

# Task Force on Climate-Related Financial Disclosures

## The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (“TCFD”) to improve and increase reporting of climate-related financial information.

Responding to the TCFD requirements, we aim to continually enhance our disclosures in line with its recommendations and market practice. We also disclose climate-related governance, strategy, risk management and metrics as part of the Carbon Disclosure Project (“CDP”).

### Governance

The organisation’s governance around climate-related risks and opportunities.

The Board has ultimate responsibility for climate-related risks and opportunities, with the day-to-day approach in responding to climate-related risks and wider sustainability targets being managed by the Executive Directors.

The Sustainability Committee is a sub-committee of the main Board and meets to discuss the strategic direction of the Group in respect of sustainability, climate-related risks and opportunities and to assess progress on ongoing sustainability projects, including carbon emissions reduction. Find out more on pages 106 to 109.

Regular updates are provided to the Audit Committee and Board outlining any changes to the assessment of sustainability risks, material issues, policies, disclosure requirements and progress against sustainability targets.

Below the Board, operational directors and heads of department have responsibility for sustainability matters in their respective areas, including managing compliance with the Group’s sustainability policies:

- climate and environment;
- sustainable procurement;
- sustainable packaging;
- sustainable timber usage;
- sustainable fuel usage; and
- sustainable waste management.

This year we appointed a Group Sustainability Manager who supports senior management and the Executive Directors in delivering our sustainability strategy. The Group Sustainability Manager is responsible for managing carbon emissions reduction projects, environmental compliance and developing strategies for water and biodiversity, amongst other matters.

During the year we also created a Sustainability Action Team and Climate Action Team which are responsible for the development and delivery of our wider sustainability initiatives, including progressing our current year actions as set out on page 65. These teams include the Chief Financial Officer, the Managing Director of Gleeson Homes, and other members of senior management who are held accountable for delivering measurable progress against our sustainability targets.

### Risk management

How the organisation identifies, assesses, and manages climate-related risks.

The Board has overall responsibility for the Group’s management and assessment of risks, supported by the Sustainability and Audit Committees.

The Group risk register is formally reviewed by the Audit Committee at the majority of its meetings, including consideration of emerging risk areas or changes to existing risks. Climate change and sustainability have been identified as principal risks for the Group. Find out more on pages 38 and 39.

The Group’s risk management framework includes a separate sustainability risk register, which includes key climate-related and other sustainability risks for the business.

The sustainability risk register identifies both principal and emerging risks and informs a formal risk assessment process that considers the likelihood and impact of the identified risks together with any mitigating controls that are already in place or planned. This position is reviewed by the Sustainability Committee as part of its bi-annual review of the sustainability risk register.

Any changes to risk scores on the sustainability risk register are then considered in the context of the Group risk register in respect of the principal risks of climate change and sustainability. Proposed changes are reported to the Audit Committee and Board as part of its monitoring of principal and emerging Group level risks.

During the year, the Group completed an exercise to define the risk classification criteria in respect of its risk term, likelihood and impact. This is outlined below.

### Risk term

Risk term was determined by considering the four risk scenarios, set out on pages 68 and 69, and balancing the anticipated timescales of the climate-related scenarios against the actions and mitigations required. Our risk terms have been defined as:

- 1-3 years = short term
- 4-10 years = medium term
- 10+ years = long term


### Likelihood and impact

Internal stakeholder meetings were undertaken to discuss the risk scenarios and the likelihood of occurrence together with the impact they would have on the business.

Impact was assessed based on the estimated financial costs attributable to the realisation of part, or all, of these scenarios:

- Less than £1m = low impact
- £1m-£3m = medium impact
- £3m+ = high impact




 Moorland Green,  
 Gateshead,  
 Tyne and Wear

## Strategy

The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material.

Climate change has the potential to significantly impact our business strategy through regulatory changes, government policy, stakeholder expectations and the direct effects of climate change such as weather events, loss of developable land and the impact on biodiversity and the wider natural environment.

During the year we have used the process of scenario planning to aid our assessment of climate-related risks and opportunities and the potential impact on the Group, its strategy and any financial impacts. As part of this evaluation, we have identified the four most significant climate-related risk scenarios that could impact the Group. Each of these risks has been assessed against its defining risk category, risk term, likelihood and financial impact. These four risk scenarios are set out in the table on pages 68 and 69.

### Risk category

TCFD places climate-related risks into two major categories:

- Transition risks focus on financial and reputational risk relating to transitioning to a lower-carbon economy and include four sub-categories of policy and legal risk, technology risk, market risk and reputation risk.
- Physical risks relate to the actual or potential impacts of climate change and include two sub-categories of acute and chronic. Acute risks are event-driven such as flooding, and chronic are longer-term events such as rising temperatures and sea-level rise.

## Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Our climate performance is measured by reference to a carbon-intensity target. In 2020, we set a target of reducing our scope 1 and 2 emissions by 20% per home sold within three years. This would have resulted in a carbon intensity of less than 2.0 tonnes of CO<sub>2</sub>e per home sold. Due to the significant progress made during 2021, we increased our carbon reduction target from 20% (2.0 tonnes of CO<sub>2</sub>e) to 30% (1.75 tonnes of CO<sub>2</sub>e) by the end of 2023. This year we have reduced our scope 1 and 2 carbon emissions to 1.86 tonnes of CO<sub>2</sub>e per home sold and remain well on track meet our CO<sub>2</sub>e reduction target by next year. Our carbon emissions figures can be found on page 59.

Our climate performance metric for scope 1 and 2 emissions is calculated by the total metric tonnes of CO<sub>2</sub>e from our direct operations, divided by the number of legally completed house sales in a financial period. We report both "market-based" and "location-based" metric for our scope 2 (electricity) usage.

