeting regulatory requirements should face the strictest compliance regime, and those with the best records, the lightest. Were this approach to be adopted, those companies that demonstrate robust sustainability policies, good governance systems and evidence of resulting good performance would more easily demonstrate compliance with regulation and therefore be better placed to avoid a burdensome enforcement regime.

RISK MANAGEMENT

Companies face a wide range of non-financial risks. These can be broadly categorised as litigation risk, regulatory risk, strategic risk, operational and technical risk, and brand and reputation risk. Environmental and social factors can generate each of these categories of risk – and thus need to be quantified and managed just as effectively as more familiar financial and business risks. Effective sustainability strategies, policies and management systems can contribute to companies' ability to do this.

"The planning system is key to achieving sustainable development. The Government's new planning policy statement Delivering Sustainable Development (PPS 1) sets out our vision for planning in England and the key policies that underpin it. PPS1 makes clear that sustainable development is at the heart of the planning system" – *Securing the Future: delivering UK sustainable development strategy, 2005*

As the government places greater emphasis on sustainable development within the planning system, developers are facing increasing pressure to address sustainability issues at the planning stage. In its new sustainable development strategy, the government identified the creation of sustainable communities as one of the four priorities for immediate action and emphasised that it sees the planning system playing a key role in delivering this priority. Specifically, developers will be required through planning obligations to ensure that "development is acceptable and in line with sustainable communities policies".

Key developments in the last two years include the publication of *Planning Policy Statement 1: Delivering Sustainable Development*, which sets out the government's "overarching planning policy on delivering sustainable development through the planning system". PPS1 states that it is the government's objective that sustainable development is the core principle underlying planning. Other planning documents published since the last report, and that make significant reference to sustainability and the planning system, include: *PPS 10: Planning for Sustainable Waste Management*, *PPS 22: Renewable Energy*, *PPS 23: Planning and Pollution Control*, and an update to *Planning Policy Guidance 3: Housing: Planning for Sustainable Communities in Rural Areas*. The government has also signalled that *Planning Policy Guidance 25: Development and Flood Risk* will be revised and strengthened as part of its overall approach to addressing flood risk.

At a regional level, with part-funding from ODPM, WWF and BRE are working in partnership with each English region to develop region-specific Sustainability Checklists for Developments. Building on the existing BRE/South East England Development Agency (SEEDA) 'South East Checklist', the aim is to create a straightforward and comprehensive tool for planners and developers to assess the likely sustainability performance of development proposals. The tools will be based on a consistent national framework, but tailored to key regional policies and issues, and will provide a common language and understanding between developers and planners about the types of sustainability issues that should be considered. The intention of WWF and ODPM is that the Sustainability Checklists for Developments will directly complement the Code for Sustainable Buildings (see Box 1) and regional planning policy to ensure that developers receive clear and consistent guidance.

At a local level, the number of Local Planning Authorities with additional planning requirements relating to sustainability issues is growing. An increasing number of authorities have developed their own sustainability checklists to appraise developments, many of which have Supplementary Planning Guidance (SPG) status. Examples of adopted Sustainability SPGs from London and the South East include: Kent County Council: *Kent Design Guide*; Surrey County Council: *Surrey Design Guide*; London Borough of Brent: *Sustainable Design & Construction & Pollution Control SPG19*; London Borough of Hounslow: *Sustainability Checklist*; London Borough of Merton: *Sustainable Development*; and City of Westminster: *Sustainable Buildings*.

The Greater London Authority (GLA) is also providing a strong driving force for sustainable buildings in London. The London Plan provides an overall development strategy for the capital, with sustainability very much at its heart, including the following objectives:

- optimising the use of previously developed land and vacant or underused buildings;
- using a design-led approach to optimise the potential of sites;
- ensuring that development occurs in locations that are currently, or are planned to be, accessible by public transport, walking and cycling;
- ensuring that development occurs in locations that are accessible to town centres, employment, housing, shops and services; and
- ensuring that development takes account of the capacity of existing or planned infrastructure including public transport, utilities and community infrastructure, such as schools and hospitals.

To support the London Plan, the Mayor is producing Supplementary Planning Guidance and best practice guidance on several issues including sustainable design and construction, affordable housing, accessible environments, biodiversity and open spaces. In addition to these documents, a number of the Mayoral Strategies will also impact both directly and indirectly on the built environment, which cover air quality, biodiversity, economic development, culture, transport, energy and waste. The standards being set by the Mayor in all of these documents are designed to encourage developers to go beyond compliance and to work towards good or best practice; the guidance emphasises that boroughs will also be encouraged to adopt similar standards.

Pressure is also coming from the affordable housing sector for higher sustainability standards. By April 2006, all affordable homes being developed with the Housing Corporation will require a minimum EcoHomes rating of 'Very Good', and English Partnerships has already set the standard at EcoHomes 'Very Good' and 'Excellent' for Millennium Communities. SEEDA and the Regional Housing Board in the South East also require a minimum standard of 'Very Good'.

Some companies have indicated that being able to demonstrate a solid approach and record in managing sustainability issues can help in negotiations with local planning authorities and in gaining planning permission. The example from the planning department in the London Borough of Brent clearly illustrates this point.

"Our negotiations on a recent outline application for a major scheme were greatly facilitated by the fact that the developer has a reputation for seeking zero emissions schemes, and is partnered by highly credible consultants with experience in delivering the first such scheme in the UK. This provided us with needed assurance that the inevitable information gaps at the outline stage would be detailed to the highest sustainability standards. In addition, the fact that unlike some other developers, they were happy for us to impose our (increasingly standard) Conditions and S106 Clauses to secure the sustainability measures, gave us added 'comfort' that they intend to deliver on-site. We had no doubts in terms of sustainability/other benefits for the area, and the profile it would bring to the Borough, about recommending the scheme to Members for approval" – *The Planning Service, London Borough of Brent, 2005*

OPERATIONAL EFFICIENCY

The resource intensity of the construction industry means that there is a significant scope to improve sustainability at an operational level through more efficient resource use. Waste management is one area where greater efficiency can generate demonstrable financial benefits, particularly cost savings. The construction industry produces over 70 million tonnes of waste each year and the Environment Agency estimates that in 2004 the industry spent over £193 million on landfill tax alone[16]. Increases in the landfill tax, to £18 per tonne, mean that many construction companies now view waste minimisation as an important business objective, and those that still don't should.

House-builders can use a variety of methods to reduce waste, including designing out waste by using, for example, modern methods of construction (MMC) (i.e. prefabricating major building components off-site), recycling and reclaiming materials on-site, establishing material protection policies to reduce damage to materials, and segregating waste on-site to reduce the amount going to landfill. As highlighted later in this report, house-builders may not be taking advantage of all these opportunities to cut waste and reduce costs.

Some companies have already introduced management systems to address environmental or health and safety issues that have brought about cost savings. Countryside Properties estimates that the implementation of ISO14001 has saved the company £500,000 per year, while another company noted in discussion that its insurance premium has fallen significantly since it has improved its health and safety risk management system.

REPUTATION MANAGEMENT

Stakeholders increasingly expect companies to demonstrate good environmental and social performance. Although arguably less tangible than some of the other business benefits, building long-term relationships with stakeholders through genuine dialogue can play an important part in maintaining and enhancing a company's reputation. However, to be both credible and effective, stakeholder engagement should be based on the principle of stakeholder accountability and on an open and transparent engagement process.

Clear and open corporate disclosure that spans environmental, social and financial issues and makes a public commitment to addressing environmental and socio-economic impacts is also an important tool in securing a good reputation. Corporate reports that present solid evidence of good performance and that are validated by credible, independent organisations or experts can provide stakeholders such as investors, NGOs and research organisations with a solid basis on which to make judgements about corporate performance.

Customer satisfaction

Achieving high customer satisfaction levels is a crucial element of any house-builder's reputation. Increasingly, this means that house-builders not only have to build to a high quality with minimum defects, but that they also have to be able to respond to evolving customer

[16] Figure taken from the Environment Agency publication: Why Bother? See: http://www.environment-agency.gov.uk/commondata/acrobat/1201_why_bother_652211.pdf

requirements. As outlined in the next section, customers are becoming increasingly demanding in relation to the environmental performance of their homes.

Attracting high-calibre employees

Sustainability issues, particularly in high impact industries, can affect the choice of employer, particularly for bright graduates. In a recent survey by the graduate recruitment website Milkround, 40 per cent of graduates stated that they had, on at least one occasion, ruled out applying for a suitable employment opportunity because of the nature of the business, or because of negative publicity around its environmental or employment practices. Establishing strong sustainability credentials should therefore help house-builders to attract high-calibre employees.

Gaining community support

At a project level, failure to engage effectively with affected residents can result in development delays and community disputes, whereas genuine, interactive stakeholder engagement can ensure that the development meets local needs and is therefore more likely to gain community support.

Satisfying investors' needs

Many more brokers and investment managers now evaluate companies' governance arrangements and their performance on corporate responsibility and sustainability issues as part of their standard investment analysis, as they have come to recognise the relevance of these issues to business performance. The value of assets now explicitly managed on a socially responsible basis in Europe is €336 billion (£228 billion)[17]. A study published recently by Morgan Stanley and consultants Oxford Analytica projected that pension funds managed according to a socially responsible investment basis could account for up to 15 per cent of the UK stock market by 2009, based on an assumption that 75-95 per cent of UK pension fund equity assets are likely to be invested on an SRI basis by then[18]. In order to qualify for investment by some of these funds, and for indices such as FTSE4Good and the DowJones Sustainability Index, companies must demonstrate that they meet exacting standards on a range of sustainability and corporate responsibility issues. Thus, a company's track record on managing environmental and social risks effectively and on adopting strategies to capitalise on opportunities offered by the changing policy and market environment may affect its ability to access capital in the medium term.

A number of examples throughout the report demonstrate the reputational benefits of engaging with stakeholders including investors, customers, NGOs, suppliers, local communities, employees, local planning authorities and government.

MARKET DIFFERENTIATION

In competitive markets, companies must continually strive to differentiate themselves from their competitors. A solid track record on sustainability issues could offer a house-builder the opportunity to differentiate itself from its peers.

Evidence is mounting that customers are becoming ever-more demanding of house-builders with respect to the environmental performance and characteristics of their homes. Findings of a

[17] Socially Responsible Investment among European Institutional Investors, EUROSIF, 2003.

[18] Morgan Stanley Equity Research Europe: Thoughts on SRI Research, July 2005

2004 survey by Commission for Architecture and the Built Environment (CABE), WWF and Halifax[19] showed that 87 per cent of home-buyers want to know how their homes rate in terms of environmental performance in order to make an informed decision as part of this major purchase. Those surveyed indicated that the most important assets of an 'eco-friendly home' are high levels of energy and water efficiency, lower running costs, enhanced air quality and daylight, and use of low allergy materials and those with a low environmental impact.

Research by Linden Homes has also shown that home-buyers are interested in the cost savings of an eco-home. Their survey found that while the public were concerned about the environment, 86 per cent thought that saving money on their bills was a higher priority. More than 95 per cent of those polled stated that they would be more committed to embracing energy efficiency if their council tax was reduced. This implies that if the government were to introduce fiscal incentives to enhance the environmental performance of dwellings, consumer interest in energy efficiency is likely to increase further[20].

[19] Research results were released on 26 July 2004. Full research findings are available at:
http://www.wwf.org.uk/news/n_0000001276.asp

[20] The EST has published a detailed report outlining how fiscal initiatives could reduce emissions and household energy bills. The report found that council tax and stamp duty rebates were the best way to encourage households to reduce their energy consumption. The full report can be downloaded at:
http://www.est.org.uk/uploads/documents/aboutest/fiscalupdate.pdf

Methodology

THE COMPANIES

Twelve house-builders are analysed in this year's report – the same companies as in the first benchmarking assessment, with the exception of Countryside Properties which declined to be included in this year's analysis following the company's privatisation earlier this year. All companies are listed on the FTSE All Share, and together account for approximately 41 per cent of all housing units completed in the UK in 2004.

THE CRITERIA

The companies were evaluated using the same criteria in the previous benchmark conducted in 2003. The criteria are grouped under three sections – strategy, governance and risk management; impact on the environment; and impact on society. Issues addressed under these sections include:

Strategy, governance and risk management:

- Risk management
- Board commitment
- Sustainability policies
- Disclosure

Impact on the environment:

- Environmental management systems
- Climate change
- EcoHomes
- Ecology
- Water
- Domestic waste
- Transport
- Procurement and supply chain management
- Construction waste

Impact on society

- Health and safety
- Considerate construction
- Employment
- Customer engagement on sustainability issues
- Affordable housing

Evaluation against these criteria is intended to provide a robust assessment of the quality of companies' sustainability strategies, policies and management systems and the extent to which these translate into good practice across the companies' housing developments. A full description of how the criteria were drawn up, along with a description of each of the criteria and the performance required to score at the highest level, is presented in Appendix 1.

The same criteria were used for this analysis as in the first benchmark, to enable a clear comparison of companies' performance and reporting in September 2003 and today – two years on. However, since the criteria were drawn up, understanding within both the political and business spheres of the specific challenges facing house-builders, and the potential contribution they can make to sustainability has evolved considerably. Thus, it is important to note that while achieving high scores this year indicates that companies have made substantial progress towards integrating sustainability issues into their business practice, it does not indicate that no further improvement can be made.

SCORING AND ENGAGEMENT PROCESS

As in the first report, each company is given two scores. One score is based on companies' reporting, which includes publicly-available material, published by the company itself, available as of 1 May 2005, including both core and supplementary disclosure. Core disclosure comprises any material that a listed company is legally obliged to produce, namely the annual report and accounts. Supplementary disclosure encompasses any additional information such as formal corporate responsibility, sustainability or environmental reports, the companies' websites and sustainability-related publicity material.

The second score is intended to offer an evaluation of the companies' management of sustainability issues and of its day-to-day practices, building on the initial reporting score. This score was arrived at through dialogue with each company and reflects all information provided by the company to us.

In one or two cases, companies published their corporate responsibility or sustainability report after the May cut-off date for consideration of published materials. While the score based on reporting reflects the previous reporting cycle, the score based on engagement takes into account this more recently published material.

The analysis was undertaken using a collaborative process. The companies were kept appraised of the results of each stage of analysis and were given numerous opportunities to provide their feedback on that analysis. They were asked to provide evidence of claims they made about their practices and performance by 29 July 2005. A detailed breakdown of the engagement process can be found in Appendix 2.

To enable a fair reflection of companies' overall engagement with sustainability issues, companies have been ranked according to their score after the engagement process, which gives a picture of their performance in addressing sustainability issues – rather than in relation to their score based on their reporting, as was the case in 2003.

Overall summary

This section of the report provides an overall summary of the findings, providing the headline rankings for those companies participating, together with an overall analysis of the sector's progress.

