

# HEXAGON SUSTAINABLE FINANCE FRAMEWORK

APRIL 2022



Hexagon

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# Foreword

**As one of the leading social housing providers in South London, Hexagon is committed to providing safe, warm and energy efficient homes for all our residents. We want to ensure we contribute positively to the global sustainability agenda by meeting our targets for our local areas of operations.**

At Hexagon, we are committed to achieving sustainability in all that we do and have adopted a holistic approach to sustainability that balances the achievement of social, environmental and economic benefits for all our stakeholders. This approach to sustainability is externally acknowledged by the Gold SHIFT (Sustainable Homes Index for Tomorrow) awards that we have been receiving since 2014. We believe that having the right environmental, social and governance strategy and framework is linked to higher value creation.

This document is our first formal Sustainable Finance Framework, detailing our social and environmental ambitions and sets out how the proceeds raised from our debt issuance will be used to deliver our objectives over the coming years. These goals include improving the energy efficiency in our existing homes, building new ones that meet the London Mayor's Net Zero Carbon target, investing in our communities and working with partners that share our sustainability ambitions. This framework demonstrates our commitment to achieving environmental and social benefits for all our stakeholders by investing in our homes, our communities and our association.

## **Izzet Dizdar**

Finance & IT Director



# Section 1: Introduction to Hexagon Housing Association

## 1.1 Introduction to Hexagon

Hexagon Housing Association (“Hexagon”) was formed in 1990 after the merger of Shackleton Housing Association and Solon South-East Housing Association, as a charitable, not for profit, housing association based in South London, primarily operating in the boroughs of Lewisham, Southwark, Greenwich, Bexley and Croydon. We are a business with social objectives, which means we invest all our trading surpluses and more in providing good homes and services. We now own and manage around 4,500 homes working closely with local authorities to ensure that we complement and help to deliver their strategic housing needs.

## 1.2. Our mission and values

### Mission Statement:

To meet housing needs in South London through our commitment to existing and future residents, local communities and the environment

### Hexagons Values



Our main objectives that guide our activities are:

- To be socially responsible in the way we run our business, and in particular, to focus our efforts on promoting environmental sustainability
- To continually improve the quality and range of our affordable homes and services through innovation and best practice
- To be cost effective, efficient and competitive
- To be amongst the best in the provision of housing and related services
- To be financially secure
- To develop, motivate, and retain staff

## 1.3 Hexagon's Sustainability Agenda

Hexagon is committed to achieving sustainability in all that we do: in our office premises, employment and business practices; and in our core services of building new homes, maintaining our existing homes and providing services to residents and service users. We are committed to a holistic approach to sustainability that balances the achievement of social, environmental and economic benefits.

### 1.3.1 Environmental Sustainability and Net Zero Carbon

Hexagon has always been committed to implementing its dual objectives of reducing carbon emissions, whilst reducing energy costs for our residents. This has been noticeable in our on-going investment in improving the energy efficiency of homes in line with Hexagon's Sustainability Strategy. This commitment has led to Hexagon achieving both a Gold SHIFT award and an award for 'most improved landlord ever' in respect of its environmental sustainability.



The UK government target for all housing is an average SAP of 86, band B, by 2050; this target is necessary to achieve climate-change targets set in the Climate Change Act of 2008. Hexagon has set as target that all of our homes will be EPC C and above by 2030, and is committed to working with qualified experts to develop a clear, step-by-step and pragmatic roadmap to achieve net zero carbon emissions by 2050.

For Hexagon's new build properties, all homes are being built to meet a minimum EPC band B and/or SAP 85 and to meet the London Mayor's Net Zero Carbon target (with offsetting). Additionally, since 2020 gas boilers have been phased out and, where appropriate, Modern Methods of Construction (MMC) are being considered.

More broadly, and at a minimum, Hexagon expects all partners to meet the relevant objectives of our Environmental Sustainability Strategy. This extends not only to our contractors and consultants, but to all their supply chain partners. Although we may improve the energy efficiency of our properties, we also recognise that residents play an important role in ensuring that their homes align with the target to achieve net zero carbon emissions by 2050. We ensure energy management is a priority for our residents through the provision of education on how to reduce bills on our website and in our resident magazine 'Home News'.

