The ESG Playbook
(and why you need one)

How successful organisations address Environmental, Social and Governance considerations

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How successful organisations address Environmental, Social and Governance considerations

The context within which business operates is rapidly changing.

Unprecedented environmental challenges such as climate change, a growing awareness of social inequalities and a global pandemic have accelerated a deeper understanding by stakeholders that environmental, social, and governance (ESG) factors affect value creation and the long-term success of an organisation.

Investors and tenants are increasingly demanding more efficient buildings, climate change resilience and preparedness, and enhanced health, safety, and social benefits. Added to this, changing policy and regulation will continue to drive business, industry, and regulators to address these issues and increase transparency.

Successful leaders must stay ahead of these trends and be proactive about managing the resulting risks and opportunities.

By taking a long-term strategic view of ESG, organisations will:

- Meet existing and emerging legal and regulatory requirements
- Reduce cost of input materials and operational costs
- Provide the foundation for realising a net zero carbon roadmap
- Minimise business disruption from environmental, social, and economic impacts
- Maintain their social license to operate and protect brand value and reputation
- Improve staff engagement and customer advocacy
- Reduce cost of capital by meeting rising investor expectations
- Drive innovation, discover new markets and tap into unmet demands

This ESG playbook is a practical and essential guide for leaders of any organisation that invests in, delivers or manages built environment assets and services. It is your blueprint for building winning business strategies, mitigating reputational risks and capturing lasting value.

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There are four key initiatives involved in gaining value from ESG in your organisation

1

Develop corporate sustainability strategies that address all three areas - Environmental, Social and Governance (ESG) - in your operations, in your supply chain and in how you interact with your market and stakeholders.

2

Undertake climate risk assessments and identify mitigation strategies aligned with a model such as that of the Taskforce for Climate-Related Financial Disclosures.

3

Develop and implement Net Zero carbon strategies and plans that are benchmarked and verified against a third-party standard such as Science-Based Targets, the Climate Active Standard or ISO 14064.

4

Be transparent and visible with your ESG benchmarking, strategy, targets and implementation through public disclosure and certifications, for example, engaging with GRESB or CDP reporting.

> Corporate sustainability starts with a company's value system and a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour and anti-corruption. Responsible businesses enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another.
>
> *UN Global Compact*[i]