SECTOR DEMONSTRATES SIGNIFICANT IMPROVEMENT

Table 1 below demonstrates that, overall, all companies have made substantial improvements in their management and reporting of sustainability issues. Insight and WWF are very encouraged by this result.

Table 1: Overall average scores, 2003 and 2005

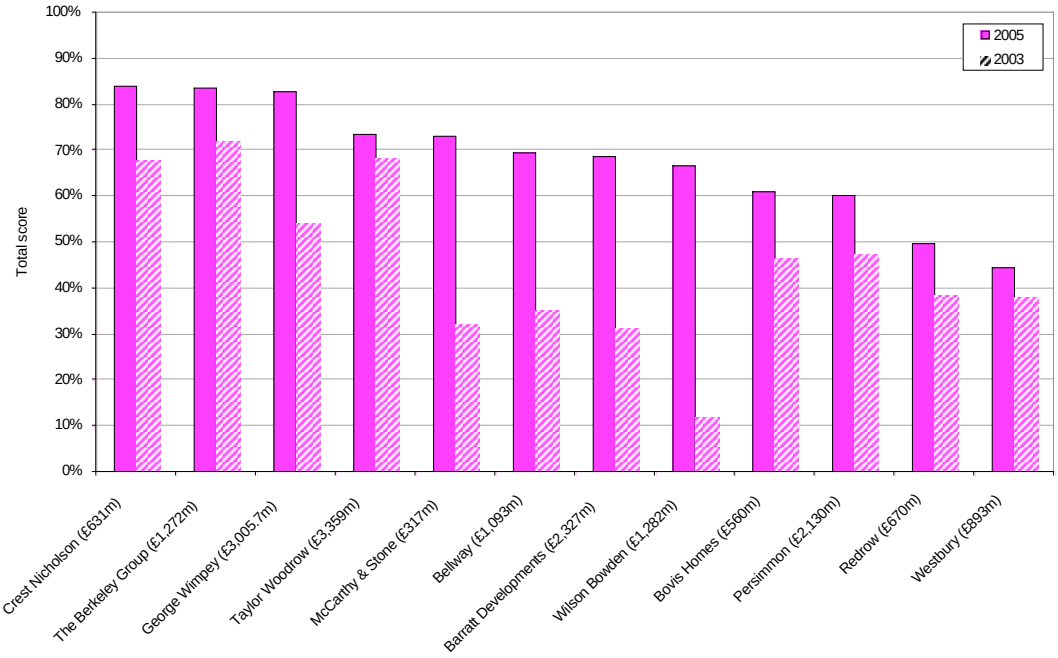
	2003 average	**2005 average**
Scores based on engagement	47%	68%
Scores based on reporting	35%	52%

Many of the companies demonstrate that they have a much better understanding of the relevance and importance of sustainability to their business. The scope and quality of their public disclosure has also improved. They also engaged very actively in the assessment process. Nevertheless, there is still significant scope for improvement. Many of the house-builders appear to be finding it difficult to keep up with the emerging drivers and pace of change with respect to sustainability issues, particularly within the planning process. As a result, they are not able to fully realise the business benefits of taking a proactive approach to addressing sustainability.

COMPANY RANKING

As Figure 1 (below) illustrates, there are three clear leaders: Crest Nicholson (84 per cent), The Berkeley Group (84 per cent) and George Wimpey (83 per cent). All these companies scored more than 80 per cent against the assessment criteria.

Figure 1: Scores after engagement, in 2003 and 2005



All three companies demonstrated a strategic approach to sustainability and a board commitment to addressing it. This was reflected in their well-developed management systems, procedures and governance structures. In addition, the leading companies were able to provide strong evidence of good practice and innovation, addressing both the environmental and socio-economic impacts of their developments.

It is particularly encouraging to note that this year, 10 of the 12 companies scored 60 per cent or above, compared with three in the previous report. The difference between the highest and lowest scoring companies has reduced considerably from 80 per cent in 2003 to 42 per cent this year. The difference between the highest and lowest of the seven middle-ranking companies was only 14 per cent this year. This demonstrates that the middle-ranking companies have made significant improvements, and also makes it a little more difficult to differentiate between these companies.

McCarthy & Stone, Bellway, Barratt and Wilson Bowden all warrant particular recognition for having more than doubled their scores. It is difficult to generalise about the reasons for their improved performance, as each of the companies improved in different areas: Barratt and Bellway have improved most in relation to the strategy, governance and risk management, whereas McCarthy & Stone and Wilson Bowden have made greatest progress in relation to their impacts on society.

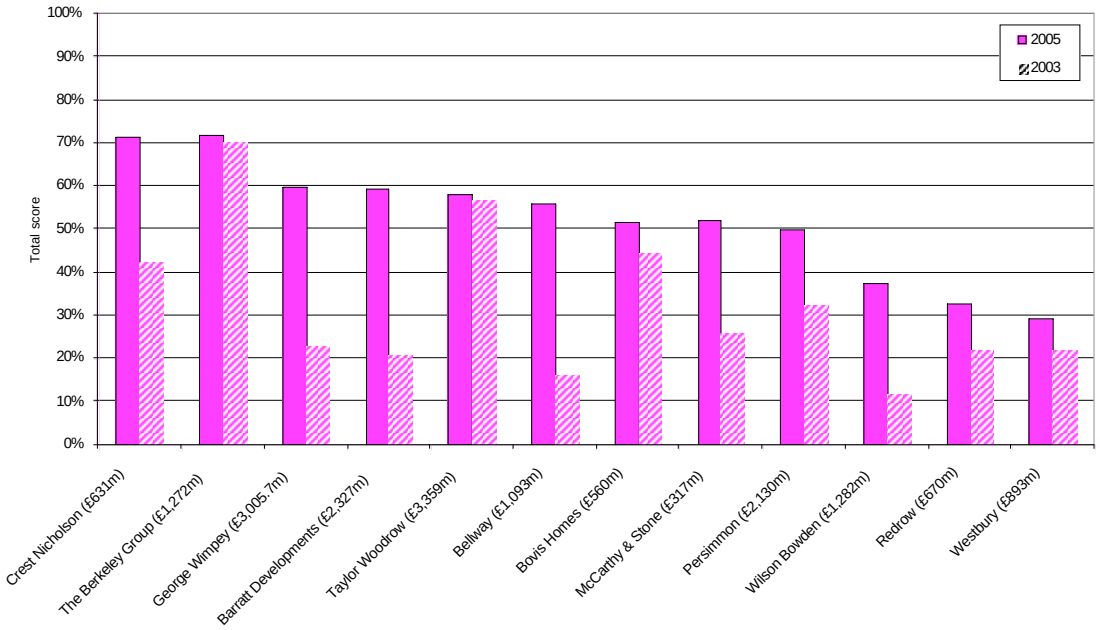
Two companies scored 50 per cent or lower against the assessment criteria – Westbury and Redrow. Although these companies were not able to demonstrate that they have developed a robust, long-term sustainability strategy or systems for gathering and monitoring performance

data and setting targets, both were able to demonstrate that sustainability issues were being taken into consideration in specific projects or in specific impact areas. For example, 103 of Redrow's 'Debut' range of housing at Willins Green, Rugby have achieved EcoHomes 'Excellent' ratings at the design stage, a standard that the company aims to meet at other developments in Birmingham, south Wales and other parts of the UK[21]. Westbury places a strong focus on employees, having been the first house-builder to feature in the Sunday Times 'Top 100 companies to work for'.

GAINING RECOGNITION THROUGH DISCLOSURE

One of the key findings of the first benchmark was that the majority of companies were not fully disclosing their policies and practices in relation to sustainability issues, thus potentially failing to gain the recognition they deserved for their sustainability programmes. We are therefore delighted that many of the companies that performed poorly in the last assessment have significantly improved the scope and quality of their publicly available information on sustainability – as demonstrated in Figure 2.

Figure 2: Scores based on reporting, in 2003 and 2005



The three leading companies produce sustainability reports that contain good descriptions of their strategies, supported by key performance indicators to demonstrate their performance in key areas, and case studies to illustrate how corporate commitments are being implemented on-site. Crest Nicholson is the only house-builder to report using the Global Reporting Initiative (GRI) guidelines[22].

[21] Redrow, press release, July 2005. See: http://www.redrow.co.uk/PublishNews.aspx?id=859

[22] The Global Reporting Initiative (GRI) is an independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These guidelines are for voluntary use by organisations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. See: http://www.globalreporting.org.

Perhaps surprisingly, despite the increased quality of the disclosure across the sector, there is still a gap between companies' reporting and their engagement. This suggests that they need to work harder to ensure that their reporting provides a full and fair reflection of their practices in order to gain full recognition from stakeholders of their efforts to address the social and environmental impacts of their developments.

While some companies indicated that they now view sustainability as a factor that can provide differentiation from their peers, and they therefore chose not to disclose certain information that may be commercially sensitive, this is the exception rather than rule.

Table 2: Comparison of scores based on reporting and scores based on engagement

Company	Scores based on reporting	Scores based on engagement
Crest Nicholson	72%	84%
The Berkeley Group	72%	84%
George Wimpey	60%	83%
Taylor Woodrow	58%	74%
McCarthy & Stone	52%	73%
Bellway	56%	70%
Barratt Developments	59%	69%
Wilson Bowden	37%	67%
Bovis Homes	52%	61%
Persimmon	50%	60%
Redrow	33%	50%
Westbury	29%	45%

RELATIVE RANKINGS

Table 3 (below) shows the change in rankings between 2003 and 2005. The key changes have occurred in the middle rankings. Several companies that performed poorly in the initial assessment have quickly improved or developed their sustainability programmes, which has moved them into the mid-rankings. Some companies that were in the mid-rankings in 2003 have been overtaken by these companies. This emphasises the need for companies to commit to a continuous improvement in their performance, to set annual performance targets, to keep abreast of the latest regulatory and planning requirements, and to monitor closely competitors' approaches to sustainability.

Table 3: Change in company rankings based on engagement, between 2003 and 2005

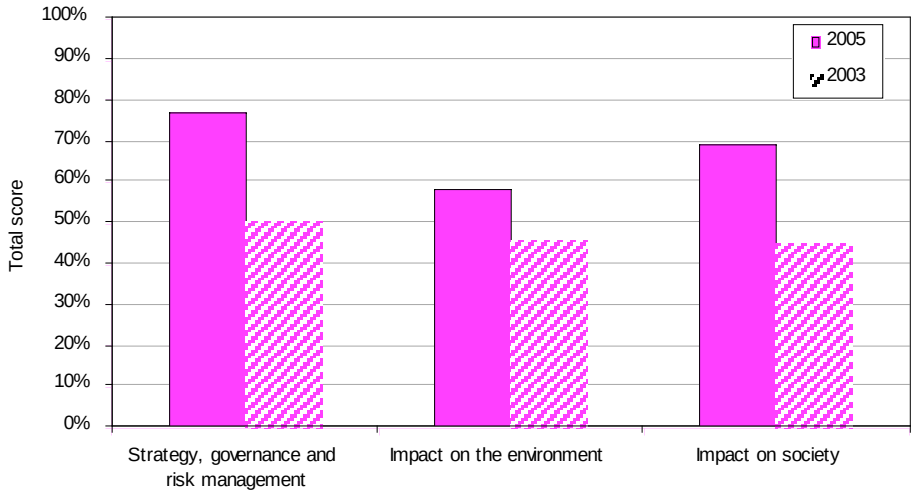
Company	2005 ranking	2003 ranking[23]
Crest Nicholson	1	5
The Berkeley Group	1	2
George Wimpey	3	4
Taylor Woodrow	4	3
McCarthy & Stone	5	11
Bellway	6	10
Barratt Developments	7	12
Wilson Bowden	8	13
Bovis Homes	9	7
Persimmon	10	6
Redrow	11	8
Westbury	12	8

PERFORMANCE IMPROVES ON EACH OF THE THREE ELEMENTS ASSESSED

Figure 3 (below) shows that, since the previous analysis, performance has increased in all aspects of sustainability assessed. The most noteworthy improvement was in relation to the strategy, governance and risk management criteria. Scores in relation to the environmental and social criteria have not increased as much; this is in part because it is more difficult for companies to deliver strong environmental and social performance on the ground and provide evidence of having done so.

[23] Countryside Properties was ranked first in the 2003 survey. As discussed in the methodology section, the company was not included in this year's survey. Therefore the highest rank for 2003 is 2.

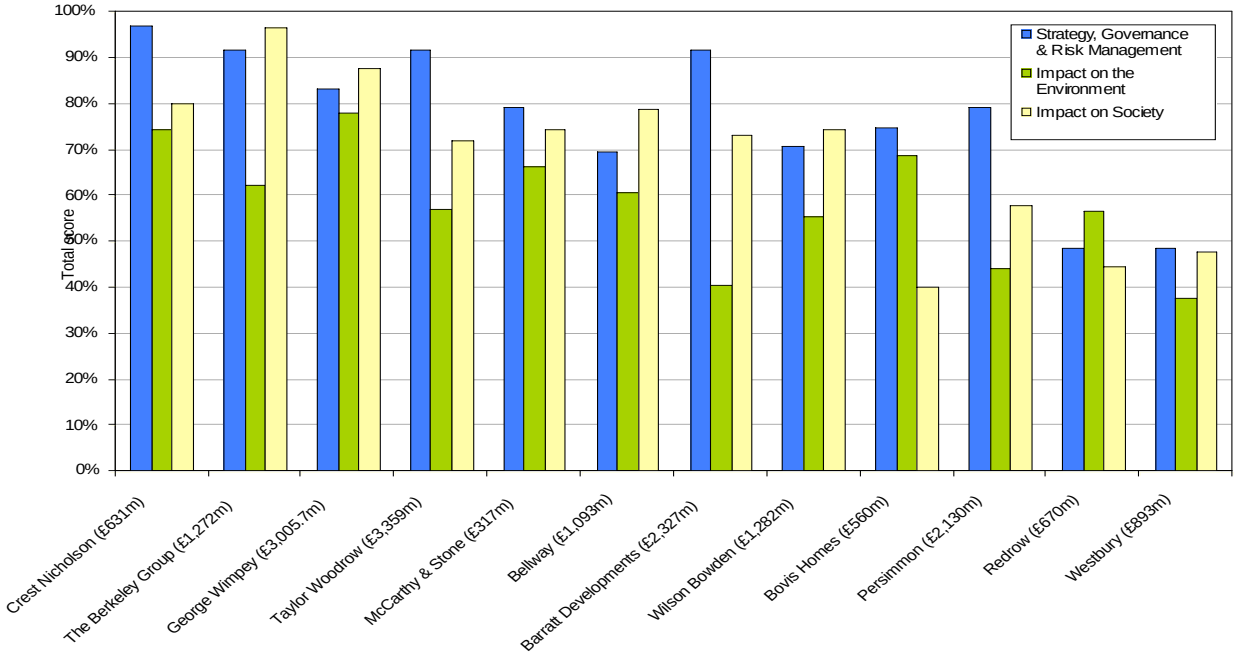
Figure 3: Average score based on engagement by section, 2003 and 2005



DIFFERENT COMPANIES, DIFFERENT PRIORITIES

Figure 4 (below) shows how companies have performed on each of the three aspects of sustainability, and highlights that the companies' performance is not uniform across the assessment criteria. Some companies, such as George Wimpey, performed almost equally well on all three sets of issues; other companies, such as The Berkeley Group and Barratt Developments, performed significantly better in two out of the three sets of criteria.

