



HM Treasury



United Kingdom
Debt Management
Office

UK Green Financing

Allocation Report



September 2022

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Introduction



Introduction

The Green Financing Programme

The UK's Green Financing Programme (the 'Programme'), under which the UK issues sovereign green bonds (or 'green gilts') and retail Green Savings Bonds, was launched in September 2021 and is a key pillar of the government's green finance agenda. Financing raised through the Programme helps to finance government expenditures that tackle climate change, biodiversity loss and other urgent environmental challenges.

Under the Programme, the government has committed to regular reporting on the way in which the funds raised are spent, and the impacts of this spending.

This Allocation Report is the first since the Programme's launch last year. It sets out how private capital is helping to finance ambitious government initiatives to address climate change and biodiversity loss. The government will publish further Allocation Reports annually.

The government will, in addition, publish its first Impact Report in 2023 showing, where relevant and feasible, the positive environmental impacts and social co-benefits of schemes financed by the Programme. In anticipation of the first Impact Report, this Allocation Report contains methodological case studies for some major expenditures, which set out how the government intends to measure and report on the environmental impacts of these projects.

The UK's Climate and Environmental Leadership

The UK is a leader in global action against climate change and in international efforts to reverse biodiversity loss and protect nature.

The UK cut its emissions by 44% between 1990 and 2019 — the fastest among the G7 — and in 2019 became the first major economy to legislate for reaching net zero emissions by 2050. In April 2021, the government went further by accelerating its climate commitments with a target to reduce greenhouse gas emissions by approximately 78% by 2035 compared to 1990 levels.

The government is committed to being the first to leave the natural environment in a better state than it was found and agrees with the central conclusion of the independent Dasgupta Review on the Economics of Biodiversity that nature sustains economies, livelihoods and well-being. The Environment Act 2021 provides a framework to clean up the country's air, restore natural habitats, increase biodiversity, reduce waste and make better use of resources. These changes will be driven by new legally binding targets and enforced by the new Office for Environmental Protection.

Significant progress has been made over the past year. The UK hosted COP26 in Glasgow, where countries committed to speeding up the pace of climate action. Ahead of COP26 the

[Net Zero Strategy](#) set out the UK's plan to decarbonise the economy and meet the net zero target. It was supported by a suite of publications including HM Treasury's [Net Zero Review](#).

Given the change in the economic landscape since 2021, due primarily to the Russian invasion of Ukraine, the government has announced a review into its approach to meeting the 2050 net zero target. This is to ensure the UK delivers its legal commitment to reach net zero by 2050 in a way that is pro-business and pro-growth. The review will report by the end of 2022.

Sustainable finance lies at the heart of achieving the UK's ambitious climate and environmental goals. The UK committed to becoming the first net zero-aligned financial centre in the world at COP26. The government is progressing the issues outlined in last year's [Greening Finance: A Roadmap to Sustainable Investing](#), which sets out the ambition to make the UK the best place in the world for sustainable investment. The government is developing an update to the UK's Green Finance Strategy, which will be published in due course.

The Green Financing Programme is a central component of this green finance agenda. This Allocation Report demonstrates how the Programme is already supporting the UK's climate and environmental priorities, using private capital to help finance government schemes which are protecting property and infrastructure from the effects of climate change, stimulating the development of self-sustaining markets for low-carbon technologies, and supporting jobs in low-carbon and energy-efficient sectors across the UK.

This inaugural Allocation Report corresponds to the period 1 April 2021– 31 March 2022, during which the government raised £16.4 billion through its Green Financing Programme. The details of the Programme were outlined in the [UK Government Green Financing Framework](#) ('the Framework'), published in June 2021.

£16.1 billion of this total was raised from the issuance of two green gilts, via the UK Debt Management Office (DMO), with the remainder raised through retail Green Savings Bonds, sold via National Savings and Investments (NS&I). As this Allocation Report sets out, 100% of these proceeds were allocated to expenditures within the eligible expenditure window. This allocation also meets the Framework commitment to allocate at least 50% of proceeds to current and future financial years.

Proceeds were allocated to expenditures across all six of the categories outlined in the Framework: Clean Transportation, Energy Efficiency, Renewable Energy, Pollution Prevention & Control, Living & Natural Resources and Climate Change Adaptation. Clean Transportation received the largest allocation, reflecting the importance of decarbonising the transport sector, which generates over a quarter of the UK's greenhouse gas emissions. Energy efficiency received the second largest allocation, with a focus on decarbonising the UK's building stock, a vital part of reaching net zero by 2050.