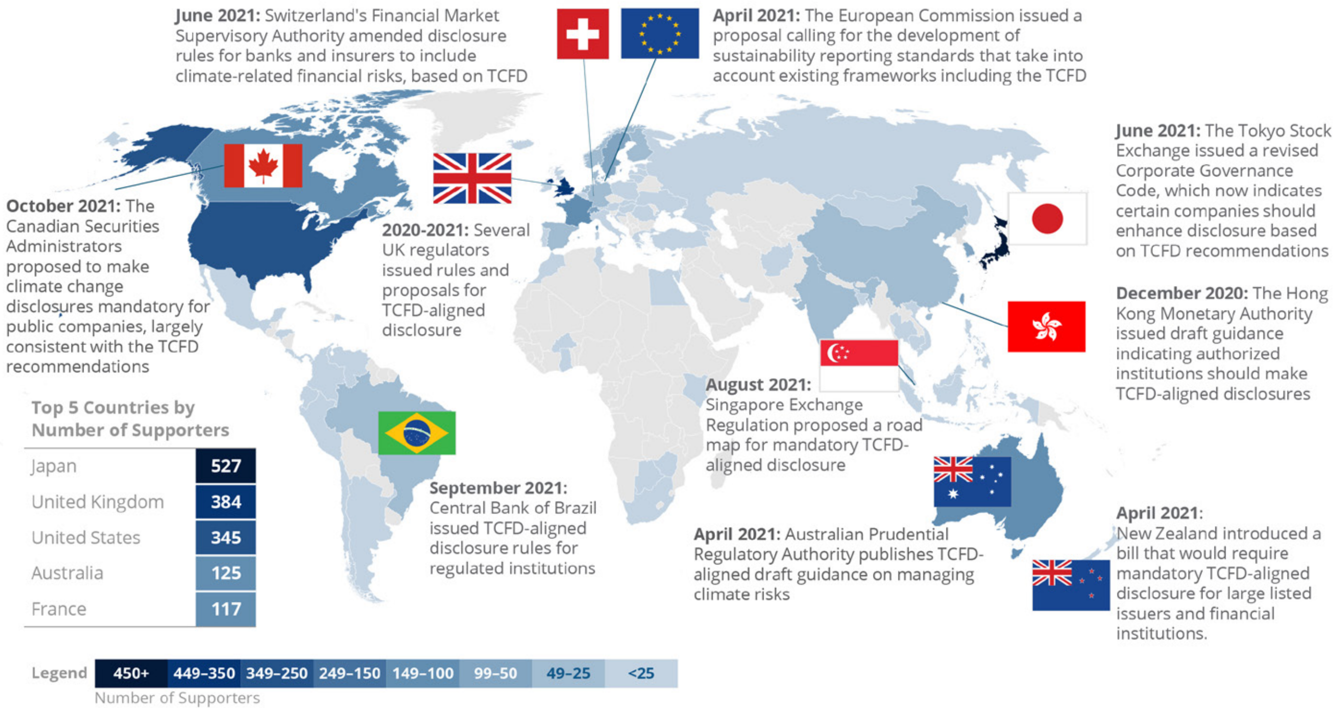
The rules of engagement

People often wonder

Is this just a passing trend?

ESD and ESG are not some new branding tactic. 2022 marks 30 years since world leaders met for the United Nations Conference on Environment and Development (also known as the 'Earth Summit') in Rio de Janeiro, Brazil, in June 1992. The resulting frameworks and agreements that laid the foundation for 21st Century ESG included the Rio Declaration, Agenda 21, the United Nations Framework Convention on Climate Change (UNFCCC) and the Convention on Biological Diversity[ii].

We only have to look at how rapidly capital has been moving into responsible investment, assets and equities to see how the momentum has grown. Nasdaq reported that in 2020, net inflows into ESG funds in the USA reached USD$51.1 billion – more than double the record-breaking USD$21.4 billion in 2019. By the end of the first quarter of 2021, inflows escalated even further, reaching nearly USD$2 TRILLION in just three months.



Top 5 Countries by Number of Supporters	
Japan	527
United Kingdom	384
United States	345
Australia	125
France	117

Various jurisdictions are taking steps to encourage or mandate TCFD-aligned disclosure requirements[iv]

> A stronger external-value proposition can enable companies to achieve greater strategic freedom, easing regulatory pressure. In fact, in case after case across sectors and geographies, we've seen that strength in ESG helps reduce companies' risk of adverse government action. It can also engender government support.
>
> *McKinsey*[v]

The rules of engagement

Deciphering the acronyms

ESG: Environment, Social and Governance

An entity's impact on the environment, people and communities, and the integrity/ethics of its own internal management processes.

ESD: Environmentally Sustainable Development

Considering - and where possible reducing - the impact of activities on soil, water, atmosphere, biodiversity and ecosystem processes. In the construction context, ESD also stands for Environmentally Sustainable Design or Ecologically Sustainable Design and addresses the environmental and social impacts of building design including architecture, materials and operations.

SDGs: Sustainable Development Goals

The 17 SDGs are the core of the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015. They set the trajectory and targets for both ESD and ESG in all nations across both the natural environment and human/urban landscapes and enterprise.

SBTi: Science-Based Targets initiative

Sets benchmarking goals for emissions reduction to achieve the less than 1.5 degree average global temperature rise climate scenarios of the Paris Agreement. Goals, including pathways to net zero carbon, are based on the most recent climate research by the global science community, collated by the IPCC (Intergovernmental Panel on Climate Change).

SRI: Socially Responsible Investing

Financial allocations that include ESG screens in the decision matrix.