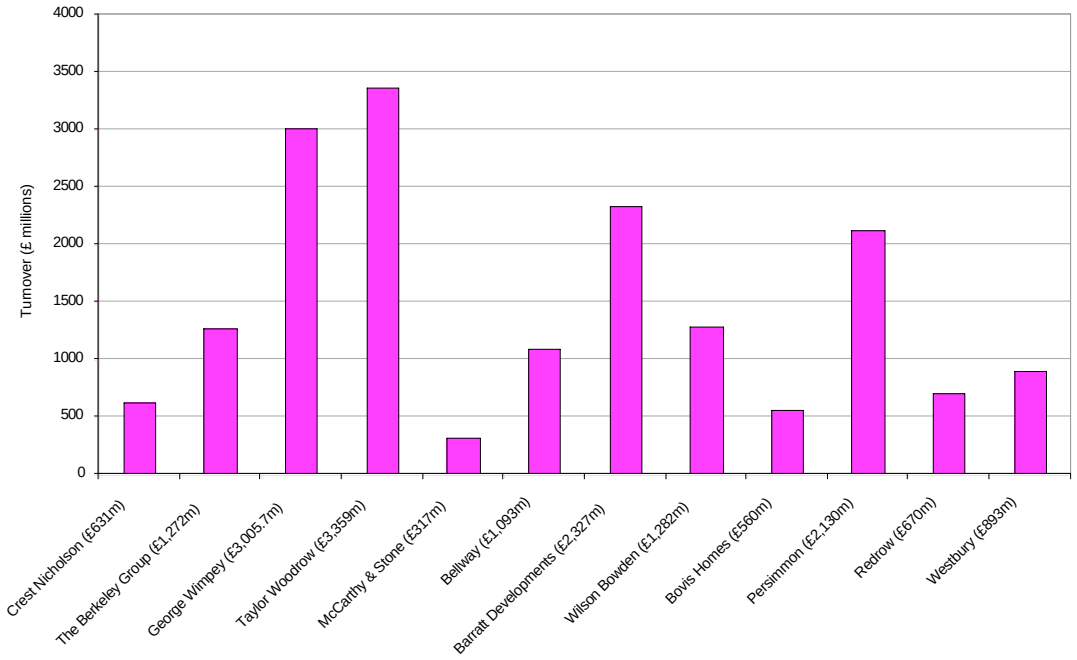
Figure 4: Company scores for each section of the survey



BIGGER IS NOT NECESSARILY BETTER

Smaller companies sometimes claim that their larger counterparts have greater internal capacity and resources with which to develop and implement sustainability strategies; larger companies argue that smaller companies can more easily implement initiatives across all of their developments. As with the previous survey, this year's findings demonstrated once again that performance showed no relationship to company turnover (see Figure 5 below).

Figure 5: Comparing company rankings with turnover



Strategy, governance and risk management

OVERVIEW

The average score on strategy, governance and risk management increased from 50 per cent in 2003 to 75 per cent this year, as shown by Figure 6.

Figure 6: Strategy, governance and risk management – company averages based on engagement

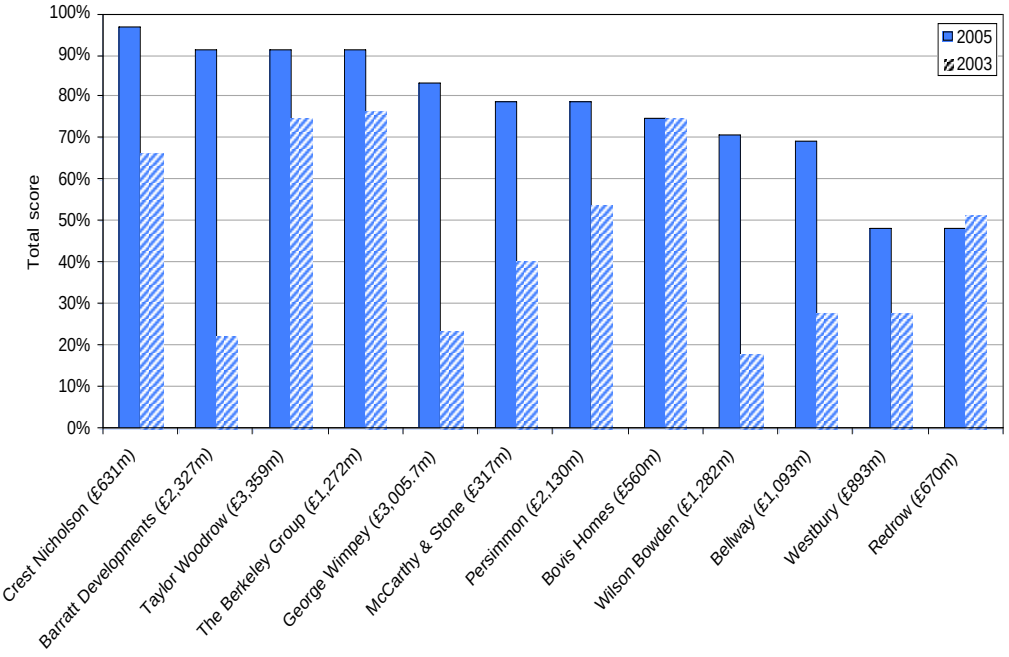
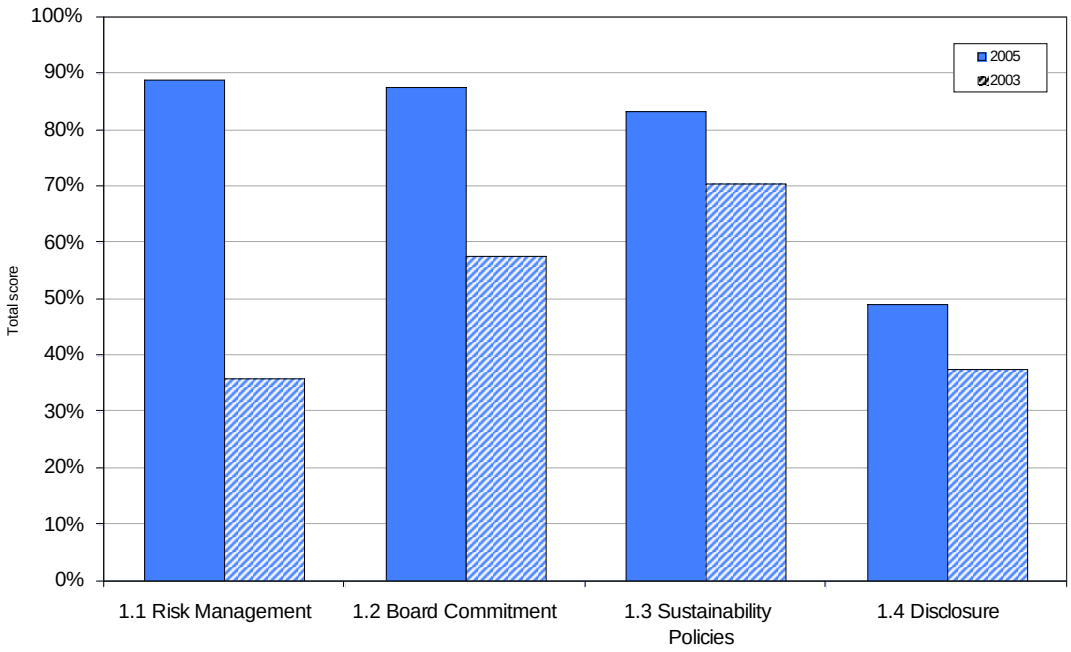


Figure 7 shows that performance improved on all criteria, but particularly for risk management and board commitment. These improved scores may reflect the increasing pressure being placed on companies (by investors in particular) to demonstrate how they address the governance of sustainability; it may also reflect the fact that some companies did not describe these processes clearly within their reporting or at the engagement meetings in 2003. All companies were much clearer about these processes in this year's assessment. The improvement is also due in large part to the increased number of companies publishing a sustainability policy and a separate sustainability or corporate responsibility report.

Figure 7: Strategy, governance and risk management – average score per criteria based on engagement



BOARD COMMITMENT AND STRATEGY

The criteria in this section of the assessment relate to the nature, scope and transparency of companies' sustainability strategies. It is encouraging that all companies have designated a specific board member with responsibility for sustainability issues, and that many of the companies' boards now consider sustainability issues on a regular basis. However, few companies were able effectively to articulate a coherent and comprehensive sustainability strategy, either in their reports or during the engagement process. Ideally, companies should have a clear sustainability strategy, with specific priorities and objectives, to provide coherence and direction to the business, arrived at through a structured process of assessing key business risks and opportunities. Some companies still seem to employ a more piecemeal and reactive approach, resulting in a series of ad hoc initiatives.

RISK MANAGEMENT

Many companies acknowledged in discussion that non-financial risks can be substantial[24]. Most companies now have processes in place to identify site-based risks, and some have integrated a wide range of sustainability issues into their risk assessment models. However, most companies did not provide robust evidence that they take a strategic and structured approach to identifying sustainability risks that may affect medium and long-term business strategy or value (e.g. percentage of land bank located in flood risk areas). Moreover, although some companies outlined their approach to sustainability risk management in their sustainability reports, this is not followed through in the annual report and accounts. As Box 2 (below) on the Operating and

[24] The term 'non-financial' risks is typically used to encapsulate risks, such as those related to sustainability, that are not of a financial or quantitative nature, though they may have financial implications.

Financial Review describes, from April 2006, companies will be required to provide a description of the principal risks and uncertainties facing the company, and the directors' approach to ameliorating them.

The example below highlights one of the best statements within the annual report and accounts related to risk, provided by Barratt Developments. However, this too could be strengthened, by explaining how the company identifies its risks, what the nature of these risks are, and the way that it quantifies these risks and determines how to address and ameliorate them.

RISK MANAGEMENT REPORTING – EXAMPLE OF GOOD PRACTICE:

"The internal control and risk management systems are overseen by the Audit Committee. Key risk areas, including finance, land buying, sales, production planning, quality and customer service standards, the market and environmental and health and safety performance are an integral part of our management reporting systems and are reviewed and monitored by the Group Executive and Divisional Boards each month. The risk management system, the Combined Code and internal control exception reports are reviewed by the Board on a quarterly basis" – *Barratt Developments, Annual Report and Accounts 2004*

POLICIES

Eight companies now have an integrated sustainability policy, compared to only four companies in the last assessment. However, the quality of these policies varies considerably. A good sustainability policy has several components:

- It should set out the company's overall commitment to addressing sustainability issues; this provides the reader with a clear idea of where the company is positioning itself in relation to sustainability issues. Best practice policies also link a commitment to sustainability to mainstream business objectives and the creation of shareholder value.
- As an absolute minimum, all policies should contain a commitment to compliance with relevant legislation. Ideally, the company should also state that it is committed to minimising its adverse impacts and to seeking opportunities to make a positive contribution to sustainability. Policies that demonstrate good practice also commit to a continuous improvement in performance.
- The policy should then state the company's key objectives in relation to its most significant sustainability impacts. This should be based on a structured process which has sought to identify and prioritise these impacts.
- The key governance structures for ensuring that the policy is effectively implemented should also be included; this can involve providing details of board responsibilities and strategic committees related to sustainability issues.
- The policy should contain a description of how progress towards the objectives will be monitored and reported, and how the company will be accountable to its various stakeholders.
- The policy should be signed off by the board to demonstrate top level commitment to the issues and dated, with the dates of any reviews provided (the policy should ideally be reviewed on an annual basis).

The Berkeley Group has one of the best sustainability policies in the house-building sector.

INTEGRATED SUSTAINABILITY POLICIES – AN EXAMPLE OF GOOD PRACTICE

This policy sets out the key principles that are the driving force behind The Berkeley Group Holdings plc sustainability strategy, which is at the very heart of our activities. In particular, we aim to:

- Enhance the local environments where we work.
- Make efficient use of natural resources and consider the long-term environmental impacts of the homes and commercial premises that we build.
- Understand and respond to the concerns of our shareholders, our customers and the local communities in which we operate.
- Develop successful partnerships with our stakeholders and engage them in our work towards sustainability.
- Work with our suppliers and subcontractors to develop sustainable relationships.
- Ensure that employees are:
  - treated fairly;
  - encouraged to develop their skills, including their awareness and understanding of sustainability issues; and
  - rewarded for their contribution to the company's success.
- Provide safe and healthy working environments for our employees.
- Comply with all relevant legislation as a minimum standard and work towards good practice in sustainability.
- Strive towards continuous improvement in our performance by reviewing our progress on a regular basis and reporting this to the board.
- Openly communicate our progress towards sustainability both internally and externally, thereby demonstrating our commitment and encouraging debate that will help us to further our understanding.

The Berkeley Group, 2005

DISCLOSURE

On the whole, the quality of disclosure has increased enormously. Ten of the 12 house-builders now produce a separate sustainability report, with all reports now addressing both environmental and social issues. The reports[25] used for this year's analysis are as follows:

Barratt Developments	Corporate Social Responsibility Report 2004
Bellway	Corporate Responsibility Report 2004
The Berkeley Group	Sustainability Report 2004
Bovis Homes	Corporate Social Responsibility Report 2005
Crest Nicholson	Corporate Responsibility Report 2004

[25] In this year's benchmarking exercise the cut-off date for reported information was 1 May 2005. Any reports published after this date were not included in the reporting scores, but were taken into account in the performance scores.

George Wimpey	Corporate Social Responsibility Report 2004
Persimmon	Corporate Responsibility Report 2004
Redrow	The Redrow Charter – Corporate Social Responsibility
Taylor Woodrow	Corporate Social Responsibility Report 2004
Wilson Bowden	Corporate Social Responsibility Report 2004

Many more companies have started to include key performance indicators within their reporting and a greater number are also setting management targets. Few, however, are setting performance targets, which we would strongly encourage.