## Strategy update

We are currently in the process of updating our Environmental Sustainability Strategy, incorporating the experience gained over the previous four years (2017-2021) combined with external expertise to build an ambitious plan to maximise our impact both socially and environmentally. We aim to publish our updated Environmental Sustainability Strategy in the first half of 2022.

### 1.3.3 Social Value

Generating social value is central to our business model. We are committed to providing homes in South London that people can afford, who might otherwise be excluded from having a secure home. We support our customers to sustain their tenancies, making a positive contribution to the communities in which we operate, which is an integral part of our DNA at Hexagon. Our community investment team carry out a range of initiatives including our Into Work and Financial Wellbeing services, our Digital Champions, tackling fuel poverty, mental wellness and resilience and volunteering opportunities. This work helps us meet our aim to tackle housing needs in South London through our commitment to existing and future residents, local communities and the environment. This aligns to 1, 2, 3, 4, 8 & 10 of the UN Sustainable Development Goals (SDGs).<sup>1</sup>



We have recently procured a new responsive repairs contract for our suppliers and contractors, whereby we included an assessment of their social value contribution, which they are contractually obliged to commit to. The aim is for us to roll this out across all contracts we award to achieve the maximum benefit out of every investment that we make.

Our Community Investment Team engages with suppliers to ensure this social value is achieved, so that it benefits our residents.

<sup>1</sup> <https://sdgs.un.org/goals>

### 1.3.4 Affordability

We offer security of tenure to existing and prospective customers, and we let all of our rented homes either with an assured tenancy or a starter tenancy. We carry out pre-allocation assessments where we look at any risks that might mean the tenancy fails, including an affordability check. Working with the London Mayor's office we cap our affordable rents at the local housing allowance level.

We have nomination agreements with the five London Boroughs where we operate: Bexley, Croydon, Greenwich, Lewisham and Southwark, which guarantee those on the housing register access to our available homes, helping them meet their statutory housing duties. The housing register uses a points or band-based system to identify specific housing needs and prioritise applicants.

### 1.3.5 Resident voice and engagement

We have a number of formal resident groups who we regularly engage with, organised through our Resident Advisory Group (RAG), Resident inspectors, Readers Panel, Performance Review Group (PRG), Repairs Group, Home Ownership Forum and our estate champions. In addition to this, we have four residents on the Hexagon Board. The RAG is made up of a group of residents who review and approve customer facing policies and procedures, and the PRG provides thorough and valuable scrutiny of our operational performance, whilst both make recommendations on how services are best delivered for our customers.

### 1.3.6 Our 'Into Work' programme

We offer our tenants one-to-one support through our Into Work scheme, where we can help with creating a CV and job applications; interview skills and preparation; job searching; registering with online job sites; finding volunteer opportunities; work placements and apprenticeships; IT skills and access to our Digital Champions. Even with COVID-19 challenges, in 2020-21, our Into Work programme helped 32 customers come back into work, who had been unemployed for a long period of time or faced barriers.

### 1.3.7 Financial inclusion

Our Financial Inclusion service continues to support our customers to have a healthy relationship with money. By helping our customers to access the right support and benefits available, our Financial Inclusion team provided 219 cases of financial wellbeing support, which meant our customers were able to access £286,754 in 2020/2021. Our dedicated team is on hand for customers who need support to help them become financially independent, to pay their rent on time and to sustain their tenancy. Our people are trained to offer welfare and benefit advice, and have helped hundreds of customers to maximise their income and to claim the benefits they are entitled to. The team also assists with claims and appeal decisions on appropriate benefits, as well as providing support on budgeting and accessing grants, foodbanks, and other vital financial support or services. Employment and digital skills also form part of this service, along with referrals to our Into Work service, debt advice and signposting to other community support groups if we cannot help.