GRESB: Global Real Estate Sustainability Benchmarking

A competitive global ranking of institutional and portfolio real estate asset owners and funds based on their governance practices, ESG targets, engagement activities, environmental and carbon emissions performance reporting and improvements.

TCFD: Taskforce for Climate-Related Financial Disclosure

An international working group that published a framework of recommendations for financial and commercial organisations to review their climate related risks and opportunities, and develop metrics and targets for mitigation and adaptation pathways.

CDP: (formerly the Carbon Disclosure Project)

An international not-for-profit that operates a global disclosure and rankings system for investors, companies, cities, states and regions to declare and manage their impacts across climate change, forests and water security.

Future-facing bottom lines

ESG is central to the value proposition for any organisation. It is not just a 'feel good' moment – there are tangible and commercial benefits that are recognised by leading financial analysts including S&P, Moodys, Nasdaq, Dow Jones, Morgan Stanley, EY, KPMG, PwC and Deloitte.

> The reasons investors care about ESG in their investment can be broadly classified into four categories: financial, competitive, strategic and perception. Overall, investors consider ESG investments safer and more stable bets.
>
> *Swetha Venkataramani, Gartner[vi].*

Who is looking at ESG?

According to Gartner

91%	24	71%	90%
of banks	global credit rating agencies	of fixed income investors	of insurers actively monitor ESG

This has significant impacts on assets and portfolios in the built environment.

Future-facing bottom lines

Visible excellence in ESG is proven to:

Attract investors

Morgan Stanley, for example, assesses the ESG attributes of potential investments because its analysis has shown ESG factors are an indicator of a company's long-term strength and financial viability[vii]

Mitigate regulatory risk

Government regulations keep changing and more stringent requirements are becoming common, especially in relation to climate change and climate risk, water efficiency, waste minimisation, ethical procurement, social equity and Modern Slavery risks.

Add value for clients who also have strong ESG targets and KPIs

In a global economy, this is crucial. For example, in the EU legislation is being drafted that will mandate any company doing business in the EU must address climate change and human rights matters within its own operations and within its supply chain[viii]

Maintain a 'social license to operate'

This is the degree to which a business is trusted and its activities endorsed by the community and stakeholders. Research by KPMG and the Australian Institute of Company Directors has found it has a major impact on a company's market position and financial viability[x]

Help recruit and retain talented staff

A recent UK survey found 38% of younger workers would consider moving companies if they felt their existing firm was not effectively addressing ESG factors such as climate change action and ethical practices[ix]

> Ultimately, social license is maintained by organisations that are responsive to changing community concerns and expectations. Society has a powerful ability to tell companies when they are no longer wanted.
>
> *Richard Boele National Leader,*
> *Human Rights and Social Impact Services,*
> *KPMG Australia*

CASE STUDY

Thinking outside the box for an ESG win

Data Centres can face a particular challenge in relation to ESG and the social license to operate due to the substantial amount of energy they require, which can strain local supplies.

Facebook Odense Data Centre, Odense, Denmark

Singapore, for example, imposed a moratorium on new data centres for two years due to the share of national energy they consume and their corresponding share of national greenhouse gas emissions from the nation's gas-fired electricity generation.

Putting ESG at the heart of Data Centres planning can provide a solution to local or regulatory resistance. For example, in planning its hyperscale data centre in Odense, Denmark, Meta (Facebook), took an ambitious and socially-responsible stance of targeting net zero emissions and 100% renewable energy supply. Part of the design solution was an engineering approach that captures heat generated by data centre operations and then redeploys that heat into a district heating system that warms 11,000 homes in the Odense municipality.

The commitment to social responsibility resulted in a DC that not only imposes no strain on local energy supplies, since it began operations the town's coal dependency has reduced by 25%.

Datacloud Global Awards

The Facebook Odense Data Centre has also garnered significant kudos for everyone involved including the Sustainable Data Centre Award in the 2021 Datacloud Global Awards.