While disclosure within sustainability reports is improving, the same cannot be said for information within the financial reports. None of the companies explicitly states how addressing sustainability contributes to its business and financial performance. To be of greatest relevance to investors, companies should seek to demonstrate how sustainability supports or enhances shareholder value. Performance data and information on cost savings and other financial benefits should be included in financial reporting as data becomes more robust and reliable, to the extent that it is relevant to the business. Those companies that have been implementing their sustainability programmes for a number of years should be in a position to identify and quantify the benefits of addressing specific environmental and social issues and present those to investors and other stakeholders.

The use of the internet by companies as an additional resource through which to communicate their sustainability strategy and performance is also generally weak. On the whole, much of the information found on websites was taken directly from the current sustainability report. A few companies provide additional information on their websites. George Wimpey, for example, provides detailed information on its website about how its key performance indicators are calculated. However, none of the house-builders attempts to tailor the information presented to different audiences, or makes full use of the interactive nature of the web. All companies are encouraged to make greater use of the internet and to develop stakeholder-specific communication strategies.

A new regulation that is likely to drive better disclosure on sustainability issues is the Operating and Financial Review (OFR). Those companies already reporting robustly on their sustainability strategies and performance may find compliance with the OFR's requirements more straightforward. The Accounting Standards Board (ASB) has provided guidance on the OFR, which is summarised below.

Box 2: The Operating and Financial Review

Operating and Financial Reviews (OFR) – a new imperative for improved reporting on key sustainability issues

From 1 April 2006, all companies will be required by law to produce an Operating and Financial Review. Companies will need to consider much more fully than previously the significance and relationship of sustainability issues to their businesses.

The Accounting Standards Board guidance, which outlines what companies should cover in their OFRs, states that they should:

- set out an analysis of the business 'through the eyes of the board of directors';
- focus on matters of relevance to the interests of investors;
- be forward-looking, identifying those trends and factors relevant to investors' assessments of the current and future performance of the business and the progress towards the achievement of long-term business objectives;
- complement and supplement the financial statements, in order to enhance overall disclosure;
- be comprehensive and understandable;
- be balanced and neutral, dealing even-handedly with good and bad aspects; and
- be comparable over time.

Companies are required to present performance against key performance indicators (KPIs). Those that **should** be included are those judged by the directors to be effective in measuring the development, performance and position of the business, along with information that will enable members to understand and evaluate each KPI. Inclusion of other KPIs is encouraged.

Further, the ASB advises that directors "will need to consider the extent to which they shall report on issues relevant to those other users, where, because of those issues' influence on the performance of the business and its value, they are also of significance to members".

The four key aspects on which directors must report are:

1. The nature, objectives and strategies of the business, which includes a description of the business and external environment, including the market, competitive and regulatory environment; objectives to generate or preserve value over the longer term; and the company's strategies for achieving the objectives.

2. Resources, risks and uncertainties, and relationships: a description of resources available – tangible and intangible – and how they are managed; a description of principal risks and uncertainties and the directors' approach to them; and information about significant relationships with stakeholders, other than members, which are likely – directly or indirectly – to influence performance and value.

3. Current and future development and performance: significant features of the development and performance of the business and the main trends and factors likely to impact on future performance.

4. Financial position.

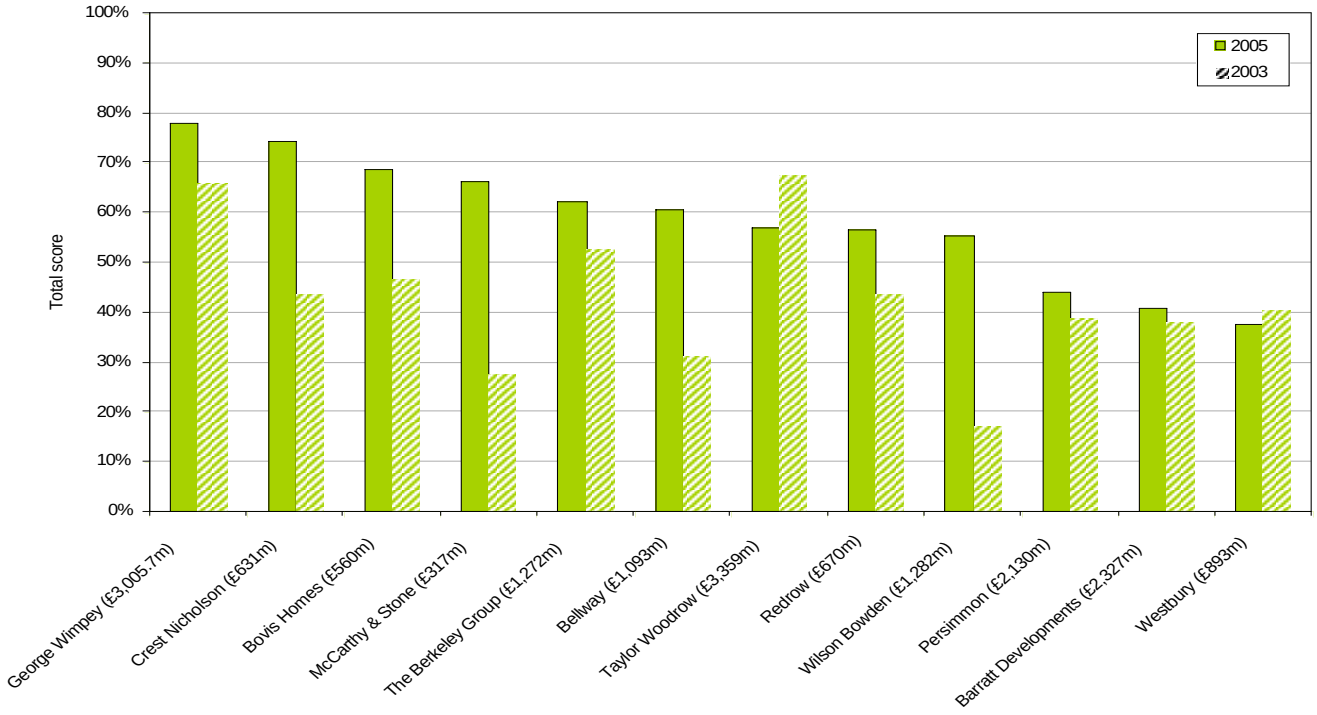
Clearly, sustainability issues could be relevant in each of these four areas. However, with respect to sustainability issues, the guidance states explicitly that companies must: "to the extent necessary to address all elements of the framework, the OFR shall include information on: environmental matters, including the impact of the business on the environment; the entity's employees; social and community; and persons with whom the company has contractual or other arrangements which are essential to the business of the entity. Further, the OFR shall include: the policies of the entity in each area mentioned and the extent to which those policies have been successfully implemented".

Impact on the environment

OVERVIEW OF RESULTS

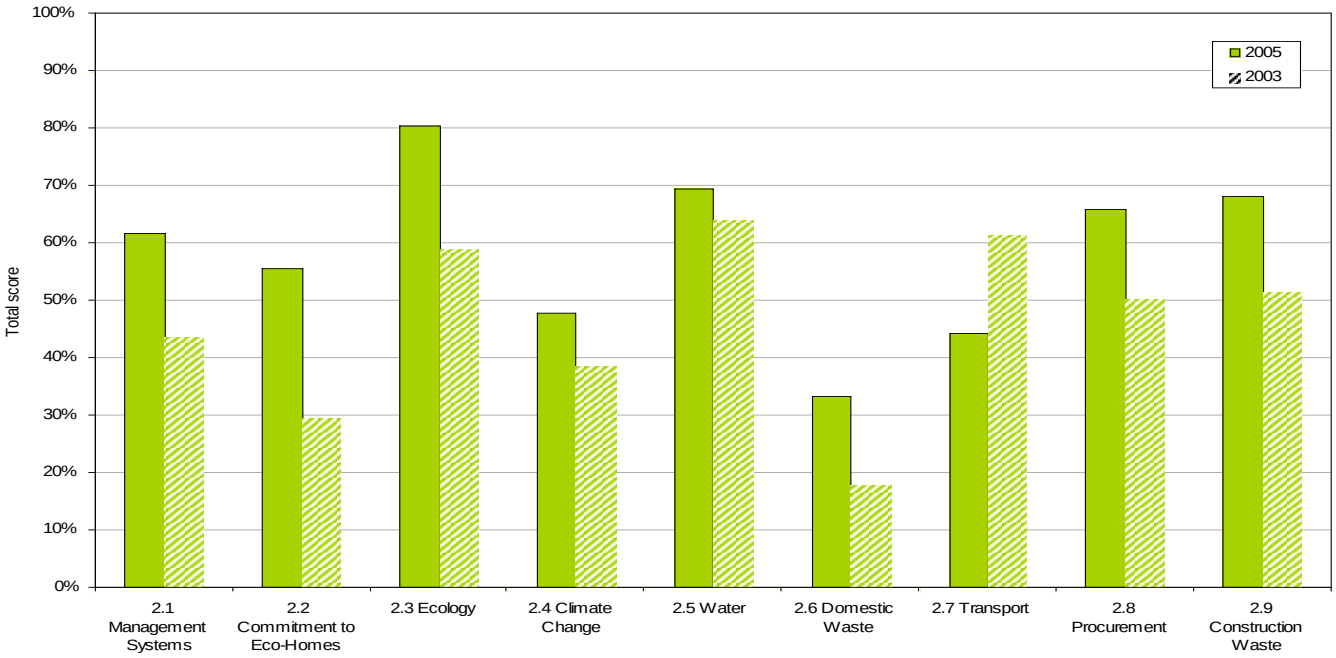
All companies have improved their environmental management, practices and reporting. The average score in this regard has increased from 46 per cent in 2003 to 58 per cent this year.

Figure 8: Impact on the environment – company rankings



As Figure 9 (below) shows, scores improved for all the environmental issues evaluated, with the exception of transport. The greatest improvement in scores is in areas where regulatory or planning requirements have been tightened (for example, the use of EcoHomes standards has been significantly influenced by the requirements of the social housing sector), or where the greatest immediate financial savings could be made (for example, reducing construction waste).

Figure 9: Impact on the environment – average score per criteria based on engagement



While companies were assessed on nine aspects of their management of environmental issues, this section of the report focuses on four of particular importance: climate change, EcoHomes standards, procurement and construction waste.

CLIMATE CHANGE

> "Climate change is the single most important long-term issue that we face as a global community" – *Tony Blair, launch of Climate Group, 2004*[26]

Despite the increasing evidence of, and political emphasis on, climate change, very few of the house-builders identified this issue as a strategic risk (or opportunity), nor had they developed long-term strategies to address climate change, beyond complying with regulation.

Through the ratification of the Kyoto treaty, the UK has committed itself to reducing greenhouse gas emissions by 12.5 per cent by 2012. In addition, the government has set itself the challenging target of reducing carbon dioxide emissions by 60 per cent by 2050. In 2004, the housing sector accounted for 28 per cent of the UK's final energy consumption[27] and therefore has a significant role to play in meeting these targets.

The most significant cumulative effects of climate change will be borne by home-owners long after the developer leaves the site. A recent report by WWF and Allianz estimated that climate change is increasing the potential for property damage at a rate of between two and four per cent

[26] A transcript of Tony Blair's full speech is available at: http://www.britischebotschaft.de/en/news/items/040428a.htm

[27] DTI's *Digest of UK Energy Statistics*, 2005.

per year[28]. Climate change may also significantly impact on the long-term sustainability of some developments, through increased flood damage and subsidence, and reduced water supply in some areas.

Planners are trying increasingly to mitigate these impacts through good infrastructure design – some of which falls to developers to execute. At the project level, and throughout the development process, house-builders should also be giving careful consideration to the long-term impact of the homes they build. They should consider ways in which they can reduce the greenhouse gas emissions through design features that make it as easy as possible for residents to live a more sustainable lifestyle. Many of these measures are considered in more detail below.

Neither do companies appear to be systematically and explicitly considering the impact that climate change may have on their own businesses. For example, developers may find it increasingly difficult to get insurance cover for certain flood prone sites in their land-banks, and premiums are expected to rise as flood risk escalates.

House-builders should therefore be beginning to provide statements acknowledging the severity and importance of climate change, describing how as a company, and in the sector as a whole, they contribute to the problem in the short and long term, and discussing how they might tackle the issue. They should adopt clear, comprehensive policies and objectives, supported by strategies that outline the specific measures the company plans to adopt to reduce the contribution that housing makes to climate change and to mitigate the potential effects of climate change on home-owners. They should also set targets and report against those targets annually.

Energy efficiency

House-builders can substantially contribute to reducing the UK's carbon dioxide emissions by increasing the energy efficiency of the dwellings they build. The government sets energy performance standards within Part L1 of the building regulations, which are currently under review[29]. Based on current standards, buildings should roughly achieve a carbon index rating of 8.0, equating to an energy efficiency rating - as measured by its SAP rating - of approximately 100[30]. However, when BRE tested a sample of new homes for compliance with building regulation standards for air permeability, nearly a third of properties failed[31].

Companies clearly need to know the average current performance level of all the homes they build (and across the types of homes, e.g. apartments, houses, renovation of older buildings, etc) in order to improve their energy performance. Without this basic data, they cannot set out to improve energy efficiency. However, while regulations require that the SAP rating of all new

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[28] *Climate Change and the Financial Sector: An Agenda for Action*. WWF and Allianz, published June 2005.

[29] Under this review, the current scale used for SAP (Standard Assessment Procedure) ratings may change from a scale of 0-120 to a scale of 0-100 with a development making a net contribution to the national grid being able to score over 100.

[30] Due to the different compliance routes to meet Part L1 (2002), there is no minimum SAP rating that dwellings have to meet. Using the Carbon Index method to compliance, all dwellings have to achieve a rating of 8.0 or above. For a gas heated house this would equate to a SAP rating of approximately 100. Changes in the fuel type (e.g. electricity, oil) would directly affect the SAP rating.

[31] Energy Savings Trust, *Assessment of energy efficiency impact of Building Regulations compliance*.

dwellings is displayed, not all companies collate this information to get a picture of the average SAP rating across their businesses. Only six companies currently report their average SAP rating, as shown in Table 4.

Table 4: Average SAP ratings reported[32]

Company	Group average SAP rating
Bellway	95.6
Crest Nicholson	95
George Wimpey	94
Persimmon	92
Westbury[33]	84
Berkeley Group	79.6

The current energy efficiency performance of these companies varies considerably. It is difficult to draw any solid conclusions about the reasons for the wide variation between companies' SAP ratings. A number of factors influence these ratings, including whether the developer builds a higher proportion of houses or flats, whether dwellings are heated with gas or electricity, and whether the developer undertakes a high proportion of refurbishments and/or conversions. The rating may also be influenced by whether the assessments are undertaken on a project by project basis, or for a standard house type, and by the stage at which the house-builder is reporting. A company reporting SAP ratings for dwellings at the design stage will have higher ratings than a company reporting for completions (for which the SAP ratings may be two or three years old).