Clean
Transportation



Energy
Efficiency



Renewable
Energy



Pollution Prevention
& Control



Living
& Natural Resources



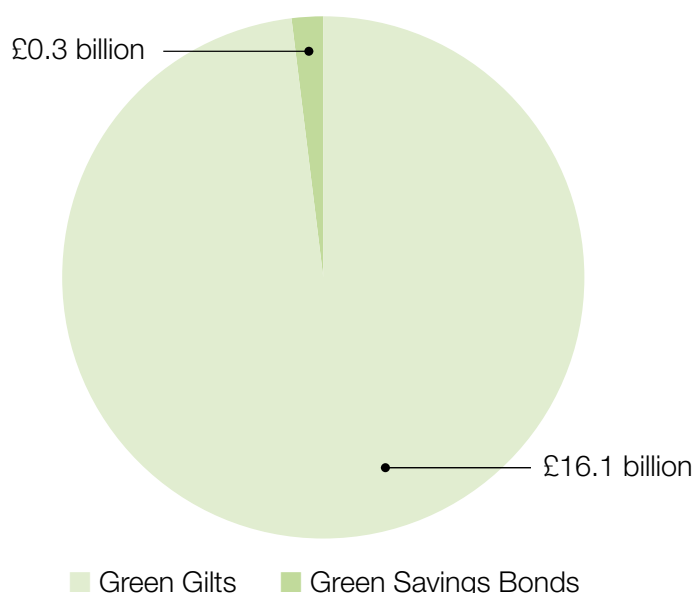
Climate Change
Adaptation

Green Financing in 2021–22

Financial year 2021 to 2022 marked the successful launch of the UK's Green Financing Programme, with the publication of the Framework in June 2021. A total of £16.4 billion in green proceeds was raised in 2021–22 via green gilts, issued by the DMO, and retail Green Savings Bonds, sold via NS&I. The majority of these proceeds – £16.1 billion – was raised through the government's two green gilt syndications in autumn 2021. The remaining £0.3 billion was raised through the sale of retail Green Savings Bonds to UK savers. This Allocation Report accounts for proceeds raised through both instruments.

The success of the UK's Green Financing Programme was recognised with the awards of the Largest Green Sovereign Bond and Sovereign Green Bond Market Pioneer at the 7th Annual Climate Bonds Awards, hosted by the Climate Bonds Initiative. The Programme also received the Most Impressive Government Green/SRI Bond Issuer award from GlobalCapital and the 2021 Sterling Bond award from the International Financing Review.

Green gilts are sold by the DMO primarily to institutional investors, both in the UK and internationally. Green Savings Bonds are sold by NS&I to UK savers. Proceeds raised by both instruments are treated identically under the Framework: they are allocated to the same pool of eligible expenditures and reported on under the same structures. This Allocation Report accounts for proceeds raised by both instruments in financial year 2021 to 2022.



Green Gilt Issuance in 2021–22

The DMO successfully launched two green gilts via syndication in financial year 2021 to 2022 which raised a combined total of £16.1 billion in cash proceeds. Both transactions had strong demand from investors and priced favourably in comparison with standard conventional gilts of equivalent maturity. Participation included significant interest from gilt investors who are increasingly integrating environmental, social and governance (ESG) factors into their investment decisions, and from dedicated ESG investors, some of whom were participating in the gilt market for the first time.

First green gilt transaction

The inaugural green gilt issuance, on 21 September 2021, was for a bond maturing on 31 July 2033, and raised £10 billion in cash proceeds. At the time, this was the largest green bond issued by any sovereign issuer, attracting the largest number and volume of orders of any gilt syndication held by the DMO.

Second green gilt transaction

A second issuance followed on 21 October 2021, for a green gilt maturing on 31 July 2053, raising cash proceeds of £6.1 billion. At the time of issue, this was the longest maturity sovereign green bond in the world.

Retail Green Savings Bonds in 2021–22

NS&I's retail Green Savings Bonds went on sale to UK savers in October 2021. These Green Savings Bonds allow UK savers to contribute to the UK's fight against climate change and other environmental challenges.