Potentially confronting but essential questions

- Do we know where our carbon emissions come from and what we can do about them?
- Do we ensure our business and assets are prepared for the impacts from climate change?
- Are our employees as happy, healthy and productive as they can be?
- Do we do business with any organisations that harm the environment or people?
- Are we prepared to set clear and ambitious ESG targets for our business and publish them?
- Is our leadership team held responsible for ethical failures within our business operations or company culture?
- Do we ensure all people involved in our business and its supply chain are treated with fairness and dignity in relation to wages, working conditions and social inclusion?
- Do we have a clear picture of how communities and individuals are affected by our business activities?
- Who pays for mitigating any negative impacts in our supply chain such as loss of habitat, pollution, waste, workplace deaths or injuries, carbon emissions?
- What action is being taken to reduce the incidence of negative impacts?

> We need business leaders to make bold business decisions for the future, we need businesses to integrate the SDGs into their corporate strategies, we need businesses to account for their externalities in the same way they account for their business losses.
>
> *Sanda Ojiambo, CEO & Executive Director, UN Global Compact*[xi]

People often wonder

Can't we just offset our impacts and do net zero harm?

The idea of offsets seems like an easy fix, because it enables an organisation to balance harm caused in one area of its operations with good done in another. But this is potentially problematic in two ways: firstly it presumes there is an endless opportunity for offsets, and secondly, it still does not truly address the harm and negative externalities.

There are also considerations around the quality of offsets.

If, for example, offsets are created by flooding a valley and displacing the Indigenous community to build a hydroelectric plant, while the energy is clean, the method by which it was obtained contradicts some very important ethical principles including the rights of Indigenous Peoples. And if those offsets are being procured to balance the carbon books for an open cut coal mine, the proposition becomes even more questionable.

Carbon offsets should only be procured after every attempt has been made to reduce emissions in the first place through energy-efficiency, sustainable design and sustainable procurement, including prioritising renewable energy use. A similar principle needs to be applied to biodiversity offsets – minimise harm at the source, then look for high quality offsets that deliver tangible ESG benefits to the provider.

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CASE STUDY

Aboriginal carbon credits

First Nations Peoples in Australia have suffered systemic social and economic disadvantage. Aboriginal Carbon Credits are one option for a business to contribute to redressing this situation. These credits are created through projects based on Aboriginal-Owned and managed lands and are implemented by Aboriginal Peoples.

They generate an income stream and employment opportunities for the communities and are based on Traditional ecological and environmental management practices such as Savannah burning using the firestick cool burning method. This results in a measurable reduction in carbon emissions compared to European-style hazard reduction burns and allows Traditional Owners to restore degraded vegetation communities and enhance habitat for fauna.

Because these are Australian Carbon Credit Units (ACCUs) issued by the Clean Energy Regulator - a national statutory authority – Aboriginal Carbon Credits are also very credible and low-risk for purchasers.

> While there are international standards for how carbon should be counted, there is no accounting for the moral hazard of carbon offsets: the false assurance that persuades us we need not change the way we live. There is no accounting for the way companies use these projects to justify business as usual.
>
> *George Monbiot, Economic & Society Thought leader*[xii]

Mitigation vs adaptation vs elimination

There can be some confusion about the difference between adaptation and mitigation.

In climate change policy, adaptation refers to measures that assist communities to adjust to – and be resilient to – the impacts of global heating and associated destabilisation. Mitigation is the process of reducing or sequestering the greenhouse gas emissions that are causing climate change.

However, in other areas of risk management, such as disaster risk reduction, mitigation involves measures such as engineering techniques to lessen disaster impacts, alerting systems, public awareness and safety campaigns. It also extends to post-disaster clean-up, repair and social support[xiii].

In human rights terms, mitigation can also mean measures that soften the impact of human rights violations, rather than preventing them, and in governance terms mitigation involves activities such as reputation rehabilitation and crisis communications following a governance failure such as fraudulent dealings.