Nevertheless, all companies should be collating this information and aiming, at a minimum, to achieve average SAP ratings of 90 or above – in line with the leading companies.

Renewable energy

To reduce a development's emissions further, low or zero-carbon technologies – such as community heating, combined heat and power, solar water heating, photovoltaic tiles and wind turbines – can be incorporated on-site. Several developers provided examples of projects where they had incorporated renewable technologies (see below). Local planning authorities, and government agencies such as English Partnerships and the GLA, are placing increasing pressure on developers to examine this issue and provide Energy Demand Assessments and technical statements that assess the extent to which it is feasible to generate renewable energy on-site. Some regional and local planning authorities have set targets for the incorporation of on-site renewable energy. Anecdotal evidence from house-builders suggests that this is already resulting in an increased emphasis on renewable energy during the planning process.

[32] In assessing these figures it should be noted that the data is for completed dwellings which may have been designed prior to the Part L1 (2002) requirements coming into force.

[33] The average SAP for Westbury is taken from their 2005 Annual Report and Accounts. The figure quoted is for their average SAP rating for a conventionally-built Westbury dwelling, the average SAP rating of its Space4 home, constructed using MMC and which accounts for 40 per cent of Westbury's completions, is 94.

While it is acknowledged that renewable energy is still expensive and can only be used selectively, companies should continue to experiment with renewable technologies so as to develop a clearer understanding of the technical and commercial issues involved. Thus, if – or when – renewable energy is required on more sites in the future, they will be well-prepared. The cost of deploying renewable technologies can also be reduced by considering their use at the early stages of the development process – for example, in land acquisition, concept-planning and discussions concerning site infrastructure.

INCORPORATING RENEWABLES – EXAMPLES OF GOOD PRACTICE

Several companies indicated during the survey that they are beginning to incorporate renewables on some projects. Some examples are listed below:

The Berkeley Group – Maple Lodge in The Hamptons, Surrey, will be supplied with electricity from photovoltaic tiles located on its roof. In the Ropetackle development, Shoreham-by-Sea, 33 out of 35 houses will have solar water panels.

George Wimpey – Queen Elizabeth Park, Guilford, incorporates solar panels.

Redrow – Landsdowne Gardens, Cardiff, included solar energy panels.

Taylor Woodrow – Green Building, Macintosh Village, includes solar thermal panels located in the roof, which provide a significant proportion of the hot water requirement. A wind turbine, also located on the roof, provides electricity for lighting in the common areas.

Transport

House-builders' climate change strategies should also address transport, which makes a significant contribution to the long-term emissions associated with developments and has significant socio-economic impacts. How and where people work, travel to schools, shops and leisure facilities, and how goods are moved around the country – accounts for over 30 per cent of carbon dioxide emissions in the UK. Reducing the need to travel and providing access to public transport can play a key role in minimising car use and its associated environmental impacts; the majority of journeys by car are less than five miles, where walking, cycling and public transport can provide viable low-emission alternatives.

Increased pressure is likely to be placed on developers by national and local planning authorities to address transport issues in order to help meet government commitments to reduce carbon dioxide emissions. While the contribution most house-builders make to addressing transport issues is negotiated during the planning process, some companies were able to provide project-specific examples of their own initiatives to reduce car use. Examples included incorporating car clubs and providing bikes to residents. However, few companies demonstrated a strategic approach to the issue on all developments. The best example was demonstrated by McCarthy & Stone who draw up 'Green Transport Plans' for all developments, have several car-free sites, and provide all residents with information about public transport and local services. McCarthy & Stone's customer profile (focused on customers approaching, and of, retirement age) means that this is a particular priority for them, as residents have different mobility needs compared with, for example, young professionals.

ECOHOMES STANDARDS

It was encouraging to find that all developers have piloted the EcoHomes methodology, with the majority of companies using it on several sites. In the previous analysis, only nine developers had done so.

Box 3: What is EcoHomes?

EcoHomes is an assessment method that rates the environmental qualities of new and renovated dwellings. Buildings are verified by independent assessors and rated on a scale of Pass, Good, Very Good and Excellent. EcoHomes provides an authoritative rating for new, converted or renovated homes, and covers both houses and apartments. It balances environmental performance with the need for a high quality of life and a safe and healthy internal environment. The issues assessed are grouped into seven categories: energy; water; pollution; materials; transport; ecology and land use; and health and well-being. Many of the issues are optional, ensuring EcoHomes is flexible enough to be tailored to a particular development or market.

The main factor driving greater uptake is the increasing emphasis being placed on the EcoHomes methodology in both the planning process and the social housing sector. Local planning authorities look at the methodology as a proxy for the sustainability of a development, and are beginning to demand that developers meet certain EcoHomes standards as part of Section 106 agreements. Both the Housing Corporation and English Partnerships require all development partners to build to EcoHomes standards; these requirements are becoming increasingly stringent. By April 2006, the Housing Corporation will require a minimum EcoHomes rating of 'Very Good', while English Partnerships has already set the standard as 'Very Good', with 'Excellent' required on Millennium Community sites. The South East England Development Agency and the Regional Housing Board in the south-east also require a minimum of 'Very Good' standard.

INCORPORATING ECOHOMES – EXAMPLES OF GOOD PRACTICE

"Several developers have now built dwellings with EcoHomes 'Excellent' ratings. Since 2000, only 20 developments have achieved EcoHomes 'Excellent'. These examples highlight those undertaken by the developers in the analysis, but are taken from a wider time than the analysis period. Taylor Woodrow had 199 units at Greenwich Millennium Village certificated to EcoHomes 'Excellent'. These follow the first phase of 100 units, which were also certificated 'Excellent'" – *Taylor Woodrow Corporate Social Responsibility Report, 2003*

"The development at Ropetackle, Shoreham, is being targeted for EcoHomes 'Excellent'. All houses in the development will have a high-energy rating, with some dwellings achieving a SAP rating of 110. The water consumption of the development will be 44.05m³ per bedspace per year through the specification of low flush toilets and lower consumption taps. Seventy per cent of all materials used on-site come from within a 25 mile radius" – *The Berkeley Group Sustainability Report, 2005*

"One hundred and three of Redrow's 'Debut' range of housing at Willins Green, Rugby, have at the design stage achieved EcoHomes 'Excellent' ratings" – *Redrow, press release 2005*

As outlined in the introduction, the Code for Sustainable Buildings is expected to further support and encourage the use of the EcoHomes methodology, and may address a number of the perceived weaknesses of EcoHomes, such as the lack of post-completion checks and mandatory minimum performance in key areas. Owing to the government's stated commitment to improve environmental standards in construction, the standards set within in the Code are likely to go beyond the existing commitments of the government agencies outlined above.

While the Code is non-statutory, the government has stated that by April 2006, all publicly funded homes have to be built in accordance with it. It is also anticipated that the government will work to increase public awareness of the Code and introduce incentives to encourage house-builders to use the Code on the private elements of their developments, in line with the recommendations of the Sustainable Buildings Task Force[34].

PROCUREMENT AND SUPPLY CHAIN MANAGEMENT

The house-building sector has considerable purchasing power. Using this power effectively could make a significant contribution to encouraging and expanding the market for, and utilisation of, sustainable building materials in the UK. Very few companies have adopted a strategic approach to supply chain management and procurement enshrined within appropriate policies and procedures. Most companies failed to demonstrate that they had put processes in place to implement consistent procurement standards or used their influence to lower the costs of procuring sustainable materials.

Box 4: One Planet Products

One Planet Products is working with partners within the construction and refurbishment industries to drive down the price and increase the supply and quality of sustainable building products and services.

It is a bulk buying initiative specifically focused on environmentally sustainable products and materials. One Planet Products will provide its members (Housing Associations, private developers and contractors) with a mechanism through which they will be able to purchase environmental products, materials and services more cheaply and more easily.

The scheme will also provide a forum for knowledge sharing and information dissemination.
One Planet Products is part of the One Planet Living® initiative. One Planet Living is a joint initiative between BioRegional and WWF.

www.oneplanetproducts.com

While five companies now have some form of environmental procurement policy, the quality of those policies varies considerably. No policy explicitly recommended using the *Green Guide to Specification* to inform product choice. It was also generally unclear how these companies verify that their suppliers adhere to these policies. While most companies stated that they had a preference for eco-labelled goods (where commercially feasible) they consistently failed to

[34] The Sustainable Buildings Task Force published its recommendations in the report *Better Buildings – Better Lives*, May 2004.

explain how they audit their supply chain to check whether all goods used are officially certified.

This point is perhaps best illustrated in the case of timber. All companies are now making a commitment to procuring timber from certified sources, with half stating a preference for timber certified by the Forest Stewardship Council (FSC). However, many of the companies seemed to trust that their timber suppliers were providing certified timber, and confirmed they weren't carrying out checks on this certification. The key to improving the way forests are managed is the credibility and quality of a certification system. In the last decade, however, an increase in the number of certification systems – of variable quality – is making it difficult for companies and consumers to judge the effectiveness of these tools. Currently, WWF considers the FSC certification system to be the only credible system that ensures environmentally responsible, socially beneficial and economically viable management of forests. WWF therefore recommends the FSC system to consumers, forest managers, policy-makers, businesses and the public. FSC enjoys the support of most national and international environmental NGOs, unions, social groups, indigenous peoples, private, communal and state forest owners, timber industries, scientists and numerous individuals worldwide.

Box 5: The UK-Forest and Trade Network (UK-FTN)

To harness the purchasing power of UK businesses to improve the management of the world's production forests, WWF-UK established the Forest and Trade Network (FTN). The WWF-UK FTN was founded to help its member organisations ensure that their timber and paper supplies come from well-managed forests, and don't contribute to forest destruction and illegal logging practices.

Members of the WWF-UK FTN have committed themselves to tracing their timber and paper products back to the forest source. The aim of the WWF-UK FTN is to provide a framework for members to adopt a stepwise, monitored approach that enables them to identify and move away from materials coming from unknown or unacceptable sources, towards products from credibly certified forests.

The WWF-UK FTN is affiliated to the WWF Global Forest and Trade Network (GFTN). The GFTN is an affiliation of national and regional Forest and Trade Networks (FTNs), each consisting primarily of companies committed to practising or supporting responsible forestry. All are working to encourage the more responsible use of forest products, eliminate illegal logging and improve the management of valuable and threatened forests.

At present, Redrow is the only house-builder (included in this report) to be a member of this group. Other companies that have made commitments to source FSC-certified timber should consider joining.

For further information, please go to the WWF website at www.wwf.org.uk/ftn

Poor environmental and social performance on the part of a supplier can lead to fines or campaigns that impact negatively on the client's reputation. For example, in 2002 Greenpeace waged a very public campaign against the government's use of uncertified timber in 22 Whitehall. An enquiry was set up by the government in the aftermath of the campaign. It found that "legal and sustainable timber procurement by departments has been half-hearted and confused in some instances, whilst non-existent in others. It is apparent that parliamentarians

and others have been misled, as contractors and project managers have claimed that they are implementing government policies whilst actually doing nothing of the sort."[35]

Greenpeace has more recently, but less publicly, targeted a number of house-builders that use the timber supplier Viciama, highlighting the companies' use of allegedly illegally-felled timber. Greenpeace sought assurances from all the companies that they had engaged with Viciama about this issue. This highlights the ease with which these issues can be overlooked even when policies to manage the issues exist, with the result that companies can easily expose themselves to significant reputational risk.

More positively, most companies stated that they were looking to increase the amount of materials reused on-site. This interest is being driven by higher landfill tax rates, and it could have sizeable environmental benefits. Bellway stated in its report that it reused over 220,000 tonnes of material on-site, a 10 per cent increase on the previous survey. A number of companies, including Persimmon and Taylor Woodrow, have worked with Waste & Resources Action Programme (WRAP) to examine which materials can be reused, and which can be replaced with recycled equivalents.

Many companies also failed to demonstrate that they engage extensively with their suppliers to communicate to them their environmental commitments and product requirements. To present a convincing case that they are fully integrating environmental concerns into their supply chain management, companies should ensure that they integrate sustainability issues into the tendering process, contractual requirements, ongoing monitoring of suppliers' and contractors' performance and post-completion reviews. The Berkeley Group was one of only a small number of companies who indicated that it has a structured process to assess and prioritise key suppliers in relation to risk and sustainability issues.

While very few of the house-builders were able to demonstrate that they are engaging with their suppliers in any depth, one of the better examples is summarised below:

SUPPLY CHAIN MANAGEMENT – GOOD PRACTICE EXAMPLES

Bovis Homes states in its 2005 sustainability report that:

"We maintain a positive dialogue with our suppliers in respect of environmental management and visit their manufacturing facilities on a periodic basis for development meetings to discuss environmental performance and ways to increase environmental efficiencies and reduce carbon dioxide emissions. We undertake detailed supplier reviews which includes management of finite resources, production efficiency, embodied energy, value engineering of product, logistical efficiencies, waste in transit, packaging, unloading on-site, product training and custody of supply chain."

Wilson Bowden also outlines its approach to supplier engagement in its report:

"Our Group procurement function instigated what is thought to be the construction industry's first Supply Chain Environmental Forum when it invited our key suppliers to discuss in the round how we can move forward together. The company also have an Environmental Supply chain improvement plan outlining key areas."

[35] This quote was taken from the Minutes of Evidence given to the Environmental Audit Committee on 1 May 2002. Full details can be viewed at: http://www.publications.parliament.uk/pa/cm200102/cmselect/cmenvaud/792/2050101.htm

CONSTRUCTION WASTE

The UK construction sector sends around half the 90 million tonnes of waste it produces each year to landfill. Current landfill tax rates stand at £2 per tonne for inactive waste such as rocks and soil and £18 per tonne for all other land-filled waste, which is due to rise by at least £3 per tonne in subsequent years to a rate of £35 per tonne by 2010.

The increased costs of sending waste to landfill, the recent changes in the hazardous waste regulations, and the growing importance of waste to many stakeholder groups, have served to make waste reduction a high priority for many developers.

Encouragingly, all the house-builders are beginning to address this issue. Most are looking, to varying degrees, to use modern methods of construction (MMC) to reduce waste. It is thought that MMC can confer waste savings as materials can be ordered to exact specifications. Westbury states in its 2005 Annual Report and Accounts that "Space4 technology significantly reduces the amount of waste generated by building compared to traditional construction methods". (It should be noted, however, that there is some disagreement about whether MMC provides the waste savings claimed; research by BRE on MMC homes did not find any significant savings[36].) It is therefore crucial that companies using off-site construction engage with their suppliers to ensure that waste minimisation practices are being employed during manufacture.

Where waste is being managed on-site, a number of companies have provided examples of how they are implementing site waste management plans and encouraging good practice on-site. One example is highlighted below. By setting benchmarks, companies can measure their performance and assess whether cost savings are being generated through the management of these issues.