During the year, we have progressed our understanding and data accuracy of scope 3 emissions which covers the indirect upstream and downstream carbon emissions of our value chain. This includes the emissions generated by our supply chain in the services and materials they provide to our business, the construction process, and over the life of the homes that we build. This level of accuracy of scope 3 data will be critical in developing our carbon reduction pathway.

The embodied scope 1, 2 and 3 emissions per home sold of 45 tonnes of CO<sub>2</sub>e will be used internally for the purposes of assessing our principal and emerging risks, as well as further carbon reduction strategies.

Further details on our scope 1, 2 and 3 emissions, including methodology, can be found in the Environment section on pages 52 to 60. Sustainability KPIs are set out on page 20.

# Task Force on Climate-Related Financial Disclosures CONTINUED

## Climate scenarios

We have considered a +1.5°C, a +2.0°C and a “business as usual” +4°C scenario. Climate-related emerging regulation is considered to be a +1.5°C scenario as it is driven by the UK government in line with the Paris Agreement. We have assumed a +4°C scenario (worst case) for the remaining risks.

| Risk   | Risk category and scenario   | Description  | Targets and actions  |  |
|--|--|--|--|--|
| <b>Climate-related emerging regulation</b>             | Transition – policy and legal<br><br>+1.5°C scenario                         | <p>The Future Homes Standard requires new build homes in England to produce 31% less carbon emissions compared to the old regulations by 2023 and 75-80% less emissions by 2025. These require changes such as the removal of gas boilers, increased insulation, the installation of electric vehicle charging points and increased space requirements.</p> <p>We fully support the UK government in their carbon reduction commitments, however, there is an inherent financial impact to our business to meet the requirements of the new building regulations.</p>  | <p>In response to the Future Homes Standard, we are switching from our existing gas boiler specification to a more efficient air source heat pump installation.</p> <p>The air source heat pump will remove the dependence on gas for heating our homes and capitalise on the benefits of the decarbonisation of the electricity grid. We expect this to reduce in-use emissions by 54 tonnes per home over the 60 year assessment period.</p> <p>We are also required to improve the thermal efficiency of new build homes. As a result, improved insulation is required with the aim of reducing the amount of energy required to heat a home.</p> | <p><b>Risk term</b><br/>Short</p> <p><b>Likelihood</b><br/>Virtually certain</p> <p><b>Financial impact</b><br/>High</p> |
| <b>Adverse weather events affecting build progress</b> | Physical – acute/event driven<br><br>Current trajectory<br><br>+4°C scenario | <p>Increased frequency and severity of adverse weather events are likely to cause increased disruption to our build programmes and pose increased health and safety risks if not managed carefully.</p> <p>Extreme rainfall poses significant risks to construction sites and makes activities such as working at height more dangerous. It can also make other site activities such as groundworks virtually impossible due to poor working conditions.</p> <p>Site flooding and storm damage are likely to have further impact on our business as build delays and remedial works cause additional disruption to build rate.</p> | <p>Our sites are set up to minimise the effects of normal weather events as much as reasonably possible. Extreme events, including extreme rainfall, pose a significant risk.</p> <p>We will be developing our water strategy in the coming year, which will include mapping out actions to improve resilience to these types of adverse weather events.</p>   | <p><b>Risk term</b><br/>Medium</p> <p><b>Likelihood</b><br/>Likely</p> <p><b>Financial impact</b><br/>Low</p>            |
| <b>Loss of developable land due to flooding</b>        | Physical – chronic<br><br>Current trajectory<br><br>+4°C scenario            | <p>As a result of climate change, the UK has become wetter over the past few decades. Increased seasonal flooding and sea-level rise may pose greater risk to available land for development. Loss of developable land will impact the geographic locations of our developments, reducing the available land bank and leading to increased land costs.</p> <p>Additionally, there is greater emphasis on designing better water management solutions across our developments and the inclusion of flood-resilient design measures, which can impact the number of plots per development and increase costs.</p>                    | <p>We acquire and develop land following planning regulations including addressing flood risk. Virtually all of our developments incorporate sustainable drainage systems (“SuDS”) to reduce surface run off. Further development of flood prevention measures and mitigations will be undertaken in line with any changes to planning or building regulations.</p>  | <p><b>Risk term</b><br/>Long</p> <p><b>Likelihood</b><br/>Likely</p> <p><b>Financial impact</b><br/>High</p>             |

| Risk                           | Risk category and scenario                                | Description  | Targets and actions  |   |
|--------------------------------|---|--|--|---|
| Biodiversity loss and net gain | Physical - chronic<br>Current trajectory<br>+4°C scenario | <p>From November 2023, the Environment Act 2021 will require developers to ensure that all new developments achieve a 10% increase (net gain) in habitat value for wildlife compared with a pre-development baseline.</p> <p>When brownfield sites have been left for a period of time they often become “rewilded” by nature, making it more challenging to achieve a net gain in biodiversity as the baseline measure is often far greater than a comparable greenfield development.</p> <p>All development works undertaken are compliant with relevant legislation and with appropriate mitigation being undertaken where required, including protected species and the management of invasive and injurious plant species. This can result in increased costs. The additional space required for biodiversity may reduce the number of plots per development and could make some future sites unviable.</p> | In addition to satisfying planning compliance obligations, we will be developing our biodiversity strategy during 2023. We are proud of the fact that our developments already include green spaces and soft landscaping to complement and provide a linkage to the surrounding natural environment and existing green infrastructure. | <p><b>Risk term</b><br/>Short</p> <p><b>Likelihood</b><br/>Likely</p> <p><b>Financial impact</b><br/>Medium</p> |



Saphron, Dane Park, Hull, East Yorkshire