There is a third option, elimination. This can refer to greenhouse gas emissions, human rights abuses, or poor governance practices.

Mitigation vs adaptation vs elimination

There is no ‘away’ on our one planet

Chances are you have used the phrase “throw it away” in relation to a piece of unwanted packaging at some point in your life. As a concept, the phrase is indicative of our capacity to dismiss negative impacts as a problem that can be somehow solved by removing it from our own field of operations. Scientifically, this is nonsensical. The world is an interconnected ecosystem, and everything has an effect on everything else.

Economists often term impacts such as pollution, soil loss, species extinction, water contamination and displacement of Indigenous communities as ‘externalities’. The cost is borne by others and is not factored into the business case or accounting of an enterprise or project.

There are emerging economic frameworks that challenge this process of cost-shifting.

National Accounts as represented by metrics such as Gross Domestic Product are also based on ignoring the cost of many negative externalities, and there is work being done at the United Nations level to formalise a new method for calculating GDP within a Natural Capital Accounting Framework. The System of Environmental-Economic Accounting—Ecosystem Accounting (SEEA EA) – was adopted by the UN Statistical Commission in March 2021 and its methodology is now being trialled by more than 30 UN member states[xiv].

Natural Capital Accounting, for example, puts a price on ecosystem services and common pool resources such as water, air quality, topsoil, biodiversity and social wellbeing and includes them in the financial analysis of an activity.

> Building trust in one another and developing institutional rules that are well matched to the ecological systems being used are of central importance for solving social dilemmas.
>
> *Dr Elinor Ostrom, Nobel Prize Lecture, 2009*[xv]

Start where you are – on home base

An organisation's sustainability strategies and climate-related actions are almost always closely connected to the buildings it occupies, owns, manages, develops or invests in. This is because they are tangible assets representing a major allocation of capital, and because significant resources are used in their construction and operation.

Buildings can also significantly contribute to positive social aspects such as health and wellbeing, equality, sustainable supply chains and procurement. They also play a key part in the organisation's climate adaptation and resilience approach.

The physical assets are also part of the equation when we undertake a TCFD-aligned risk assessment. This considers both economic (transitional) risks and physical risks, which can mean investigating the fine detail of ALL levels of physical risk from regional impact assessments all the way down to a detailed consequence assessment for specific building systems.

UK's lowest carbon office fit-out - UK Green Building Council, London, UK © Philip Vile

CASE STUDY

ESG underpinning new finance opportunities

Attracting finance is essential for most organisations as they grow. In addition to the ESG lens becoming standard for conventional lending arrangements and investment decisions, there is also a share of global capital now specifically aligned to ESG and sustainability outcomes and credentials.

In one example, Sydney Airport Corporation secured a AU$1.4 billion Sustainability Linked Loan (SSL) in 2019. The first of its kind in the Asia-Pacific region, the loan is linked to the organisation achieving ambitious ESG benchmarks including substantial operational carbon emissions reductions.

Funds from the loan can be utilised for any corporate purpose, however the price of the finance is tied to agreed sustainability improvements. This ensures the SSL lives up to the SSL premise of delivering measurable benefits not just for the parties involved in the deal but also for the wider community.

Sydney Airport, T1 International Terminal, Pier B and C © Tyrone Branigan

> We were particularly attracted to the funding flexibility an SLL offers in incentivising improvement across the entire environmental, social and governance (ESG) spectrum, especially when compared to related products that focus on sustainability-linked investment and lack a direct link to funding costs.
>
> *Sydney Airport Group Treasurer Michael Momdjian*[xvi]

Triage an ESG risk

1 Identify the risk – can it be eliminated?

Yes/No?
If No – see step 2

2 Can the risk be mitigated and the impact reduced, prevented or compensated?

Yes/No?
If No – see step 3

3 Can the risk be adapted to? If so, how?

Six steps for applying ESG first aid

6 Tracking and reporting

5 Implementation

4 Develop KPIs, clear targets, timelines and actions

3 Decide what to focus on first
Choose two or three key areas that have the highest priority

2 Materiality review
Find out what is important to your organisation but also to your stakeholders. That can be employees, tenants, clients, local community etc

1 Review
Look at what you have/what you are doing already.
For climate change, understand your footprint and your climate risks

CASE STUDY

Putting ESG at the heart of our own business

In 2012, Cundall became the world's first consultancy to be formally endorsed as a One Planet Company and we set out our sustainability roadmap for the business.