ON-SITE WASTE MANAGEMENT – EXAMPLE OF GOOD PRACTICE

"Crest Nicholson intends to benchmark its contractor waste management practices and communicate best practice guidance to site managers on the reduction, re-use and recycling of waste. The effectiveness of waste reduction initiatives will be measured. In the short term we intend to keep skip waste costs below 0.5 per cent of total build cost"

The Table below demonstrates that there is a huge variation in how companies are reporting waste data, with very little consistency, meaning that the data is largely incomparable. Total volumes of waste are relatively meaningless unless they are linked in some way to business indicators (such as the units completed or build costs). In addition, the lack of a widely used and robust industry benchmark makes it difficult for stakeholders to assess whether performance is good, average or poor.

[36] Parliamentary Office of Science and Technology, *Postnote on Modern Methods of House Building*, Number 209, December 2003.

Table 5: Performance data on waste

Company (Turnover, 2004)	Reported data on waste
Barratt Developments (£2,327m)	Barratt does not provide an overall figure for the amount of waste it produces in a year. It does provide performance data for a number of waste streams, including the figure that 76 per cent of waste is recycled (with the remaining 24 per cent going to landfill).
Bellway (£1,093m)	Bellway reports the total amount of waste generated. In 2003-04 it produced 33,500 skips of general waste and 6,900 skips of hazardous waste. It also recycled 1,287 tonnes of plasterboard.
The Berkeley Group (£1,272m)	The Berkeley Group reports on the average number of seven yard skips removed per dwelling. In 2004, it produced 3.73 skips of waste per dwelling built.
Bovis Homes (£560m)	Bovis measures the value of materials wasted as a percentage of all materials the Group purchased. The rolling average for the last two years has been 6.35 per cent.
Crest Nicholson (£631m)	Crest Nicholson reports the estimated volume of waste produced per annum in cubic meters and skip waste costs as a percentage of total build costs. In 2003-04 Crest Nicholson produced 50,752 cubic metres of waste, and build skip costs represented 0.48 per cent of total build costs.
George Wimpey (£3,005.7m)	George Wimpey reports tonnes of waste produced per housing unit completed. In 2004, an average of 9.6 tonnes of waste was produced for each completed unit.
McCarthy & Stone (£317m)	McCarthy & Stone reports the average number of skips per dwelling built. In 2004, this was three.
Persimmon (£2,130m)	Persimmon does not publicly report waste data.
Redrow (£670m)	Redrow does not publicly report waste data.
Taylor Woodrow (£3,359m)	Taylor Woodrow reports cubic metres of waste produced per dwelling built. In 2004, 31.4m^3 of waste was produced per dwelling.
Westbury (£893m)	Westbury does not publicly report waste data.
Wilson Bowden (£1,282m)	Wilson Bowden reports on cubic metres of waste retained on-site and disposed off-site. In 2004, 127,441 m^3 of inert waste was retained on-site, along with 2850m^3 of remediated waste. Off-site disposal totalled 348,320m^3 of inert waste and 69,063m^3 of active waste.

With the capacity of landfill in the UK falling, and the costs of waste disposal soaring, those companies that are managing the waste they generate effectively are likely to see significant environmental and financial benefits.

Impact on society

OVERVIEW OF RESULTS

Companies have improved their performance on 'Impact on society', with the average score increasing from 45 per cent in the previous analysis to 69 per cent this year, as shown in Figure 10.

Figure 10: Impact on society: company ranking

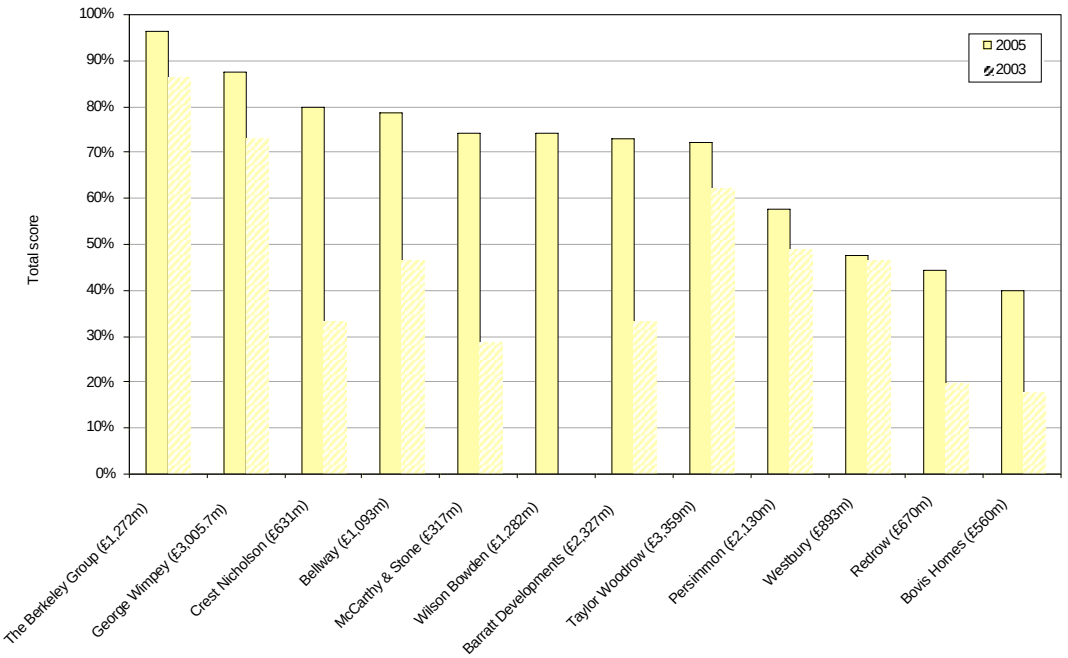
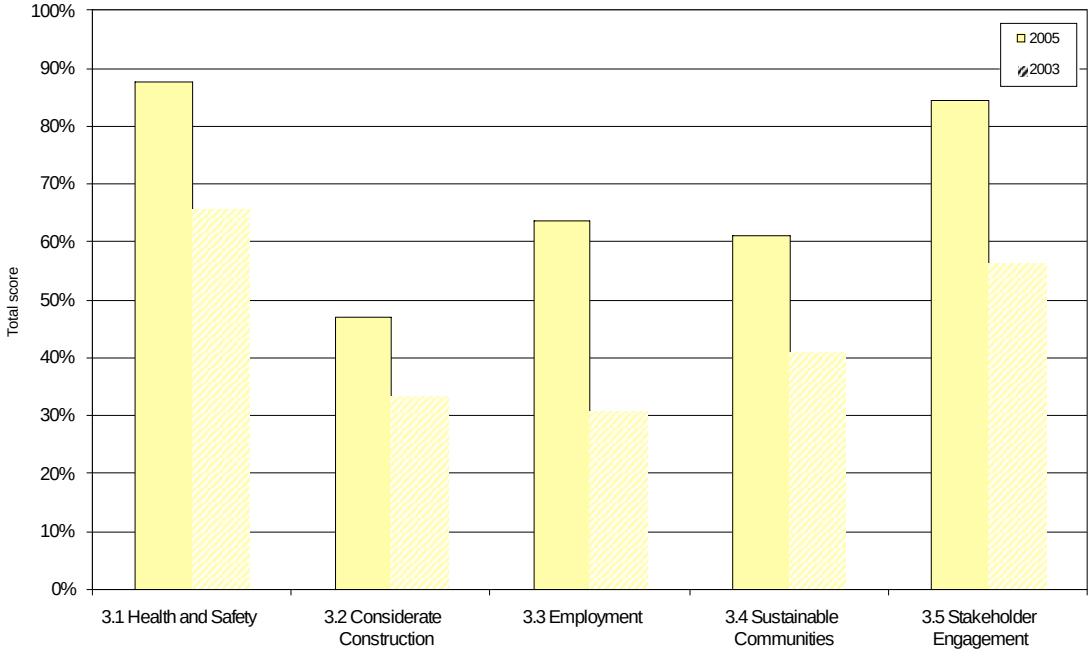


Figure 11 shows that companies' scores have improved on each aspect of the societal dimension of sustainability assessed here. Health and safety is clearly one of the highest priorities for house-builders; their scores on this issue have improved significantly. Their scores for stakeholder engagement have also improved since the previous assessment. However, there is still a considerable gap in understanding with regards to best practice in stakeholder engagement processes, with many house-builders simply undertaking extensive stakeholder consultation exercises, rather than genuinely involving communities in project design. Although the Considerate Constructors Scheme is now well established throughout the UK, there appeared to be some confusion concerning the eligibility of sites for the scheme, with many house-builders under the false impression that the scheme is only for large sites in London and the South-east. This may account for the lower scores against this criterion. Most companies are also doing more to address employment issues, both within the sector and the communities in which they build, and are involved in the provision of affordable housing. Some companies are starting to engage more actively with their customers to promote more sustainable lifestyles, though, on the whole, few companies address this issue in a holistic manner.

Figure 11: Impact on society: average score against each criterion



The remainder of this section of the report focuses on four of the issues evaluated: health and safety, affordable homes, employment and customer engagement.

HEALTH AND SAFETY

Health and safety (H&S) is a significant social impact of house-building and should be considered integral to any sustainability strategy. In 2003-04, 30 per cent of all worker fatalities occurred in the construction sector[37]. Around a third of all prosecutions taken forward by the Health and Safety Executive (HSE) are against construction companies. In response, the construction industry has set itself a target of reducing the fatal and major injury rate by 66 per cent by 2009-10.

It is encouraging to find that performance in this area has improved since 2003. This is partly because legislation has been tightened in areas where performance was poor; for example, 28 per cent of all major injuries in the sector were due to falls from height. New 'Work at Height' regulations were brought in earlier this year to address this issue.

As well as the obvious human welfare benefits of effective H&S programmes, developers can also make significant cost savings if they reduce the number of incidents. The statements below demonstrate some of the benefits of addressing health and safety issues.

[37] HSE – *Health and Safety Statistic Highlights 2003/04*. See: http://www.hse.gov.uk/statistics/overall/hssh0304.pdf

HEALTH AND SAFETY MANAGEMENT – THE BUSINESS BENEFITS

"The British Safety Council averaged out the cost of accidents; the cost for each type of accident was calculated:

First aid accidents £125

Over three day accidents £1,550

Major injury accidents £4,500

Based on these figures, the cost of accidents on our developments reduced by 16 per cent primarily because of the reduction in major injuries during the year."

Further data in Redrow's report shows that the total cost of health and safety incidents was around £220,000.

Redrow Health and Safety Report 2003-04

Taylor Woodrow has stated that "being seen as a responsible business helps us sell our product, recruit and retain people and benefit stakeholders". It believes that it benefits from good health and safety management and performance by "being seen as the company of choice for safety and productivity with our workforce and sub-contractors" and because "costs relating to claims, injuries and delays are minimised".

HSE, 2005[38]

Most companies include a detailed description of how they manage H&S within their reports. Barratt Developments provided the most detailed commentary, supported by performance data demonstrating a clear improvement in performance (see below).

HEALTH AND SAFETY REPORTING – GOOD PRACTICE EXAMPLE

"Over the last three years, the Barratt Group has implemented a company-wide Occupational Health and Safety Management System (OHSMS) with supporting documentation.

"The system is based on the Health and Safety Executive's model of HSG65 and includes: policy … and objectives and targets…, risk assessments, organisational arrangements, training and development, communication, operational control, emergencies, monitoring and reporting, inspections and management review. Since its introduction there have been significant improvements in Group health and safety performance achieving an incident rate in 2003/4 of 928. This is based on the number of incidents per 100,000 employees (including subcontractors)... We have an ongoing objective to reduce accidents further."

Ten out of the 12 companies publicly disclose their reportable[39] injury (or RIDDOR) rate, compared to only four companies in the previous analysis. In order to be able to compare their own performance year on year, and benchmark themselves against their peers, companies should report their reportable injury rate per 1,000 or 100,000 employees. Reporting the number

[38] To view the case study see: http://www.hse.gov.uk/businessbenefits/casestudy/taylorwoodrow.pdf

[39] RIDDOR reportable incidents are all incidents that are legally reportable under the UK Reporting of Incidents, Diseases and Dangerous Occurrences Regulations 1995.

of RIDDOR incidents independently from the number of employees means that the figures are not comparable with peers.

Table 6: Health and safety incidents

	RIDDOR rate per 100,000 personnel[40]	RIDDOR rate	Units completed
The Berkeley Group	680		3,805
George Wimpey	890		12,232
Barratt Developments	928		14,021
Taylor Woodrow	1,010		9,053
Redrow	1,059		4,284
Persimmon	1,146		11,273
Crest Nicholson[41]	1,266		2,524
McCarthy & Stone		10	2,055
Bovis Homes		21	2,700
Bellway		57	6,610
Westbury		No data	4,361
Wilson Bowden		No data	5,588

The table shows that there is no relationship between the scale of operations and reported injury rates. However, RIDDOR rates seem to vary significantly for companies of a similar size. It is clear from the table that some companies need to focus even more strongly on health and safety issues to match the better performance of their peers. As with the SAP ratings, it is difficult to draw any conclusions about specific companies' health and safety performance, as the data qualification notes within the publicly reported information are poor.

Box 6: CHaSPI: The HSE's Corporate Health and Safety Performance Index

Insight is a strong supporter of the new HSE Corporate Health and Safety Performance Index (CHaSPI). Launched in July 2005, this Index is intended to assist external stakeholders in assessing how well an organisation is managing its risks and responsibilities towards workers and the public. Internally, it can be used as an indicator of performance and, over time, progress in health and safety management. Insight believes that it is very much in investors' interests for directors to ensure that high occupational health and safety standards are maintained, not simply because it is the right thing to do, but also to avoid business interruptions and direct and indirect related costs that can affect financial performance.

[40] In some cases, companies report their RIDDOR rate per 1,000 employees. For ease of comparison, these figures have been converted to rates per 100,000 employees by multiplying by 100.

[41] This figure is taken from Crest Nicholson's 2005 Corporate Responsibility Report.

The HSE hopes that it will become *the* accepted benchmarking standard for health and safety, and that it will be used by investors and other stakeholders to judge the safety performance of large organisations. Insight strongly encourages house-builders to report using CHaSPI. Barratt appears to be the only house-builder that has committed to use this framework for its H&S reporting. We strongly urge other companies to sign up.

AFFORDABLE HOUSING

"A decent, affordable home is a key requirement of a sustainable community" – *Securing the Future: delivering UK Sustainable Development Strategy, 2005*

Affordable housing is a key issue for developers, particularly those developing in the south of England, where pressure in the housing market is high and the supply of affordable housing for key workers and others is inadequate. Deputy Prime Minister John Prescott has stated that the planning system should "encourage private development to pay for public services like schools, roads and affordable housing, which are needed to create sustainable communities"[42]. The government has set out its approach to affordable housing in *Planning Policy Guidance note 3 (PPG3): Housing*, detailing how the planning system can contribute to the overall supply of affordable housing. Following this, a number of local planning authorities and the GLA are demanding that developers provide increasing proportions of affordable homes. Indeed, the Mayor set a strategic target in the Draft Supplementary Planning Guidance on Affordable Housing that 50 per cent of new housing provision (supplied from all sources) should be affordable housing.