The first issue of the three-year fixed term product paid an interest rate of 0.65%. The product was repriced in February 2022 to 1.3% to reflect the increase in interest rates in the fixed-term savings market. The Green Savings Bonds raised a total of £0.3 billion of green financing in financial year 2021 to 2022, bringing the total for the Green Financing Programme for the financial year to £16.4 billion.

Proceeds raised from green gilts and Green Savings Bonds are not ring-fenced. Instead, proceeds raised flow into the government's general account in the same way as funds raised from other UK debt issues. The amount of money raised is tracked and monitored to meet the intention that an amount equivalent to that raised via green gilts and Green Savings Bonds issuance is spent appropriately on eligible green expenditures. This is consistent with the approach taken by other sovereign green bond issuers.



Expenditure Selection

HM Treasury has allocated the proceeds raised from the green gilts and Green Savings Bonds in financial year 2021 to 2022 to eligible green expenditures only. As detailed in the Framework, eligible green expenditures fall within one of the six expenditure categories: Clean Transportation, Energy Efficiency, Renewable Energy, Pollution Prevention & Control, Living & Natural Resources and Climate Change Adaptation. They include government expenditures in the form of direct or indirect investment expenditures, subsidies, tax foregone and associated operational expenditures.

Eligible expenditures are limited to government expenditures that occurred no earlier than 12 months prior to issuance, the financial year of issuance, and the two financial years following issuance. HM Treasury will allocate at least 50% of net proceeds to current and future expenditures. The Framework also lists excluded expenditures, including nuclear energy and fossil fuel exploitation and exploration.

Across government, HM Treasury leads the evaluation and selection of eligible green expenditures, in consultation with the relevant government departments — specifically the Department for Business, Energy and Industrial Strategy (BEIS), the Department for Environment, Food & Rural Affairs (Defra), the Department for Transport (DfT) and the Foreign, Commonwealth & Development Office (FCDO). Coordination of this work takes place via the Inter-Departmental Green Bond Board (IDGBB), which is chaired by HM Treasury. The DMO and NS&I also attend the IDGBB.

In process terms, HM Treasury first commissioned relevant government departments for eligible green expenditure figures and estimates, in order to compile the portfolio of expenditures reviewed by V.E for the Second Party Opinion. Bilateral meetings were then conducted with departments to determine the green credentials and eligibility of expenditures. HM Treasury drew up a proposed allocation, before bringing this provisional allocation to the IDGBB for conditional approval. Following the confirmation of final expenditure figures ('outturn data') for the preceding financial year, the IDGBB then provided approval of the final allocation.

Spending in Scotland, Wales and Northern Ireland

UK government expenditure across the UK – in England, Northern Ireland, Scotland and Wales – is eligible for financing as part of the Programme. Indeed, this first allocation includes UK government expenditures that span all the UK's constituent nations.

Authority over some climate and environmental policy areas, including most transport and agriculture, is devolved. Decisions on which projects and initiatives to pursue in these areas are generally therefore for the devolved administrations (DAs) in Northern Ireland, Scotland and Wales. While the UK government supports such expenditures indirectly, through providing block grant funding to the DAs, the expenditures and projects are not directly overseen by the UK government and as such are out of scope of the Programme.

Consequently, this allocation has a disproportionate geographic weighting to expenditure in England; this is a reflection of the devolved nature of much climate and environmental policy.

The Spending Review process

The Spending Review (SR) is the main process for decision making about government spending. Insofar as it sets the broad parameters for green expenditure over a given period, it is a key determinant of the quantity of ‘use of proceeds’ green financing.

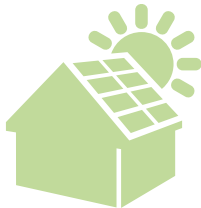
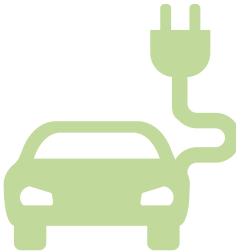
SRs set resource and capital budgets for all UK central government departments and the DAs’ block grants. They can provide single-year or multiyear settlements. At the most recent SR, in autumn 2021, departments agreed three-year settlements with HM Treasury covering the period 2022–23 to 2024–25. SRs involve discussions between spending departments and HM Treasury, with final decisions taken by ministers.

SR settlements set out planned expenditure over the period they cover. These plans may be adjusted in practice within that period, subject to agreement by HM Treasury. The government may thus adapt spending plans during an SR period in response to new priorities and events.



