



THE UK'S GREEN GILT:

DEMONSTRATING THE CONTRIBUTION TO JOBS AND LEVELLING UP

WORKING PAPER – JULY 2021

KEY MESSAGES

- The UK can demonstrate genuine sustainable finance leadership by showing how to deliver and report on the social co-benefits of expenditure through its green sovereign financing programme.
- This briefing shows how the commitments to reporting on social co-benefits included in the UK government's recently published Green Financing Framework can be implemented in a practical, efficient and innovative way.ⁱ
- It highlights the importance of considering social co-benefits in the selection of projects to fund from green gilt proceeds to optimise positive impact.
- It concludes by setting out proposals for research and dialogue to show how to trace investment raised from the green gilt and green retail savings bond to place-based social impacts, thereby delivering on the government's levelling up commitment.

1. INTRODUCTION

In 2020, the Green+ Gilt proposal,ⁱⁱ produced by the LSE's Grantham Research Institute, the Green Finance Institute and the Impact Investing Institute, set out how the UK's green gilt can both deliver on the country's climate ambitions and generate social co-benefits, thereby contributing to reducing inequality and building back better.

At the 2021 Budget, the government announced that its first two green gilts will be issued in 2021, alongside a green NS&I product, and committed to *"reporting on the contributions of green gilt-financed spending towards social co-benefits such as job creation and levelling-up"*.ⁱⁱⁱ In June 2021, the government's Green Financing Framework gave substance to this commitment, indicating that such social co-benefits are expected to include job creation, loans to small and medium-sized businesses (SMEs), and supporting households to transition to low carbon heating.^{iv} The first report on the environmental and social impacts of the green gilt and green retail savings bond will be published two years (or less) after issuance.

There is strong global momentum behind progressing delivery of and reporting on social impacts, demonstrated by the International Regulatory Strategy Group (IRSG) and KPMG's recent report on social standards,^v as well as the EU's Platform on Sustainable Finance's recent draft reports on a social taxonomy.^{vi}

The government's reporting commitment signals its desire for the green gilt to benefit workers and local communities across the country. This could encourage other issuers at the corporate

and local level to start reporting on the social co-benefits of green finance, and would mean the UK setting a new bar internationally for the reporting, as well as potentially delivery, of social outcomes using green bonds.

Given the short timeframe ahead of the first two green gilt issuances, **we recommend the government adopts from the outset well-established social value indicators at the project level, as well as one or two nationwide indicators.** In the context of the post-pandemic economic recovery and in line with the Green Financing Framework, we believe that **decent job creation is the most appropriate category of social outcome** and will resonate strongly with the public. Additional categories of outcomes, such as SME funding and transportation infrastructure, could be considered for future issuances.

This note from the Impact Investing Institute and the Grantham Research Institute outlines a practical and implementable framework for delivering the social co-benefits dimension of the UK's green gilt, laying the foundations for further development in subsequent green gilt issuances.

2. GENERATING AND REPORTING ON SOCIAL CO-BENEFITS

The inclusion of social co-benefits in the green gilt series was welcomed by the market participants at a “think-in” in April 2021 hosted by the Impact Investing Institute, including asset owners and investors with a total AUM of over £6trn, along with a number of professional bodies. From this and further analysis, we have developed the following five recommendations for maximising the social co-benefits of the green gilt programme:

1. **Consider social co-benefits from the outset** – i.e., at the point of project selection for the first issuances. This could involve prioritising green projects according to their projected social outcomes, or considering green and social impact together during selection.
2. **Prioritise nationwide, clear social co-benefits.** Most investors were unclear on the policy consequences of ‘levelling up’ and therefore requested clear, objective indicators.
3. **Nationwide metrics would also help investors to determine the financial materiality of social co-benefits** – for example, the impact on the UK's overall credit risk. Participants favoured national metrics alongside metrics on use-of-proceeds, rather than metrics on use-of-proceeds alone.
4. **Develop specific KPIs on decent job creation at the project level** which consider the quality, duration and location of such jobs. Careful consideration should be given to those workers in at-risk industries due to the transition to a net zero economy, including metrics on their skills development and transition to new jobs.

3. CONNECTING THE UK'S GREEN FINANCING FRAMEWORK, JOBS GOALS AND LEVELLING UP AGENDA WITH THE SOCIAL BOND PRINCIPLES FRAMEWORK

Current green gilt frameworks do not explicitly focus on capturing the social co-benefits of climate-related investment. However, there is a growing number of initiatives providing

frameworks of eligibility criteria and metrics by which social outcomes of the green gilt may be measured. We welcome the UK's Green Financing Framework's alignment with ICMA's Social Bond Principles (SBP),^{vii} which are well-established and widely used.

