

MONITORING AND MEASURING ESG IN AN ERA OF REMOTE WORKING

With the adoption of remote and hybrid working hastened by the global pandemic, we look at where emissions are coming from, quantify them and examine the implications for ESG reporting in 2021 and beyond.

The COVID-19 pandemic has had wide-ranging impacts on all aspects of life and industry, with the implications expected to play out over the coming years. The consequences for commercial office space and the workers who transitioned to working from home has been broadly discussed, but what of the impact on sustainability – both from an environmental point of view and corporate reporting responsibility?

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We talked to Rebecca Jinks – Head of Sustainability Australia at Cushman & Wakefield, about the shift in sustainability brought about by the mass move to work from home for office workers in Australia that began with the first pandemic-induced lockdown in March 2020.

We examine the implications for Environmental Social and Governance (ESG) reporting metrics for some of Australia's largest corporates. In addition, we question what the future holds with stop-start lockdowns and the resulting move towards permanent hybrid and remote working arrangements for many.

For companies seeking to meet their net zero or carbon neutral commitments, we show how the home, in addition to the office space, is leading to higher emissions. And that a compelling reason for workers to return to the office is to help manage emissions.

The findings showing higher emissions resulting from just the shift in energy usage by remote knowledge workers comes in the wake of the release of a climate status report from the United Nations.

In the report, the Intergovernmental Panel on Climate Change (IPCC) gave its starkest warning yet that new climate policy measures and a reduction in greenhouse gas emissions are now matter of urgency for governments worldwide.

THE ESG CHALLENGE

The range of ESG challenges already faced by major companies have increased thanks to remote working and the pandemic, including greenhouse emissions, energy usage, social and corporate responsibility, equity and diversity for employees and in supply chains. What once was controlled at work – from fair-trading-sourced teabags to ergonomic desk setups and optimal heating and cooling – has moved into the homes of employees and their families.

As companies pivoted towards supporting the wellbeing of employees working remotely, from a sustainability and environmental perspective there has been a sizable shift in the boundaries of sustainability, according to Ms Jinks.

“ Effectively, the energy usage attributable to doing business is being ‘offshored’ from the office to employees’ homes. At the same time, the lights remain on at most major office buildings, even if it’s a reduced capacity to cater for those using the office. ”

With the home office now often co-existing with the traditional office, and almost non-existent business travel, things might appear to be on track for the low-carbon economy. However, as companies report environmental emissions and energy usage declines, employees see their home usage rise.

The challenge for sustainability professionals is monitoring the environmental impact of the ‘new normal’ and implementing sustainability initiatives with a remote workforce. For the Cushman & Wakefield team managing the emissions targets for some of Australia's largest commercial tenants, the immediate first step was to power down and conserve the energy being used to run city skyscrapers and then, to look at the reporting metrics for large employers and how best to adjust these to more accurately reflect this shift.

ESG MEASUREMENT

Companies measure ESG because it's key to maximising business growth and investor engagement. In addition, the global impetus to achieve 'net zero' emissions has seen corporations step up with a range of approaches to ESG that align with investor and community expectations and meet the watchful eye of the regulators.

Environmental concerns have come into even sharper focus recently as a lack of progress toward climate pledges made by nations under the Paris Agreement and extreme weather events have placed greater community pressure on governments and corporations to address climate change issues in all facets of their operations.

Regulatory bodies and investor groups are strongly influencing the adoption of ESG among corporations under their remit. The Australian Prudential Regulation Authority (APRA) has instructed companies under its remit – such as banks, insurers and super funds – to elevate climate issues to the same level as credit, underwriting and liquidity risk in their corporations.

Carbon emissions are typically categorised into three scopes:

Scope 1	Scope 2	Scope 3
Covers direct emissions from owned or controlled sources	Covers indirect emissions from purchased electricity, steam, heating and cooling	All other indirect emissions that occur in a company's value chain

THE CHALLENGE WITH EMISSION ACCOUNTING

At the start of the second quarter of calendar 2020, and as the nationwide lockdowns caused workers to stay in their homes, the sustainability team at Cushman & Wakefield swung into action. The energy settings of smart buildings were quickly dialled down to reflect the office vacancy rate and buildings temporarily managed to lower settings.

In the following months, and as workers maintained a new pandemic majority work from home(WFH) status, companies began to see real savings in their energy bills. Ms Jinks and her colleagues began to see large falls in building energy consumption – as much as 30-50 per cent declines – and immediately knew this to be a material change under ESG reporting regulations.

“ We asked ourselves: Where is this energy going? You can't deliver the same amount of work and not have the same footprint; it doesn't just disappear. ”

said Ms Jinks, noting that until 2020, working from home had never been considered a necessary measurement as it wasn't material.

“There was a temptation to report that energy saving,” she added, but cautioned, “just because your employees are consuming energy somewhere else, they're still required to do the work to keep your business going, so the burden had simply shifted elsewhere.”

In fact, the shift was from Scope 1 and Scope 2 carbon emissions to Scope 3, the broadest category that includes all indirect emissions that you couldn't do business without creating but that aren't being obviously measured.

DISCLOSURE: BUILDING THE NEW ALGORITHM

Aware that reporting and disclosing responsibly means reporting and disclosing material impacts and what it means to be doing business, Ms Jinks and her team began a dialogue with a few key clients seeing these material changes. It was clear that their emissions had moved “outside their traditional boundary bubble.”

Once the corporate reportable carbon footprint gap had been identified, the challenge was to find a way to measure and account for it since reporting an artificial drop in the footprint associated with doing business could only be misleading.