Allocation of 2021–22 Proceeds

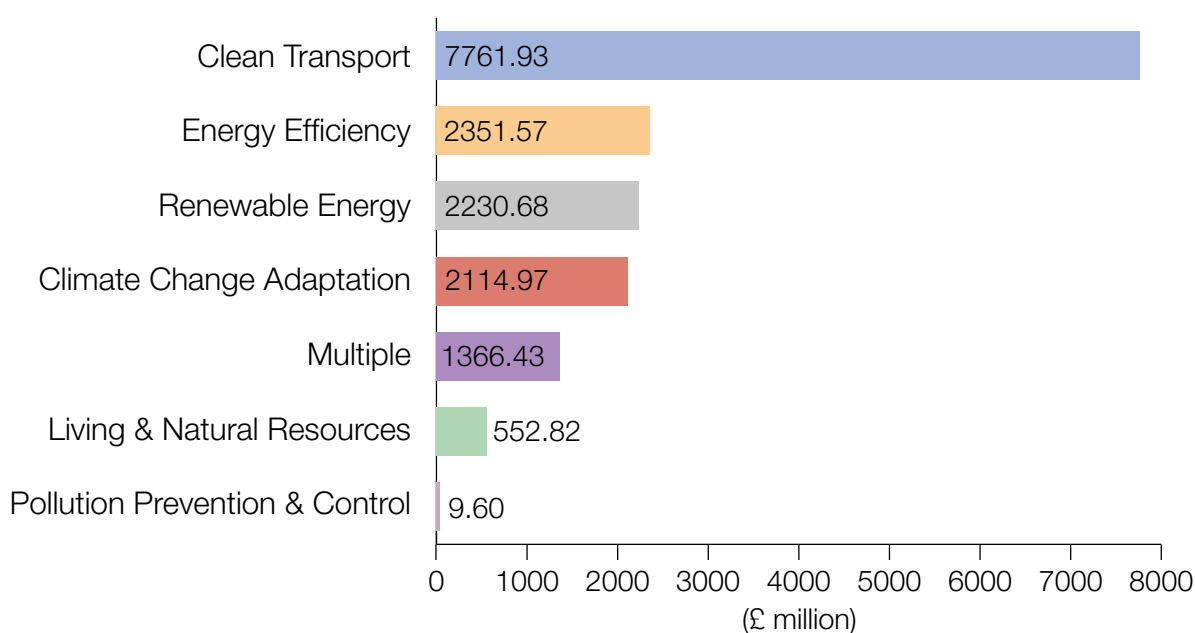
Table of Allocations



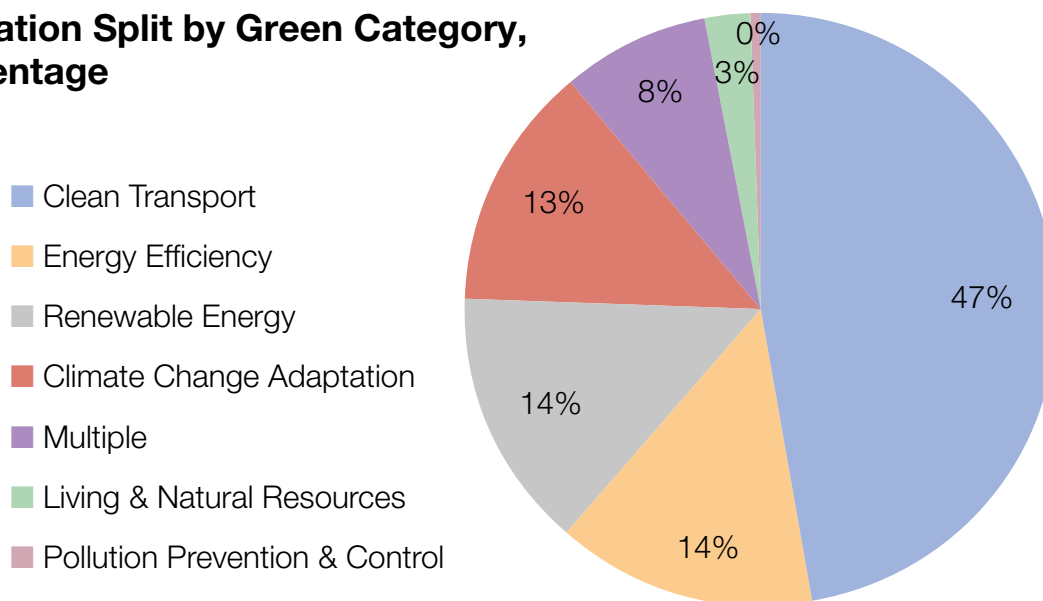
			Allocated Amount (£ million)		
Name	Green Expenditure Category	Description	2020–21	2021–22	Total
Renewable Heat Incentive (AME)	Renewable Energy	Funding to help businesses, homes and other organisations meet the cost of installing renewable heat technologies.	848.14	941.60	1789.74
Local Authority Delivery (LAD)	Energy Efficiency	Subsidies for local authorities to improve the energy efficiency of housing stock.	502.80	208.87	711.67
Green Homes Grant Vouchers	Energy Efficiency	Provides vouchers to homeowners to improve the energy efficiency of housing stock	70.14	212.66	282.80
International Climate Finance ODA	Renewable Energy, Energy Efficiency	BEIS share of international aid for environmental related issues	580.47	431.77	1012.24
Public Sector Decarbonisation Scheme	Energy Efficiency	Grants for public sector bodies to fund heat decarbonisation and energy efficiency measures.	575.21	403.07	978.28
Net Zero Innovation Portfolio R&D	Renewable Energy	Funding for low-carbon technologies research.	106.75	99.26	206.01
Heat Networks Transformation Programme	Renewable Energy	Capital grants for the development of new and existing low and zero-carbon heat networks	92.80	142.13	234.93
Social Housing Decarbonisation Fund	Energy Efficiency	Fund supporting the installation of energy performance measures in social homes in England	62.32	163.82	226.14
Home Upgrade Grant	Energy Efficiency	Funding for property owners and private renters to improve their home’s energy efficiency.	0.00	152.68	152.68
Carbon Capture and Storage Infrastructure	Pollution Prevention & Control	Fund to support capital expenditure on transport and storage networks and industrial carbon capture projects.	0.00	9.60	9.60
EA Floods Programme	Climate Change Adaptation	Investment into flood and coastal erosion risk management programmes.	1023.80	1091.17*	2114.97
Agri-environment schemes	Living & Natural Resources	A collection of agricultural environmental schemes including: existing agri-environment and forestry, Countryside Stewardship Offer, Future Plant Health, and Environmental Land Management	100.00	249.00*	349.00
Nature For Climate Fund	Living & Natural Resources	Fund supporting tree-planting and peat-restoration schemes in England	30.19	69.83*	100.02
Green Recovery Challenge Fund	Living & Natural Resources	Funding to create jobs in nature recovery and conservation	40.00	40.00*	80.00