Table 7 (below) shows the percentage of affordable housing completed for seven of the companies. Some of those companies surveyed have, or are developing, strategies to deliver affordable housing, rather than simply responding on an ad hoc basis to planning authority demands. However, many companies are reluctant to expand into this sector because margins are much lower than on private housing. Crest Nicholson states in its 2003 Corporate Responsibility Report that its target for social housing turnover for 2004 is £75m.

Table 7: Delivery of affordable housing

Company	Percentage of affordable dwellings completed in last reporting year
Crest Nicholson (£631m)	28.2%
Bovis Homes (£560m)	11.2%
Barratt Developments (£2,327m)	9.3%
Persimmon (£2,130m)	9.0%
Bellway (£1,093m)	8.6%

[42] This quote is taken from a press release for the launch of the consultation 'Planning for Housing Provision'. See: http://www.odpm.gov.uk/pns/displaypn.cgi?pn_id=2005_0136

George Wimpey (£3,005.7m)	7.8%
McCarthy & Stone (£317m)	2.4%[43]

EMPLOYMENT

The socio-economic facets of sustainability are often the least developed aspects of companies' sustainability strategies. Providing employment and training are valuable ways in which companies can demonstrate their contribution to this dimension of sustainability. Training can provide opportunities for school leavers and the long-term unemployed to enter the job market. It can also help to address skills shortages within the industry – the National Federation of Builders has estimated that the industry needs an extra 430,000 new recruits over the next four years to address this shortage[44]. Skills shortages can have significant cost implications, and it is estimated that one in five companies are now experiencing shortages so severe that they are being forced to leave positions vacant.

In addition to addressing skills shortages, the Construction Industry Training Body (CITB) lists a number of other business benefits of employing apprentices, including higher productivity and increased workforce motivation. The Equal Opportunities Commission has also shown that there is a clear link between sectors experiencing skills shortages, such as construction, and the under-representation of women.

It was therefore encouraging to find that the number of companies addressing employment issues had increased substantially. House-builders can enhance local employment opportunities in a number of ways, including: training new people to enter the industry; building mixed-use development, increasing employment opportunities in the area; and proactively inviting local suppliers and subcontractors to tender for work.

The example from Westbury below highlights how it worked with the CITB to meet skills shortages.

EMPLOYMENT INITATIVES – EXAMPLE OF GOOD PRACTICE

"Westbury is also seeking to address the key skills shortages which are one of the most serious constraints on both our own building programmes and the growth of the industry as a whole. The apprenticeship scheme pioneered by our South West region, in partnership with the CITB, is now in its 10th year, offering three years paid apprenticeships in bricklaying and carpentry, with customer skills as an integral part of the course. Since its inception, the scheme has trained more than 100 young people for essential skills for a career in the industry" – *Westbury Annual Report and Accounts, 2004*

[43] McCarthy & Stone develop on much smaller sites than their peer group, and as such they have less space to incorporate affordable dwellings on-site. In addition to the 2.4 per cent affordable dwellings completed itself; McCarthy & Stone gives 4 per cent of its turnover to registered social landlords.

[44] http://news.bbc.co.uk/1/hi/uk/4658529.stm

During the benchmarking process, a number of companies provided examples of how they had worked with local employment agencies or other appropriate partners to provide opportunities for local people and/or the long-term unemployed. Two examples are given below.

EMPLOYMENT INITATIVES – EXAMPLES OF GOOD PRACTICE

The Berkeley Group

"At Gunwharf Quay, working in partnership with the Portsmouth Harbour Job Shop, a local labour scheme was established and the majority of the tenants signed up to the scheme. There is also a job page on the GWQ website so that people can see what positions are available on the site. The website receives 28,000 visitors per month. This combined with the ongoing construction opportunities will provide a wide range of jobs for all skill levels, to the benefit of the local area" – *The Berkeley Group Sustainability Report 2004*

George Wimpey

"In 2004, we became a partner in Business in the Community's Business Action on Homelessness programme. The initiative aims to help homeless people to find employment and achieve independent living" – *George Wimpey Corporate Social Responsibility Report 2004*

CUSTOMER ENGAGEMENT

As outlined earlier in the report, developing new housing can result in significant environmental impacts both during construction and occupation. How people live, work, travel and shop makes a significant contribution to the impacts of homes over their lifecycle. Customer engagement to promote more sustainable lifestyles should therefore be a central pillar within house-builders' stakeholder engagement strategies.

The overall 'ecological footprint'[45] of each resident is affected not only by how energy or water-efficient their home is, but also by whether they have easy access to public transport, recycling facilities and local food markets, for example. As well as improving the efficiency of the houses they build, and designing in easy access to local amenities and public transport, developers can help to minimise the long-term environmental impacts of residents by providing information about 'sustainable lifestyles' to customers.

The engagement process demonstrated that some companies are starting to engage more actively with their customers to promote more sustainable lifestyles. However, on the whole, few companies address this issue in a holistic manner. As already discussed in section 2, customers are increasingly keen to know about the environmental credentials of the homes they are buying. This information can be provided alongside tips on how to save energy and water and reduce waste (see example from Bellway below).

[45] The Ecological Footprint is one way of measuring how people's lifestyles impact on the planet and other people. It calculates how much productive land, freshwater and sea is needed to produce food and provide all the energy, water and materials people use in their everyday lives. It also calculates emissions generated from fossil fuels and determines how much land is required to absorb waste.

ENGAGING WITH CUSTOMERS – EXAMPLE OF GOOD PRACTICE

"Every household in the UK creates around six tonnes of carbon dioxide every year, the equivalent of filling six hot air balloons 10 metres in diameter. Nearly £5 billion is wasted on energy in the UK every year. Collectively, we spend £800 million on electricity, by using washing machines, tumble dryers and dishwashers. This produces a total of five million tonnes of carbon dioxide every year.

In designing and building your new home we have taken great care to minimise our impact on the environment. Your new home already includes a number of energy saving features that have been incorporated during the construction process. The legacy we leave at the end of the development scheme is important to us and we are keen to encourage our new home-owners to share our concern for the environment. Consequently we have below 10 simple conservation tips that will reduce environmental impact, which we hope you will be able to incorporate into your daily routine.

Recycle – It takes lots of energy to make newspapers, aluminium cans, aerosols and plastic bottles. Recycling these items uses less energy than it takes to make them. Sixty per cent of household waste can be either recycled or composted.

Heating – By reducing your heating by one degree (as long as you feel comfortable) you could cut up to 10 percent off your fuel bill.

Washing – By using a 40°C washing cycle instead of a 60°C cycle you will use a third less electricity, and modern washing powders work just as well at low temperatures.

Laundry – Wait until you have a full load before using your dishwasher and washing machine, or use the economy button.

Unplug appliances – Most idle appliances –(TVs, VCRs, DVDs, cassette decks, cordless phones and microwaves) continue to consume energy when switched off and account for five per cent of total domestic energy consumption.

Lighting – Use energy efficient light bulbs. They use around a quarter of the electricity and last up to 10 times longer than ordinary bulbs.

Kettles – Boil your kettle half full instead of full four times a day and you could save enough money to run your TV for four hours.

Water – If possible save water by installing a water butt under down pipes. Use this to water your garden in the cool of the evening to reduce evaporation.

Gardening – Wild flowers belong in the wild. Check that plants, seeds and bulbs are from cultivated stock. Ask your garden centre for peat-free products and use reclaimed stone. Be water conscious when choosing plants and designing your garden, and incorporate a wildlife element such as a bird box.

Turn off lights – Ten per cent of the average home's electricity can be saved by the flick of a switch."

Bellway Hand Over pack

While several companies are beginning to include information in their handover packs about sustainable lifestyles, few do so consistently and comprehensively. The South East Regional Sustainability Checklist for Developments (www.sustainability-checklist.co.uk), developed by BRE and SEEDA, details the range of information that could be included in a handover pack:

- Public transport services
- Local facilities/amenities
- Energy efficiency
- Crime prevention
- Water conservation
- Refuse collection and composting.

The checklist states that a pack meets good practice if information on at least three of these topics has been provided. If a pack covers at least five of the topics, it meets best practice. None of the companies was able to provide examples that meet these good or best practice standards.

Conclusions and recommendations

OVERALL PROGRESS

Insight Investment and WWF are encouraged by, and strongly welcome, the substantial improvement in the practices and reporting of all 12 house-builders assessed in this year's benchmark. On the whole, the companies demonstrate a better understanding of the relevance of sustainability issues to their business, and have made significant strides in addressing them. The majority of companies also engaged actively, providing us with detailed evidence and feedback throughout the assessment. We believe that companies' improved performance in this year's analysis is due, in part, to the constructive dialogue between the companies, Insight and WWF over the last two years.

Characteristics of the best performing companies

The particularly high scores (of over 80 per cent) achieved by the three leading companies – Crest Nicholson, The Berkeley Group and George Wimpey – demonstrate what can be achieved. Several factors set these companies apart:

- They take an increasingly comprehensive, strategic and systematic approach to responding to policy and market imperatives to deliver sustainable communities and sustainable homes.
- They have begun to integrate sustainability into their business strategy, taking a broad, group-wide approach rather than a compliance-driven, ad hoc, approach.
- They have set clear objectives and measurable targets for the business as a whole and have begun to collect data across all operations, enabling them to monitor their progress in achieving those objectives and targets.
- They demonstrate good practice on a range of issues across many sites.
- They are piloting new technologies and ideas to continually develop their understanding of their viability as solutions to particular environmental and social challenges.

This more strategic approach will, we believe, enable these companies to deliver better environmental and social outcomes and add value to their businesses. We urge other companies – both those included in this analysis and the many other private house-builders in the UK not assessed here – to learn from and emulate these leading companies.

Capturing the business benefits of sustainability

In our view, all companies should work harder to track and assess the business benefits of their programmes to address sustainability issues – and report on them. No company yet articulates within its Annual Report and Accounts how its sustainability strategies and practices help it to manage risk and add value to the business – though in discussion, many companies can provide examples of this. We strongly encourage house-builders to include an explanation of those benefits in their financial reports. Indeed, the new OFR requires companies to provide a comprehensive and balanced account of the current position and future prospects of the business so as to enhance investors' and other stakeholders' understanding of the company. We believe that for house-builders this should include a discussion of how government policy and market drivers relating to sustainability shape or influence the business, how the company has responded to them, and what the resulting impact on the business has been.

Reporting and stakeholder engagement

On the whole, the quality of disclosure has improved enormously. Ten of the 12 house-builders now produce a separate sustainability report and all reports now address both environmental and social issues to some extent. However, some weaknesses remain. Many companies still do not report comprehensively on their work to comply with sustainability-driven policy and regulation, or their efforts to deliver against their own sustainability policies. This suggests they need to work harder to ensure that their reporting provides a full and fair reflection of their practice, enabling them to gain fuller recognition from stakeholders. Moreover, few companies have yet fully identified, at group level, their key stakeholders and developed strategies to engage with them and address their concerns systematically. Producing good sustainability reports and using websites more effectively are ways that house-builders could improve their communication with stakeholders; but there is much more companies could do in this regard.

Voluntary measures versus regulation

All the house-builders have already adopted some voluntary standards and good practice codes on selected sites. Examples include the assessment of private homes using the EcoHomes standards, the implementation of the Considerate Constructors Scheme and the use of the 'Secured by Design' standard. Further, where such standards do not yet exist, some house-builders have developed their own initiatives to address specific concerns. These include schemes to enhance biodiversity and promote more domestic recycling, through to programmes to improve health and safety and boost local employment, which Insight and WWF strongly welcome. However, we believe there is room for more creativity and innovation in the sector, and encourage companies to continue to develop similar initiatives, in partnership with relevant expert organisations, and roll-out those that are successful across the whole business.

Government enforcement of some building regulations, particularly Part L, appears to be patchy. We would therefore encourage the government to deliver more effective enforcement to ensure that minimum environmental and quality standards are achieved across the sector. With respect to future regulation, we believe that the industry will be in a much stronger position to avoid additional measures if it can demonstrate that companies can deliver, through voluntary initiatives, a range of good environmental and social outcomes that helps the government to achieve its policy objectives. Making a commitment to adopt, over the medium term, the standards set in the Code for Sustainable Buildings for all developments (not just social housing) would be one example. This is also particularly relevant in light of the Hampton Review, which recommended that businesses with the poorest records of compliance should face the strictest enforcement regime, and those with the best records, the lightest. Should a regime based on this principle be adopted, those companies that demonstrate robust sustainability policies, good governance systems and evidence of resulting good performance would more easily demonstrate compliance with regulation and therefore face a lighter enforcement regime.

Enabling sustainable homes and lifestyles

Developers could play a much greater role in reducing the long-term impacts of developments by designing them to make it easier for residents to live a more sustainable lifestyle. Developers should ensure that energy, transport, water and waste infrastructure is designed to minimise resource use and carbon emissions.

Despite several pieces of research demonstrating that home-buyers are increasingly interested in the environmental characteristics of their homes, the industry is not doing as much as it could to respond to this demand. Most are missing the opportunity to highlight to customers the relatively high levels of energy efficiency they achieve through good insulation, energy efficient appliances and lightbulbs, and water efficiency measures such as dual flush toilets and water butts. Not only do these measures help to demonstrate how the development will enhance their customers' quality of life, they also save them money. House-builders are therefore missing a valuable opportunity to enhance their reputation with prospective buyers by not outlining in marketing materials, home-owner 'manuals', or marketing suites, the 'sustainability' attributes of their developments.

Moreover, the majority of companies are not doing as much as they could to encourage their customers to lead more sustainable lifestyles once they move into their homes. They could do this by, for example, providing easy access to a wide range of local amenities and public transport options, as well as safe walking and cycling routes. Nor do all companies provide home-buyers with information about local recycling facilities, public open space, ecological features, transport options, local community facilities and shops.

Government policy

Stricter planning policies, tougher building regulations, and fiscal measures such as environmental taxation appear to be the principal drivers of better performance on issues such as public transport, energy efficiency, construction waste, health and safety and accessibility. However, as highlighted in the 2003 report, companies again emphasised their experience that government policy and planning guidance is applied inconsistently in different parts of the UK, thus making it difficult for them to develop coherent strategies and adopt practices to ensure that they can deliver consistent sustainability standards nationwide. The companies expressed frustration that the government has not provided clear guidance to accompany PPS1, explaining clearly its definitions of, and objectives with respect to, sustainability. Companies have also expressed exasperation with the proliferation of different sustainability guidance and best practice standards used by local planning authorities.