The Cushman & Wakefield sustainability team collated a set of employee data points that included:



Employee data, including postcode to understand weather and heating / cooling requirements



How often employees worked from home as opposed to being in the office



Whether staff may have a dedicated home office, or work in a communal part of the house



Houses differ in their efficiency, size, etc. which impacts the intensity of energy consumption associated with working from home



Worker geography (comparing a state with coal-based power vs renewable energy)



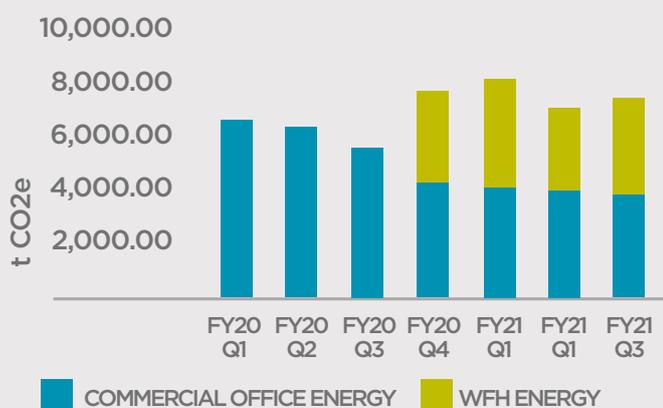
The time of year and season

MEASURING THE NEW SCOPE 3 EMISSIONS

The change in energy emissions by one large national corporation with a workforce of 35,000 collected by the Cushman & Wakefield team is shown here. It excludes the additional fall in emissions associated with the sharp decline in business travel and office waste, to name just two other activities associated with work.

The chart shows that amid the shift to remote working, emissions from commercial office energy declined.

However, when accounting for work from home energy, there was an 21% overall uplift in emissions in the first quarter of 2021 compared to the same quarter in 2019.



“This highlights how much more efficient and environmentally friendly it is to work in the office,” said Ms Jinks. “It’s more than just being collaborative, it’s actually more environmentally friendly, and we just don’t talk about that.”

Australian energy industry body, Energy Networks Australia, reported an overall drop in energy demand when the pandemic hit Australia in March 2020, with a national decline of 6.7 per cent in operational demand in the National Electricity Market in one month. It took a deep dive into the numbers for the Victorian market utilising smart meter data for a week in March pre-lockdown and compared it with a week during the shutdown.

A comparison of the two weeks showed:

- ✔ 7 per cent decrease in commercial demand
- ✔ 1 per cent decrease in industrial demand
- ✔ 14 per cent increase in residential demand

The early work completed by the Cushman & Wakefield team in quantifying the impact of remote working on company emissions is believed to be the first of its type in

the Australian market. However, as Ms Jinks cautions, the main risk to companies and organisations is in not reporting this new, out-of-boundary emission.

THE FUTURE

The initial algorithm measures out-of-boundaries energy emissions, but the team is pondering how to measure more and how best to take action to mitigate the impacts of remote working.

The sharing of clean home energy within a network with company colleagues? A virtual app that can track energy usage within the home and share excess within a network?

The fact that nobody was thinking about measuring the remote working emissions as part of their ESG reporting in the Australian market is something to ponder, said Ms Jinks.

“It does make me question: what else should we be accounting for?”

REPUTATIONAL ISSUES LOOM

“If you report an artificial reduction for a Science Based Target (SBT), it’s incorrect and misleading, since most SBTs currently don’t account for Scope Three emissions. There’s a huge potential reputational cost because you haven’t met the target; you’ve effectively offshored the emissions.”

said Ms Jinks. The data the team has collated is a call out to the sustainability industry and how things have been measured to date.

“We really need to step back and ask what is material to the way I do business? And the fact is we need to revisit that question regularly now,” said Ms Jinks.

The argument for moving workers back into office environments is now about far more than collaboration and communication, morale, and re-establishing a work-life balance – it’s also about the environment.

“We’re clearly demonstrating that it’s more environmentally friendly to be in the office, and that should be a clear motivator for people to return, because it’s an issue people really do care about.”

CUTTING CARBON WHILE WORKING FROM HOME

Every team member can play a role in reducing carbon emissions. Here are six ways:

- ✓ Shut curtains and blinds to retain heat
- ✓ Turn off lights and electronic devices
- ✓ Retrofit lighting fixtures to use LED bulbs
- ✓ Tune and maintain air conditioning and heating systems
- ✓ Conduct an energy audit at the home
- ✓ Use blankets instead of energy-intensive desk heaters
- ✓ Only fill the kettle with as much water as you need

Cushman & Wakefield believes that the changing emissions footprint should be constantly assessed and interrogated. Whether due to evolving working conditions amid the pandemic, or other workforce changes, considering, quantifying, and mitigating this impact is something all organisations should consider.

ABOUT CUSHMAN & WAKEFIELD SUSTAINABILITY AUSTRALIA AND NEW ZEALAND

Cushman & Wakefield Sustainability is a valued sustainability services partner of some of Australia's largest organisations, managing over \$230M worth of energy expenditure and over 1.3M tonnes of CO₂e on behalf of our clients across over 15,000 sites nationally.

We have a long record of delivering on time and on budget end-to-end environmental, social and governance (ESG), climate and building performance services. Our aim is to reduce operational costs, improve environmental performance and manage climate change opportunities.

Our strength is our ability to combine a range of disciplines into one seamless, end-to-end delivery model, which allows us to be highly flexible, cost competitive and responsive to changing client needs or market shifts. With our roots in property, our team thinks beyond the sustainability industry, engaging with our colleagues in asset management, supply chain, compliance, research and valuations to leverage the benefits of Cushman & Wakefield's multi-disciplinary service. Delivering a unique, fit for purpose solution to all our clients.

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