Track Renewal	Clean Transportation	Funding to renew railway tracks. Electric rail only and does not include HS2 spend.	1645.79	1662.47	3308.26
Rail Enhancements	Clean Transportation	Funding for various rail electrifications and expansions. Electric rail only and does not include HS2 spend.	679.30	772.00	1451.30
Track Maintenance	Clean Transportation	Funding to maintain existing rail. Electric rail only and does not include HS2 spend.	599.59	662.03	1261.62
Plug In Car Grant	Clean Transportation	Grant that provides discounts on eligible zero emission cars.	216.77	283.35	500.12
DfT Cycling & Walking Funding	Clean Transportation	A collection of funds promoting cycling and walking including: Local Authority (LA) Infrastructure, LA Capacity Building Fund, National Cycle Network, Bikeability, National Cycling & Walking, E-Bike Support	304.98	279.22	584.20
Zero Emission Buses	Clean Transportation	Funding to support the purchase of zero emissions buses	50.00	220.29	270.29
Plug in Van Grant	Clean Transportation	Grant providing discounts on eligible zero emission vans.	82.70	99.27	181.97
Low Carbon VIP R&D - Innovate UK	Clean Transportation	Funding for industry projects in low emission vehicle and charging infrastructure technologies	51.22	47.00	98.22
Home Chargers (EVHS)	Clean Transportation	Grant contributing to the cost of one chargepoint and its installation.	24.43	54.91	79.34
Global Environment Facility 7th replenishment	Renewable Energy Energy Efficiency Climate Change Adaptation Clean Transportation Living and Natural Resources	Funding to support developing countries to implement international agreements on climate change, biodiversity, land degradation and harmful chemicals	37.50	37.50	75.00
Investments in Forests and Sustainable Land Use	Living & Natural Resources	To support public-private partnerships that can work collaboratively to reduce deforestation internationally.	13.61	10.19	23.80
On Street Chargers Grant (ORCS)	Clean Transportation	Grant funding for local authorities to part-fund the procurement and installation of on-street EV chargepoint infrastructure for residential need.	6.03	20.58	26.61
Green Climate Fund First Replenishment	Renewable Energy Energy Efficiency Climate Change Adaptation Clean Transportation Living and Natural Resources	The UK’s share of the Green Climate Fund - a UN fund to help developing countries develop sustainability.	250.00	29.19†	279.19
Total			7994.54	8393.46	16388.00