In addition to specific issues associated with the physical design of developments, many of the companies seem to be struggling to understand some of the social dimensions of sustainability and their role in delivering sustainable communities. In particular, the contribution that developers can make to enhancing long-term training and employment opportunities has not yet been fully explored. Nor has their role in supporting community governance structures to enable new residents to participate in the management and decision-making processes and after the builder has left the site. These are both areas in which greater guidance and support appears to be needed from the government.

The influence and importance of clear and consistently implemented government policy in achieving higher sustainability standards is unquestionable. While the value of regulation is that it sets one standard for all companies, market incentives can also be used to encourage companies to innovate and find creative solutions to environmental and social problems. However, at present, there is a notable lack of government-backed financial incentives to further encourage developers to adopt more sustainable practices. Insight and WWF strongly encourage

the government to introduce and/or support market and fiscal incentives that would stimulate and reward more widespread adoption of sustainable practices.

RECOMMENDATIONS

The extensive analysis of, and dialogue with, 12 major UK house-builders over the five months of the benchmarking process has yielded a number of recommendations for both companies and the government, which we hope will be of value and widely adopted.

Recommendations for house-builders

With respect to sustainability strategy and management systems, all UK publicly-listed and privately owned house-builders should:

1. Take a strategic, proactive and systematic approach to addressing sustainability issues.
2. Adopt a comprehensive, board-approved sustainability policy that integrates environmental, social and economic issues and relates clearly to the overall business strategy.
3. Set clear objectives, management and performance targets and develop a group-wide strategy for measuring and achieving them. Commit to continuous improvement.
4. Establish more rigorous and formal procedures to identify and manage non-financial risks. Integrate these into the central risk register and ensure that the board or a board committee reviews these risks regularly.
5. Articulate clearly in annual reports and accounts how the company's sustainability programmes mitigate risk and add value to the business. Prepare to report according to the new OFR standard from 1 April 2006.
6. Develop a communications strategy and reporting protocol that utilises annual reports, sustainability reports, the group's website(s), media and marketing releases. Report against selected key performance indicators and normalise data to allow comparison year-by-year and between companies.
7. Identify all key stakeholders at group and site level and develop a strategy to engage with them proactively and regularly.
8. Innovate and experiment with new technologies and solutions to environmental and social problems; roll out successful initiatives across all operating units. Encourage units to share ideas and solutions. Partner with expert organisations to share risk and costs.

With respect to addressing specific environmental and social impacts, companies should:

1. Place much greater emphasis on understanding the likely impact of climate change on the industry and individual businesses and take significant steps towards reducing the greenhouse gas emissions of their own operations and over the lifetime of homes.
2. Commit to achieving the EcoHomes 'Very Good' standard for all homes built and commit to adopting the Code for Sustainable Buildings for all developments when it is introduced.
3. For all sites, fully consider the opportunities to enhance biodiversity in line with local and regional planning authorities' biodiversity action plans.
4. Aim to reduce car dependency by designing developments with good access to local amenities, encouraging cycling and walking, and introducing measures such as car clubs.
5. Seek to achieve high levels of water efficiency through measures such as water-efficient appliances and rainwater butts on all developments, and pilot rain and grey-water recycling systems where supported by local authorities.
6. Integrate facilities to enable occupants to separate and recycle waste on all developments.

7. Quantify all waste volumes and waste streams with a view to reducing the amount of waste sent to landfill and recycling more waste material during construction.
8. Sign up to the Considerate Constructors Scheme for all major developments, both in urban and rural areas.
9. Integrate environmental standards into procurement policies. Engage with suppliers. Set up systems to verify suppliers' compliance with the standards set by the company.
10. Develop targeted programmes to address the skills shortage within the industry and to boost local employment opportunities.
11. Continue to formalise and improve H&S management systems to drive down deaths, injuries and accidents. Participate in the HSE's CHaSPI initiative.
12. Provide prospective buyers and customers with comprehensive information about the environmental features of their home and with guides that encourage them to live more sustainably.

Recommendations for the government

We recommend that the government:

1. Ensures that planning policy and supporting guidance is applied consistently across the UK.
2. Produces clear guidance to accompany PPS1, including definitions of sustainability.
3. Recommends the use of Regional Sustainability Checklists for Developments alongside planning policy, to complement the Code for Sustainable Buildings when it is introduced.
4. Ensures that the Code for Sustainable Buildings sets standards equivalent to the EcoHomes 'Very Good' standard as a minimum, and encourages and provides incentives for its uptake for private housing.
5. Ensures better enforcement of building regulations and adopts the principles proposed by Hampton of adopting a lighter touch compliance regime with companies that perform well on sustainability issues, as demonstrated by analyses such as this.
6. Provides clearer guidance regarding the role of house-builders in delivering the social objectives of sustainable communities, and explores initiatives with them to achieve those objectives.
7. Introduces fiscal incentives to stimulate and reward developers and householders who adopt more sustainable practices.
8. Engages proactively with other private sector actors in the housing market to explore whether new products and services could be introduced to help to achieve its vision of sustainable communities in the UK.

Appendix 1

DETAILED SURVEY METHODOLOGY

WWF, Insight and Upstream, the project consultants, drew up the criteria in 2003 that were used in both the 2003 and 2005 analyses to assess companies' reporting and performance, referring to a range of standards available at the time. Principal among these was the EcoHomes standard, developed by the Building Research Establishment (BRE). Others included the Local Government Management Board and the University of the West of England's guide to sustainable planning, the South East England Development Agency's Sustainability Checklist and various other regional and local supplementary planning guidance and best practice guidance.

Companies were assessed on three sets of criteria relating to their strategy, governance and risk management, impact on the environment, and impact on society. Each section was given equal weighting, as were the questions. Of the three sections, that relating to companies' environmental impacts was the most demanding as extensive performance data was required and formed a significant proportion of the score. The table below shows the performance required to score at the highest level against each issue.

Criteria	Issues addressed	Performance needed to meet best practice
Strategy, governance and risk management		
Risk management	This criterion examined whether house-builders could demonstrate a robust and transparent process to identify and manage key non-financial risks faced by the business.	Core reporting includes a detailed description of the company's approach to identifying and managing non-financial risks.
Board commitment	This criterion addressed whether a house-builder could demonstrate that its board is committed to sustainability issues. It also examined whether the company has appointed a board member with overall responsibility for sustainability issues, and whether senior management/board level meetings take place regularly covering sustainability issues. Companies were also asked to demonstrate that they deploy appropriate resources – internal and external – to ensure that their sustainability strategy can be effectively implemented.	The company has secured board level commitment to addressing sustainability and has a high-level committee to oversee the integration of sustainability issues into business decision-making. The company uses external experts to assist with implementing the sustainability strategy.
Sustainability polices	This criterion addressed whether a house-builder has an overarching sustainability policy in place setting out its key long-term objectives. It also addressed whether this and other supporting policies (such as environmental and health and safety policies) are available to both internal and external stakeholders.	The company has a board-approved comprehensive sustainability policy integrating environmental, social and economic responsibilities and publishes its policies in full in its core and supplementary disclosure.
Disclosure	This criterion examined whether house-builders were open and transparent about their non-financial performance. Information within both core disclosure and separate reports and/or on a company's website was taken into account. The disclosure was assessed on whether it included information relating to both the management of sustainability issues and performance data, and	Supplementary disclosure has external assurance and contains full descriptive coverage (environmental, social and economic) with management targets and extensive performance data, targets and priorities for the coming year. Core disclosure contains a description of progress over the past year, supported by relevant

	gave an indication of company's future priorities and targets. This criterion also examined whether the reports were externally assured.	performance data and targets for the coming year. Reports are independently verified.
Impact on the environment		
Management systems	This criterion addressed whether house-builders have systems and procedures to ensure that they can effectively manage sustainability issues. Specifically the criterion assessed whether companies have an environmental management system in place, and whether they are open and transparent about compliance with environmental legislation.	The company has an environmental management system certified to ISO14001 or EMAS and makes its environmental prosecution data available to external stakeholders.
EcoHomes	This criterion addressed the extent to which companies are using, and are planning to use, the EcoHomes methodology to assess the dwellings they build.	The company uses the EcoHomes methodology on all new developments (both private and social housing) and has a target to achieve 'Very Good' or 'Excellent' ratings on all dwelling it builds.
Ecology	This criterion examined how house-builders are integrating biodiversity issues into development and dwelling designs. The criterion examined the extent to which house-builders committed to enhancing biodiversity on the developments they build.	The company completes and implements full biodiversity action plans for all major developments and monitors implementation.
Climate change	House-builders were asked to demonstrate their commitment to addressing the long-term challenges posed by climate change. The criterion covered a number of issues, including whether house-builders achieved high standards of thermal efficiency in their dwellings, whether they encouraged customers to use energy efficiently by installing energy efficient appliances and light fittings, and whether they had incorporated renewable energy in any developments.	The company recognises climate change to be a critical business issue and demonstrates a commitment to achieving high standards of thermal efficiency; it procures white goods with an energy efficiency rating of B or above, and provides examples of projects that integrate renewable energy. The company can also provide performance data and targets relating to its climate change impacts.
Water	This criterion addressed whether house-builders have sought to address the challenges posed by the lack of water resources in the UK and the long-term effects of climate change on development infrastructure (e.g. increased flooding). It addressed issues such as the incorporation of water minimisation devices into dwelling designs, the use of grey water recycling and rainwater harvesting and sustainable urban drainage systems.	The company can provide examples of projects that have incorporated water minimisation devices, specified water efficient white goods, and used rainwater harvesting or grey water recycling systems with integrated sustainable urban drainage systems.
Domestic waste	This criterion addresses whether house-builders contribute to a reduction in the amount of household waste sent to landfill by enabling their customers to recycle more effectively.	The company integrates communal waste management facilities on all major projects. It can provide examples of projects that have incorporated facilities for storing separated waste into individual dwellings, as well as facilities for storing organic waste.
Transport	House-builders were asked to demonstrate that they seek to reduce the car dependency of their developments. Issues addressed under this criterion included the use of innovative transport initiatives (such as car clubs), and the provision of infrastructure over and above local planning authority requirements.	The company acknowledges the importance of reducing car dependency, states a commitment to upgrading local infrastructure beyond local authority requirements, and can provide examples of innovative initiatives to reduce car dependency and the environmental impacts of car travel.
Procurement	This criterion addressed whether house-builders integrate environmental criteria into their procurement processes. Issues addressed under this criterion included whether companies have an environmental procurement policy, whether they specify timber from certified sources, whether they	The company states that it has a consistent and detailed process for considering the environmental impacts of materials and specifies the use of recycled/ reclaimed materials, materials with low embodied energy, and timber from FSC-certified sources. The company discusses with its suppliers their approach to

	specify materials with a low environmental impact, and whether companies have engaged with their supply chain to address environmental issues.	environmental impacts.
Construction waste	This criterion addressed whether a house-builder could demonstrate that it had sought to design waste out of the construction process and develop systems for the effective management of on-site waste.	The company states that it has integrated waste management strategies on all sites and regularly monitors implementation. Performance data and targets are available externally.
Impact on society		
Health and safety	This criterion addressed whether house-builders had a comprehensive health and safety management system in place. The companies were asked to demonstrate that they audited the implementation of the system on a regular basis and to report on incident rates.	The company carries out internal and external health and safety audits, and the board member with responsibility for these issues carries out regular site visits. Heath and safety performance data and targets are available externally.
Considerate construction	This criterion addressed the use of the Considerate Constructors Scheme by house-builders. The scheme provides a proxy for how considerate constructors are to the needs to the local community during the development process.	The company participates in the Considerate Construction Scheme on all eligible projects.
Employment	This criterion addressed whether companies had sought to contribute to the development of skills within the industry.	The company has a commitment to employing local labour on all major schemes. It can provide examples of local employment initiatives and strategies for combating long-term unemployment.
Sustainable communities	This criterion addressed whether house-builders could demonstrate that they had contributed to the creation of vibrant and cohesive local communities. Issues this criterion addressed included the provision of affordable housing, the establishment of community trusts and engagement with customers to promote sustainable lifestyles.	The company has a specialist team dedicated to the delivery of affordable housing. It can provide examples of where it has developed a long-term neighbourhood management strategy and engagement with customers to promote sustainable living.
Stakeholder engagement	This criterion addressed whether house-builders had identified and engaged with their key stakeholders. It also addressed whether companies were working with other bodies to promote best practice on sustainability issues within the industry.	The company has identified its key stakeholders and can provide examples of detailed stakeholder dialogue as well as open, proactive relationships with NGOs and other organisations to promote best practice in sustainability.

Appendix 2

COMPANY ENGAGEMENT

1 Initial engagement for the 2005 survey. In March, Insight and WWF sent out a letter to all 12 companies outlining the process of the survey in 2005 and including a timetable.

2 Analysis of publicly disclosed information. During mid-April to early May thorough analysis and comparison of information from each company's sustainability/CSR reports, Annual Reports and Accounts and websites against the criteria was undertaken.

3 Initial analysis sent out to companies. The initial analysis contained preliminary scores based on publicly disclosed information, accompanied by a report that was sent out in the week beginning 9 May. The report detailed the information used to score each criterion and provided comments on the information given. These comments highlighted both positive and negative aspects of the disclosed information, as well as highlighting issues that may be discussed further in the meetings. For some criteria, companies were asked to provide additional information to support statements in their reporting.

4 Meetings with house-builders. Meetings were held two weeks after the initial analysis had been fed back to the companies, enabling them to collect information in the areas that they wished to increase their scores. The meeting provided a forum in which WWF and Insight could get a better feel for a company's approach to sustainability, and to allow companies to provide evidence of how they had met the criteria, and to discuss issues of significance to themselves.

5 Post-meeting engagement. Following the meetings, companies were provided with a period in which they could provide substantiation of claims made in the meetings. A reminder was sent on 22 June outlining what information the companies had said they would provide in the meetings.

6 Final scores and analysis sent to companies. Based on further information gathered during the meetings and the subsequent period, companies were given a post-meeting score. These scores and the accompanying analysis (in a similar format to the initial analysis) were sent back to companies in the week beginning 11 July.

7 Final engagement period. The companies were given until 29 July to feed back any further information and query their final scores.

upstream
strategies for sustainable futures

Upstream conducted the analysis for this report on behalf of WWF and Insight Investment.

Upstream is a strategic sustainability consultancy specialising in the built environment sector. Upstream assists its clients to develop strategies for economic, environmental and social responsibilities, and to integrate and align them with their business goals.

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The mission of WWF is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by:
· conserving the world's biological diversity
· ensuring that the use of renewable resources is sustainable
· promoting the reduction of pollution and wasteful consumption

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