Policy Liaison Group
Environmental, Social, and Governance

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ESG in the built environment

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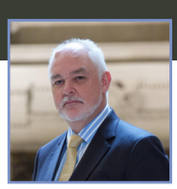
Westminster


Charles Golding


Tim Broyd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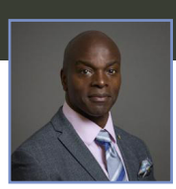
Lord Bailey of Paddington

Introduction

The Policy Liaison Group on ESG convened its first sector-specific roundtable to explore how ESG principles can be more effectively embedded across construction, retrofit, and real estate. With the built environment responsible for 25% of UK emissions and 35–40 million tonnes of embodied carbon annually, aligning ESG frameworks is critical to net zero delivery while also carrying a significant social footprint. Building on a panel discussion hosted by Group partner Winvic Construction at UKREiiF in May, the discussion focused on fragmented standards, infrastructure constraints, and gaps in policy delivery. Participants identified ways to translate ESG ambition into real-world impact through clearer data and consolidated frameworks, reform of EPC ratings, targeted support for SMEs, and strengthened local capacity.

Key takeaways

Fragmentation is undermining delivery

- Participants repeatedly identified the patchwork nature of ESG frameworks, requirements and guidance as a critical obstacle. With multiple standards in circulation, ranging from EPC (Energy Performance Certificate) and MEES (Minimum Energy Efficiency Standards) to BREEAM (Building Research Establishment Environmental Assessment Method), GRESB (Global Real Estate Sustainability Benchmark), and sector-specific benchmarks, clarity and consistency are lacking.
- "If you speak to five different local authorities, you get five different answers on how to deliver ESG." Inconsistency undermines investor confidence, increasing compliance costs, slowing innovation.
- Even within cities like London, borough-level differences are substantial, creating confusion for developers trying to align with ESG targets.

ESG frameworks are evolving, but complexity remains

- New valuation standards now require ESG factors to be considered as part of financial assessments – e.g. RICS' new Red Book standard – embedding sustainability more firmly into mainstream reporting and lending.
- Participants pointed to growing standardisation and consolidation around global frameworks. International baseline sustainability standards, IFRS S1 and S2 are being integrated into valuation and whole-life carbon assessment methodologies.
- Overlapping frameworks make it difficult for practitioners and investors to know which benchmarks to prioritise, slowing down implementation.
- There is a need for plain language, the consolidation of standards, and better communication to engage the public, in turn, helping to shape political priorities and secure public funding where needed.
- While operational emissions are tracked, embodied carbon is largely unregulated. Without clear policy or pricing signals, high-carbon materials dominate. Low-carbon alternatives are underused – missing a major opportunity to cut whole-life emissions.

ESG must be embedded across the value chain

- The uneven regulatory landscape creates additional strain for SMEs struggling to meet disparate ESG demands. Due to long supply chains, SMEs are often distant from the larger contractors who devised the original sustainability vision. "As a country, we are extremely poor at working with small companies".
- Fines for non-compliance are passed down to the supply chain. However, there's typically "no funding to support SMEs in actually meeting the standards".

- Tier three and four suppliers are being asked to meet standards they have no technical or financial capacity to implement.
- Others called for targeted assistance to help SMEs participate in ESG delivery, including access to shared services, standardised data, and simplified compliance processes to prevent ESG from becoming a barrier to market entry.

Retrofit is essential, but often financially and technically unviable

- Most of the UK's built environment already exists, the greatest carbon savings will come from improving secondary assets rather than focusing solely on a handful of high-performance new developments.
- Retrofitting older buildings to meet current standards typically requires significant interventions such as recladding, structural upgrades, and the installation of renewables, many of which are hampered by limited grid capacity and high upfront costs. "It's probably cheaper to build a new building than it is to retrofit a building."
- The absence of a consistent, national retrofit framework means that project teams lack clarity on what standards to meet, how to value retrofit-related improvements, and what support, financial or otherwise, might be available.
- Retrofit is subject to 5% VAT, while new builds enjoy a zero rate. Combined with outdated planning models, this creates a perverse incentive against reuse, despite its potential to reduce carbon and make use of existing assets.

Investors are willing, but need stronger signals from government

- In the absence of consistent regulation, viable metrics, or sufficient financial levers, many ESG investments remain difficult to justify.
- Valuation professionals stressed the need for greater certainty around future compliance trajectories. "We're embedding ESG into the Red Book from January, but we still need more visibility from government about where this is all heading." The appetite is there, but confidence depends on clearer direction.

Professional bodies have a crucial role in driving alignment

- Several participants pointed to the unique position of professional institutions in consolidating best practice and bridging technical and political divides.
- Examples like the UK Net Zero Carbon Buildings Standard, jointly developed by groups including RICS, UKGBC, and RIBA, were cited as proof that industry can align when needed.
- "The fact that we have these resources is important, partnerships like this show how professional bodies can add real value through their expertise".
- Professional bodies were also encouraged to simplify messaging and avoid the "alphabet soup" of acronyms that alienate both the public and policymakers.

Issues raised

Human capital

The construction industry is facing a chronic labour shortage. 320,000 workers have left the sector since 2019 (ONS/Sky). A recent survey found that 85% of tradespeople are pessimistic about the industry's future (BestHeating). Delivering ESG goals on the ground will require investment not only in physical infrastructure, but in human infrastructure too, encompassing skills development, mental health support, and tackling wider social challenges, in a sector already marked by some of the highest suicide rates in the UK.

Reforming EPCs and the grid

Participants flagged the continued inadequacy of EPC ratings, which assess efficiency based on energy cost rather than actual consumption or emissions, penalising electric heating and creating tensions between net zero and affordability. At the same time, long delays in grid connectivity – up to 36 months in places like London – are hampering the rollout of renewables and retrofits. These infrastructure bottlenecks not only delay projects but also threaten compliance with climate targets. Improved use of real-time energy data and accelerated grid upgrades are essential to align investment, regulation, and delivery on the ground.

Recommendations

1. Streamline ESG reporting by aligning UK frameworks with global standards like IFRS S1/S2 and the UK Net Zero Carbon Building Standard.
2. Embed ESG risks and opportunities into property valuations via collaboration with RICS to ensure sustainability is priced into decision-making.
3. Set a national sustainability baseline to support local authorities with a flexible framework for defining material ESG priorities based on local social and environmental needs.
4. Reform public procurement to ensure ESG risks and costs are shared fairly across the value chain, with support tools to enable SME participation.
5. Reform EPC methodology to reflect actual energy consumption and emissions, and align pricing signals with net zero goals.

Links

- PLG on ESG, UKREiiF Panel: ESG in the built environment
- Bartlett School of Sustainable Construction, ESG in Construction Law: Evaluating Sustainable Practices in the UK Construction and Legal Industries
- University of Cambridge, ESG: Investing in the built environment
- UKGBC, Data collection, insights, reporting and actions for ESG

We would like to thank the members of our Advisory Board for their contributions and continuing support.

To get involved, please contact
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