The roadmap focused on what we do as an organisation, but we wanted to go further. In 2017 we undertook a detailed materiality review to understand our impacts and areas of influence.

We used Bioregional's One Planet Living Principles and the UN Sustainable Development Goals as a guide. This informed our new sustainability roadmap, which as published in November 2018 and sets targets across our projects, our offices, our homes, and communities, and through industry leadership.

As part of our One Planet, One Chance sustainability roadmap, Cundall targeted zero carbon for their global business by 2020, with the Australian offices the first to achieve this being certified in 2019 under the Climate Active Carbon Neutral Standard.

The commitment was then reached globally with a PAS2060 certification with Cundall being one of the first engineering consultancies in the world to be certified carbon neutral by the Carbon Trust across Scope 1, 2 and business travel Scope 3 emissions. For a meaningful pathway in reducing our emissions, we had our reductions strategy endorsed by the Science Based Targets initiative.

As a consultancy, we understand our biggest impact for influence, is on our projects. We work closely with clients to achieve their net zero and carbon neutral aspirations throughout their organisations, buildings, portfolio and even events.

Meet your coach

Madlen Jannaschk - Cundall ESG Advisory Lead, APAC

Madlen Jannaschk joined Cundall after more than a decade as a practicing Architect and project manager. She holds qualifications including a Masters of Architecture and Masters of Environmental Economics, is an endorsed One Planet Integrator, Green Star Accredited Professional and Registered Consultant for Climate Active Carbon Neutral Organisations, Products, Services and Events.

She engages with clients throughout the Asia-Pacific region to provide the strategic insights, planning and implementation pathways that will enable asset owners, investors and other organisations to effectively address ESG factors.

Madlen leads an integrated and highly networked global ESG service within Cundall. By collaborating with other members of Cundall's interdisciplinary team within the APAC region, clients gain the benefit of pathways and planning that can address ESG across multiple jurisdictions and markets.

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> Many of our clients are publicly listed or have portfolios that include assets around the world. The work we are doing as a company is global, and the goals of ESG – particularly in relation to mitigating climate change – are also a global effort.
>
> *Madlen Jannaschk*

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Cundall ESG advisory

We not only understand ESG, finance, stakeholder value, policy, science and pathway planning, we also really understand buildings, precincts and infrastructure.

While our ESG team helps organisations to develop overarching sustainability strategies and implementation plans across all social, economic and governance aspects, it is backed by an ecosystem of sustainable design and building performance engineers and consultants who can drill down into the detail, and implement the measures required.

We can design, measure, manage and verify each step of your progress using best-practice national and international standards and protocols.

Julian Bott
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We put the client on the map – taking action in sustainability will be acknowledged by investors, tenants, clients and also your own staff. This can be small steps like a Climate Active certification or a comprehensive sustainability strategy and pathway with measurable and actionable plans for achieving net zero carbon and an SDG-aligned supply chain.

Julian Bott, APAC Managing Director, Cundall.