## CASE STUDY: Old Kent Road

The Old Kent Road site is in a prime location, ideally situated in a part of this major thoroughfare that is benefitting from significant regeneration over the coming years. The site is located close to the earmarked entrance of a new Bakerloo Line underground station. The brownfield site will be redeveloped to provide 46 affordable homes comprising one, two, and three bed properties. Six will be for Social Rent, with the remainder being shared ownership and affordable housing to households on incomes of £50-70k, well within the GLA's affordability threshold. This is a mixed - use development with commercial units on the Ground floor.

There will be no gas fuelled heating / hot water system, as we are installing a communal Air Source Heat Pump in conjunction with an Electric boiler, along with solar PV panels. The residential homes will target zero carbon with a minimum carbon reduction of 35% onsite, whilst the commercial spaces will target 35% carbon reduction (as per London Plan policy 5.2). These standards exceed the 31% carbon reduction set by the interim uplift in part L, a section of the Government's Future Homes Standard.



## 1.4 How we are governed

We have a simple governance structure, where the main Board of Management set the strategies for Hexagon.



**Simon Fanshawe, OBE**  
Chair of the Board of Hexagon Housing

### Hexagon Board

6x Non-Executive Directors  
4x Resident Board Members  
Chief Executive

### Horniman Board

Chair – Vice Chair of  
Hexagon  
Hexagon Chair  
Chief Executive  
Finance & IT Director  
1 Independent  
Non-Executive Director

### Risk Committees

Audit & Risk  
Remuneration  
Performance Management

The Board is supported by three Committees:

#### 1. Audit & Risk Committee:

Responsible for risk  
management

#### 2. Remuneration Committee:

Responsible for review and  
approval of all matters  
relating to pay

#### 3. Performance Management Committee:

Responsible for providing  
scrutiny on targets set on key  
performance areas and the  
performance information  
reported to the Board

## 1.5 Regulatory framework for Affordable Housing in the UK

We are regulated by the Regulator for Social Housing (RSH), which is a government agency responsible for registering and monitoring. As a registered provider of Social Housing, Hexagon must comply with the 2015 regulatory framework<sup>2</sup> for social housing in England, that is comprised of:

- 1. Regulatory requirements** – obligations on registered providers, including the ‘rent standard’ for social and affordable housing, and ‘consumer standards’ for the provision of the housing service;
- 2. Codes of practice** – assists registered providers in understanding how compliance might be achieved; and
- 3. Regulatory guidance** – this provides further explanatory information on the regulatory requirements and includes information on how the regulator will carry out its role.

The standards are classified as either ‘economic’ or ‘consumer’, and serve to ensure social housing providers comply with specific expectations in relation to home and tenancy management – particularly through the Tenancy Standard,<sup>3</sup> but also the Economics standards<sup>4</sup> and Home Standards:<sup>5</sup>

### Economic Standards:

- Governance and Financial Viability Standard
- Value for Money Standard
- Rent Standard

### Consumer Standards:

- Home Standard
- Tenancy Standard
- Neighbourhood and Community Standard
- Tenant Involvement and Empowerment Standard

Hexagon currently has a G1/V2 score,<sup>6</sup> but prior to this we have always been a G1/V1 rated organisation by the RSH, and our objective is to regain our G1/V1 status.

## 1.6 Framework rationale

This Sustainable Finance Framework (the “Framework”) aligns Hexagon’s strategic priorities in sustainability with its funding and financial strategy. Hexagon has selected a number of eligible areas which are fundamental constituents of the business model, and deliver the most positive societal and environmental impacts.

The development of this Framework is a tangible step in demonstrating Hexagon’s commitment to sustainability and to mobilise all its stakeholders around this objective, appealing to a broad range of the ESG-focused investor community.

2 Regulatory framework – GOV.UK ([www.gov.uk](http://www.gov.uk))

3 <https://www.gov.uk/government/publications/tenancy-standard/tenancy-standard-2015>

4 <https://www.gov.uk/guidance/regulatory-standards>

5 <https://www.gov.uk/government/publications/home-standard/home-standard-2015>

6 As of August 2021

# Section 2: Sustainable Finance Framework

## 2.1 Core components of Hexagon's framework

This Framework sets out how Hexagon intends to enter into Sustainable Financing Transactions ("SFTs") to finance and/or refinance projects that have a positive environmental and/or social impact, while supporting its business strategy.