A few relatively simple inclusions from the SBP framework could enable the government to demonstrate explicitly how the use of proceeds will deliver on jobs and levelling up. This would achieve and potentially build upon the social co-benefits suggested in the Green Financing Framework. This could be done as follows:

- **Jobs:** Use the SBP category 'employment generation', covering job creation, job security and job quality, recognising the importance of place-based metrics.
- **Levelling up:** Use the SBP category 'socioeconomic advancement and empowerment' as an equivalent, focusing on upskilling and supporting disadvantaged communities.

We have differentiated between "project-related indicators" and "wider indicators". "Project-related indicators" would be used at the project level, for example the number of employees hired through a project contract. "Wider indicators" would be used at the national, regional or local level, and represent the wider impact on society. Examples include overall job creation or the number of households transitioning to low carbon heating. The government may wish to highlight the role of "wider indicators" at the local or regional level in levelling up, while investors may also wish to consider nationwide metrics, as our recent think-in found.

4. ADOPTING ESTABLISHED INDICATORS

At the project level, we suggest using a set of social value indicators that are well-established in the UK: the **Social Value Portal's critical Themes, core Outcomes and key Measures (TOMs)**. Social Value aims to identify the wider benefits of public decisions and business activities for people, the economy and environment.^{viii} The TOMs we have identified apply equally well within projects themselves. They provide a method of reporting and measuring social value to a consistent standard. Using the TOMs can help future-proof the green gilts for the following reasons:

- **Meaningful metrics:** The TOMs capture social co-benefit outcomes and quality, rather than just outputs and quantity. This helps protect against social/green-washing.
- **Recognition:** The TOMs are already used in public procurement, following the 2012 Public Services (Social Value) Act.^x A growing number of local authorities, businesses and investors are implementing this joined-up approach, supported by collaborative initiatives such as the Social Value Portal.^x
- **Consistency:** The Portal provides a consistent decision-making framework, enabling stakeholders to communicate social priorities, compare tenders, ensure commitments get translated into outcomes and report performance in a transparent manner.
- **Ambition:** The application of the TOMs is expanding beyond procurement, and its user base has broadened to include a number of institutional investors (notably those involved in real estate and infrastructure).

At the national, regional or local level, we suggest using a range of indicators, drawing from data points used by institutions such as the Office for National Statistics (ONS) and British Business Bank.

Below, we set out how the TOMs and other indicators could be applied to the UK's green gilt by mapping the Green Financing Framework's indicators (yellow boxes under 'Outcome') to the SBP framework – focusing on benefits (jobs and skills) and target populations (underperforming regions and disadvantaged populations). For clarity, NT refers to the National TOMs, RE refers to TOMs specific to the Real Estate sector and FM refers to TOMs specific to the Facilities Management sector – i.e., through the built environment. We also suggest additional indicators for potential development in the future (blue boxes under 'Outcome').

5. NEXT STEPS

We recommend three key next steps.

1. **Demonstrate explicitly how the use of proceeds will deliver on jobs and levelling up** by using the SBP framework and incorporating established indicators, as outlined below. This could begin with social co-benefits focusing on job creation and quality.
2. **Launch collaborative research to better understand the place-based dimensions of the social co-benefits.** There is growing demand from investors for place-based investments that contribute to climate action and deliver positive social impact. This is underlined in a white paper, "Scaling up institutional investment for place-based impact", by The Good Economy, the Impact Investing Institute and Pensions for Purpose.^{xi} The Grantham Research Institute has also developed its Place-Based Climate Action Network Finance Platform, which aims to help to connect the supply and demand for finance at the local and regional levels.^{xii} To really understand the levelling up dimension, further analysis and research could be conducted with investors, local and regional authorities and others to trace the links between the national level green gilt programme and place-based environmental and social outcomes.
3. **As the international momentum behind social impact grows, the UK government could extend its global leadership by developing a social taxonomy framework as a contribution to stimulating global coherence in sustainability disclosures.** This could build out from the social co-benefits identified within the UK's Green Financing Framework, align with the UK's ongoing work on a green taxonomy and complement emergent international thinking on disclosures of metrics linked to the 'S' in ESG.