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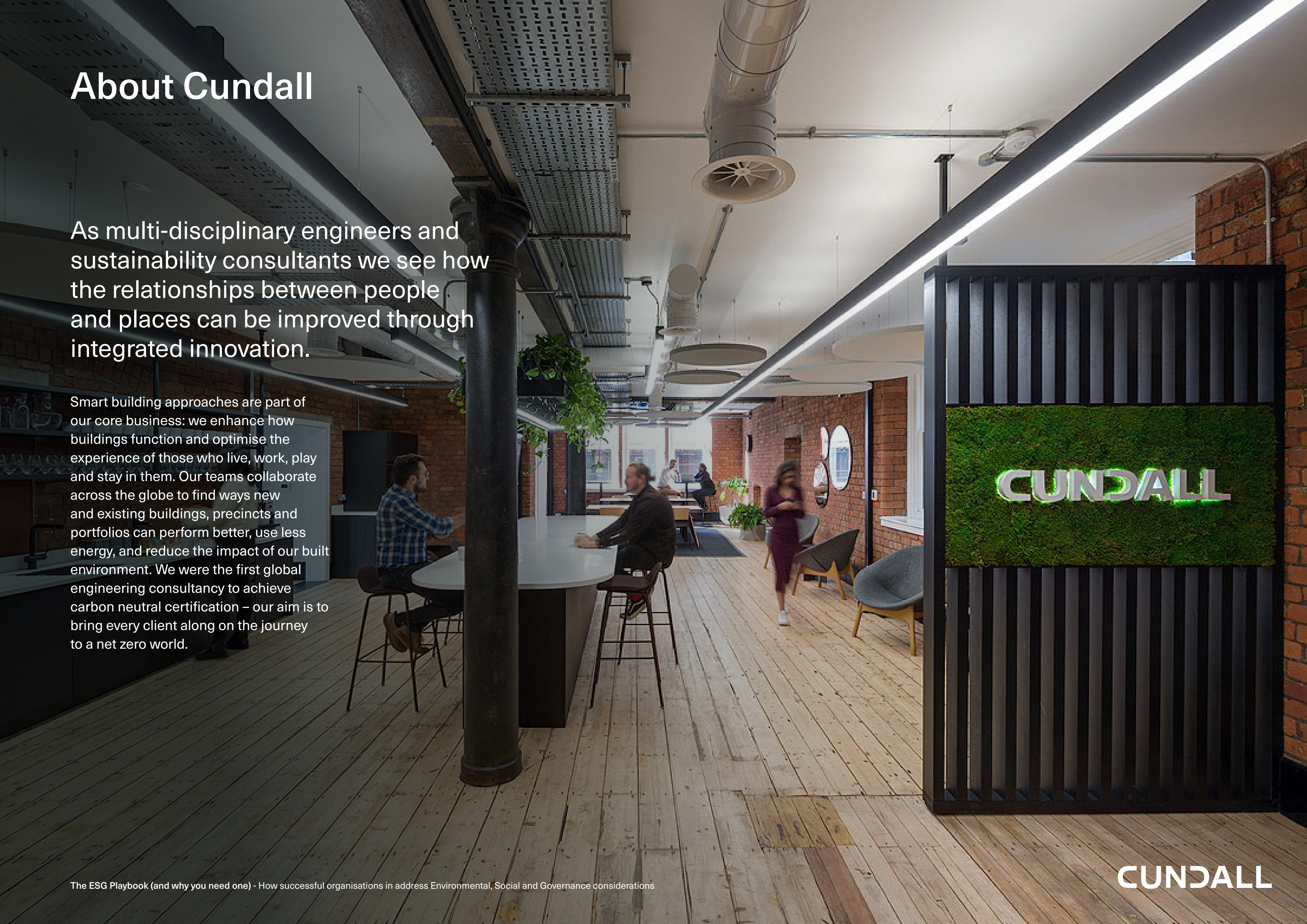
About Cundall



As multi-disciplinary engineers and sustainability consultants we see how the relationships between people and places can be improved through integrated innovation.

Smart building approaches are part of our core business: we enhance how buildings function and optimise the experience of those who live, work, play and stay in them. Our teams collaborate across the globe to find ways new and existing buildings, precincts and portfolios can perform better, use less energy, and reduce the impact of our built environment. We were the first global engineering consultancy to achieve carbon neutral certification – our aim is to bring every client along on the journey to a net zero world.

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