SFTs may include Sustainability labelled Bonds, Private Placements, Revolving Credit Facilities, Bank Loans, Commercial Paper and other financing products, where proceeds are applied to eligible green and/or social projects ("Eligible Projects") as defined in this Framework.

We have devised the Framework to align with internationally recognised principles, such that Hexagon can issue SFTs under different labels. Bonds issued under the Framework will be aligned to the ICMA Green Bond Principles 2021 ("GBPs") / ICMA Social Bond Principles 2021 ("SBPs") / ICMA Sustainability Bond Guidelines 2021 ("SBGs") or as they may be subsequently amended. Loans issued under the Framework will be aligned to the LMA Green Loan Principles 2021 ("GLPs") / LMA Social Loan Principles 2021 ("SLPs") or as they may be subsequently amended.

The ICMA and LMA Principles have set clear standards and guidelines which are based around the following four core components:

- 1) Use of Proceeds
- 2) Project Evaluation and Selection
- 3) Management of Proceeds, and
- 4) Reporting, as set out in the Framework

Hexagon may further update or expand this Framework to align with emerging market standards and best practices, such as the EU/ UK Taxonomies, Sustainability Reporting Standard for Social Housing, EU Green Bond Standard ("EU GBS") or other relevant standards and guidelines.

## 2.2 Use of Proceeds

Hexagon intends to use an amount equivalent to the net proceeds raised by SFTs to finance and/or refinance Eligible Projects as defined in this Framework. Dependent on the nature of the project, the investment in the Eligible Projects can be measured through asset value (refinancing existing assets), capital expenditure ("Capex") or operating expenditure ("Opex"). For capital and operating expenditures, a look-back period of up to 36 months prior to the time of the issue date of the relevant SFTs will be applied. Hexagon intends to allocate an amount equivalent to the net proceeds raised according to this Framework to Eligible Projects within 24 months of the issue date of the relevant SFTs.

ICMA/LMA Category for use of proceeds	Eligible Projects	Reference financial line item	Alignment to UN SDG
<b>Green Buildings</b> <i>Contributing to climate change mitigation by reducing greenhouse gas emissions</i>	Construction or acquisition of new homes with an EPC (Energy Performance Certificate) Rating B (SAP 81) or above	Capex	 <b>7.3</b>
	Renovation of existing homes that improve unit EPC Ratings by at least two notches <b>or improve energy efficiency by at least 30%</b>	Capex Opex	
	Re-financing of existing homes with an EPC Rating of B (SAP 81) or above	Asset Value	
<b>Affordable Housing</b> <i>Reducing social inequality by increasing access to affordable housing</i>	Construction or acquisition of new Social and Affordable Housing in the United Kingdom	Capex	 <b>11.1</b>
	Necessary improvements and/or refurbishments required for the continued use of the social housing, not covered under energy efficiency improvements category	Capex	
	Re-financing of existing Social and Affordable Housing in the United Kingdom	Asset Value	

## Target population of Affordable Housing

Hexagon adheres to the Regulator of Social Housing’s definition of social and affordable housing. Affordable housing includes social rented, affordable rented and intermediate housing, provided to specified eligible households whose needs are not met by the market. It can be a new-build property or a private sector property that has been purchased for use as an affordable home.

Through the (re)financing of the Eligible Projects, Hexagon will be supporting less privileged families, the homeless and other disadvantaged individuals. Section 1.5 outlines the regulatory framework that UK Housing Associations operate within, to ensure the appropriate users benefit from Hexagon’s services.

## 2.3 Process for Project Evaluation and Selection

The Eligible Projects defined in this Framework provide clear environmental benefits and/or social impact. Hence, all potential Eligible Projects first and foremost comply with the applicable environmental and social laws and regulations, as well as the internal policies and standards of Hexagon, which aim to manage and mitigate ethical, environmental and governance risks. This will be the responsibility of Hexagon's Executive Management Group ("EMG").