TABLE 1: PROJECT-RELATED INDICATORS

SOCIAL CO-BENEFIT		EXAMPLE OUTCOMES & INDICATORS – REFLECTING GREEN FINANCING FRAMEWORK	
SOCIAL CO-BENEFIT (FROM SOCIAL BOND PRINCIPLES)	TARGET POPULATION[S]	OUTCOME	PROJECT-RELATED INDICATOR (FROM TOMS ^{xiii})
Employment generation, and programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance.	Economically underperforming regions.	Job creation	No. of local direct employees (FTE) hired or retained (for re-tendered contracts) on contract for one year or the whole duration of the contract, whichever is shorter (TOM Ref NT1).
			No. of residents (FTE) from the listed sub-localities employed directly or through the supply chain as a result of procurement requirements on the contract for one year or the whole duration of the contract, whichever is shorter (see sub-localities listed in 'LISTNT1b') (Ref NT1b).
			No. of local people (FTE) on contract for one year or the whole duration of the contract, whichever is shorter, employed through the supply chain as a result of procurement requirements (Ref NT1c).
		Job security	No. of local direct employees (FTE) which are TUPE transfers retained on contract for one year or the whole duration of the contract, whichever is shorter (re-tendered contracts only - to be used at Measurement) (Ref NT1a).
			Percentage of local employees (FTE) on contract (Ref NT2).
		Job quality	Percentage of staff on contract that is paid at least the relevant Real Living wage as specified by Living Wage foundation (Ref NT41).
			Percentage of contractors in the supply chain required (or supported if they are micro OR small business) to pay at least Real Living wage (Ref NT42).
			Total amount (£) spent in LOCAL supply chain through the contract (Ref NT18).

SOCIAL CO-BENEFIT		EXAMPLE OUTCOMES & INDICATORS – REFLECTING GREEN FINANCING FRAMEWORK	
SOCIAL CO-BENEFIT (FROM SOCIAL BOND PRINCIPLES)	TARGET POPULATION[S]	OUTCOME	PROJECT-RELATED INDICATOR (FROM TOMS ^{xiii})
Socioeconomic advancement and empowerment (e.g., equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality).	People and communities who have traditionally faced the highest barriers to entry, e.g., jobseekers, particularly low qualified and unqualified.	Local additionality	Total amount (£) spent through the contract in specified sub-localities (e.g. high deprivation areas) (Ref NT18a).
		SME funding	Total amount (£) spent through contract with LOCAL micro, small and medium enterprises (MSMEs) (Ref NT19).
		Transport infrastructure	Car miles saved on the project as a result of a green transport programme or equivalent (e.g. cycle to work programmes, public transport or car pooling programmes, etc.) (Ref NT32, RE46, FM68). Percentage of procurement contracts that include sustainable procurement commitments or other relevant requirements and certifications (e.g. to use local produce, reduce food waste, and keep resources in circulation longer.) (Ref NT35, RE49, FM93).
		Adaptation projects e.g. nature-based flood defences	Innovative measures to enable healthier, safer and more resilient communities to be delivered on the contract - these could be e.g. co-designed with stakeholders or communities, or aiming at delivering benefits while minimising carbon footprint from initiatives, etc. (Ref NT52, RE69, FM100). Innovative measures to safeguard the environment and respond to the climate emergency to be delivered on the contract - these could be e.g. co-designed with stakeholders or communities, or aiming at delivering benefits while minimising carbon footprint from initiatives, etc. (Ref NT53, RE70, FM101). Value of service provided by local partnerships that implement circular economy solutions (Ref NT71, FM90).
		Low carbon heating	Carbon emission reductions through reduced energy use and energy efficiency measures - building operations - (e.g. REEB benchmark, RIBA Climate Challenge or 3 year baseline) (Ref RE37, FM66).

SOCIAL CO-BENEFIT		EXAMPLE OUTCOMES & INDICATORS – REFLECTING GREEN FINANCING FRAMEWORK	
SOCIAL CO-BENEFIT (FROM SOCIAL BOND PRINCIPLES)	TARGET POPULATION[S]	OUTCOME	PROJECT-RELATED INDICATOR (FROM TOMS ^{xiii})
			Percentage of buildings meeting target (buildings use less energy and are more energy efficient) (RE38, FM67).
		Job upskilling	No. of weeks of training opportunities on the contract (BTEC, City & Guilds, NVQ, HNC) that have either been completed during the year, or that will be supported by the organisation until completion in the following years - Level 2,3, or 4+ (Ref NT9).
		Workforce inclusion of disadvantaged communities	Long term unemployed: No. of employees (FTE) hired on the contract who are long term unemployed (unemployed for a year or longer) as a result of a recruitment programme (Ref NT3).
			NEET: No. of employees (FTE) hired on the contract who are Not in Employment, Education, or Training (NEETs) as a result of a recruitment programme (Ref NT4).
			Rehabilitating / ex offender: No. of 18+ y.o. employees (FTE) hired on the contract who are rehabilitating or ex offenders as a result of a recruitment programme (Ref NT5).
			Disabled: No. of disabled employees (FTE) hired on the contract as a result of a recruitment programme (Ref NT6).
			Gender: Number and type of initiatives to be put in place to reduce the gender pay gap for staff employed in relation to the contract (describe and document initiatives) (Ref NT40).