The EMG responsibilities include:

- To oversee the establishment of the Framework and review its content, updating it to reflect changes in market standards (such as relevant ICMA and LMA Principles) and the organisation's strategy on a best-efforts basis
- To approve the addition of Eligible Projects / expenditures
- To oversee the Eligible Project portfolio, confirming its continued compliance with Hexagon's Framework
- To exclude projects or investments that no longer comply with the eligibility criteria or have been disposed of, and replacing them on a best-efforts basis
- To oversee the introduction and operation of arrangements to generate the information required to produce periodic impact reports, in accordance with the Framework and the ICMA/ LMA Principles
- As required, supporting investors with additional information pertaining to the eligible projects and eligibility criteria (such as examples of the SAP calculations)
- Oversight of any social and environmental risks associated with Eligible Projects

## 2.4 Management of Proceeds

Hexagon intends to allocate an amount equivalent to the proceeds from any SFT under the Framework to Eligible Projects, selected in accordance with the use of proceeds criteria and the evaluation and selection process described above. Hexagon will ensure that (re)financed Eligible Projects at all times exceed the net proceeds raised according to this Framework, until the maturity of the relevant SFT.

In case of any reduction on the Eligible Project portfolio, as a result of, for instance, divestments, additional Eligible Projects will be added to such portfolio whenever feasible and on a best-efforts basis, thereby ensuring the maintenance of the ratio between Eligible Projects and SFTs referred above.

Pending the full allocation to the Eligible Project portfolio, Hexagon will use any unallocated funds in line with our treasury policy – which can include deposits, money market funds and other similar instruments, prioritising ESG-aligned products where possible. The internal tracking system used to allocate the SFT proceeds will be annually assessed by our auditors in line the ICMA guidance. The Hexagon Finance team will take primary responsibility for managing this process.

## 2.5 Reporting

Hexagon will report at least annually and until full allocation, on the allocation and impact of SFTs issued under the Framework. Where relevant, Hexagon will seek to align the reporting with the latest standards and practices publicised by the ICMA, such as the “Harmonised Framework for Impact Reporting”. The report will include updates on the allocation of proceeds and an impact evaluation of the funded assets and expenditures.

### 2.5.1 Allocation Reporting

Hexagon will make and keep publicly available (on the company website) a report on the allocation of the SFTs’ net proceeds. The report will set out:

- The amount issued and outstanding for the SFT(s);
- The total value of Eligible Projects;
- A description of the portfolio of Eligible Projects, including a breakdown of the allocated amounts by ICMA / LMA categories where appropriate;
- The amount and/or percentage of new and existing projects (share of financing and refinancing); and
- Any further information on how unallocated proceeds have been held.

This information will be reviewed by an external independent third party.

### 2.5.2 Impact Reporting

Where possible, Hexagon will report on the impact of the outstanding SFTs issued under the Framework, covering the following impact indicators:

ICMA/LMA Category for use of proceeds	Indicative KPI Reporting Metrics
<b>Green Buildings</b>	<ul style="list-style-type: none"><li>• % of new homes with an EPC Rating of A or B</li><li>• Change in distribution of EPC ratings and/or SAP scores of existing homes</li><li>• Number of existing homes with an EPC rating of A or B</li></ul>
<b>Affordable Housing</b>	<ul style="list-style-type: none"><li>• Number of new affordable properties by category and average rents charged relative to private sector rents</li><li>• Existing number of affordable properties by category and average rents charged relative to private sector rents</li><li>• Number of people provided with affordable housing</li></ul>

## 2.6 External Review

### 2.6.1 Second Party Opinion

Hexagon commissioned DNV GL to conduct an external review of this Framework and confirm alignment with the ICMA GBPs / SBPs / SBGs and LMA GLPs / SLPs.

The SPO is available at: [hexagon.org.uk/about-us/sustainability-ed-vmf/](https://hexagon.org.uk/about-us/sustainability-ed-vmf/)

### 2.6.2 External Verification

External verification of the tracking of the bond proceeds will be provided by a qualified external party appointed by Hexagon, that will review and provide an opinion on all allocation reports issued in line with section 2.5

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