TABLE 2: WIDER INDICATORS – NATIONAL, REGIONAL AND LOCAL LEVEL

SOCIAL CO-BENEFIT		EXAMPLE OUTCOMES & INDICATORS – REFLECTING GREEN FINANCING FRAMEWORK		
SOCIAL CO-BENEFIT (FROM SOCIAL BOND PRINCIPLES)	TARGET POPULATION[S]	OUTCOME	WIDER INDICATORS	DATA SOURCE
Employment generation , and programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance.	Economically underperforming regions.	Job creation	Number of jobs created and/or retained.	ONS – UK labour market statistics.
		Job security	Number of zero hours contracts.	ONS – People in employment on zero hours contracts.
			Number of temporary contracts.	ONS – Temporary employees.
		Job quality	Average wage.	ONS – NI Annual Survey of Hours and Earnings.
		SME funding	Number of loans to SMEs and/or microenterprises.	British Business Bank.
			Number of SMEs that receive support for equipment and facilities and technological modernisation.	[No data source identified]
			Number of SMEs that receive support.	British Business Bank – Number of SMEs which receive loans, equity and guarantees.
Socioeconomic advancement and empowerment (e.g., equitable access to and control over assets, services, resources, and	People and communities who have traditionally faced the highest barriers to entry, e.g.,	Overall impact	Number of households benefitted.	[No data source identified]
		Transport infrastructure	Number of people with access to sustainable transport systems.	Department for Transport – inc. data on actual journeys on public transport, and bicycle ownership.

SOCIAL CO-BENEFIT		EXAMPLE OUTCOMES & INDICATORS – REFLECTING GREEN FINANCING FRAMEWORK		
SOCIAL CO-BENEFIT (FROM SOCIAL BOND PRINCIPLES)	TARGET POPULATION[S]	OUTCOME	WIDER INDICATORS	DATA SOURCE
opportunities; equitable participation and integration into the market and society, including reduction of income inequality).	jobseekers, particularly low qualified and unqualified.	Adaptation projects e.g. nature-based flood defences	Estimated number of beneficiaries from adaptation projects.	E.g., flooding: Environment Agency – number of households at risk of flooding
		Low carbon heating	Number of households and businesses supported to transition to low carbon heating.	Households: Department for Business, Energy & Industrial Strategy – inc. beneficiaries from government schemes, and number of homes with energy efficiency measures.
		Energy costs	Average household energy bill.	Ofgem.
		Job upskilling	Number of workforce in job-related education or training.	ONS – Job-related training received by employees / Participation rates for in-work training / In-work training characteristics.
		Workforce inclusion of disadvantaged communities	Long term unemployed: Number long-term workless households.	ONS – Long-term workless households.
			NEET: Number of young people not in education, employment or training.	ONS – Young people not in education, employment or training (NEET).
			Disabled: Number of workforce with a disability.	ONS – The employment of disabled people.
			Gender: Differences in pay between women and men.	ONS – Gender pay gap.

ⁱ Written by Sarah Gordon, Bella Landymore and Joe Dharampal-Hornby of the Impact Investing Institute, and Professor Nick Robins and Sabrina Muller of the Grantham Research Institute.

ⁱⁱ <https://www.lse.ac.uk/granthaminstitute/publication/the-green-gilt-how-the-uk-could-issue-sovereign-bonds-that-deliver-climate-action/>

ⁱⁱⁱ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966868/BUDGET_2021_-_web.pdf

^{iv} https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1001023/20210630_UK_Government_Green_Financing_Framework.pdf

^v <https://assets.kpmg/content/dam/kpmg/uk/pdf/2021/06/irsg-kpmg-accelerating-the-s-in-esg-report.pdf>

^{vi} https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports_en

^{vii} https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1001023/20210630_UK_Government_Green_Financing_Framework.pdf

^{viii} The Grantham Research Institute has explored net-zero and social value here: <https://www.lse.ac.uk/granthaminstitute/news/net-zero-the-1-trillion-plus-opportunity-to-create-social-value-in-the-uk/>

^{ix} <https://www.legislation.gov.uk/ukpga/2012/3/enacted>

^x <https://socialvalueportal.com/>

^{xi} <https://www.impactinvest.org.uk/publications/report-scaling-up-institutional-investment-for-place-based-impact/>

^{xii} <https://www.pcancities.org.uk/finance-platform>

^{xiii} <https://socialvalueportal.com/>