* Provisional and subject to change following completion of department accounting processes.

† Only partly funded by the Green Financing Programme. The total spend for the Green Climate Fund First Replenishment in 2021-22 was £101.70 million with 29% of this funded by the Programme.

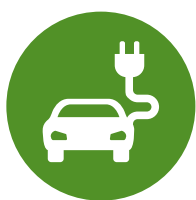


Allocation Split by Green Category, Percentage



As demonstrated by its leadership at COP26, the UK is committed to assisting developing countries in their efforts to tackle climate change and adapt to its impacts. The UK has committed to the collective target of providing and mobilising US\$100 billion of climate finance a year through public and private sources, for developing countries. In 2019 the government made a further commitment to deliver £11.6 billion of public funding for the period 2021–22 to 2025–26.

Reflecting this, 8% of proceeds have been allocated towards programmes that support adaptation and mitigation overseas within the UK's International Climate Finance (ICF) commitment. ICF plays a vital role in accelerating the clean energy transition, protecting and restoring nature, accelerating adaptation, building resilience, and supporting sustainable cities, infrastructure and transport.



Clean Transportation

Domestic transport was responsible for 27% of UK greenhouse gas emissions in 2019, the highest of any sector of the UK economy. Tackling these emissions, which have previously been one of the hardest emission sources to cut, is therefore central to achieving net zero by 2050. While total UK emissions fell by 44% between 1990 and 2019, domestic transport emissions decreased by only 5%.

As a key focus of the government's Net Zero Strategy, *Clean Transportation* forms the largest share of this year's Green Financing Programme allocation. The largest single expenditure is the expansion and maintenance of the UK's electric rail network, where the government is investing in enhancements, including electrification on the route between Wigan and Bolton, the Midlands Main Line, and the TransPennine Route Upgrade.

Another expenditure in this category is zero emission buses. Buses have a crucial role to play in transport achieving net zero and improving air quality. As set out in the National Bus Strategy the government is committed to supporting zero emission bus services which meet the needs of passengers and communities and attract passengers from other forms of transport. Funding for zero emission buses and supporting infrastructure has been provided through initiatives including the Zero Emission Bus Regional Areas scheme and All-Electric Bus City.

A further portion of proceeds is allocated to plug-in vehicle grants, a subsidy for zero emission vehicles (ZEVs). Road vehicles currently represent 91% of UK domestic transport emissions. Tackling these emissions is therefore key and will bring with it a host of co-benefits including better air quality, reduced noise, and jobs in related industries. Since 2011, the government has provided over £1.6 billion in grant funding to bring ultra-low emission vehicles onto UK roads, supporting the purchase of over 460,000 ultra-low emission vehicles, of which over 300,000 are ZEVs. Proceeds are also allocated to supporting provision of the associated charging infrastructure to accelerate the rollout of a world-class charging network.

Investments to support local authority cycling and walking schemes are also included in this allocation. The recent publication of the [second Cycling and Walking Investment Strategy](#) outlines the government's ambition for half of all journeys in towns and cities to be cycled or walked by 2030. This funding supports a range of measures aimed at making walking, wheeling and cycling the natural choice for millions more journeys, including development of active travel infrastructure, cycle training and behaviour change outreach, and e-cycle support.



Energy Efficiency

The *Energy Efficiency* spend in this allocation is focussed on improving heat insulation in buildings and supporting the decarbonisation of UK heating. This spend aims to reduce heat loss from buildings which can make heating systems cheaper to install and run, reducing heating bills for households and businesses.

Major expenditures in this category include the Social Housing Decarbonisation fund which allows councils to apply for funding to improve social housing energy efficiency to an EPC C rating or higher. This policy to improve energy efficiency will help cut carbon emissions and reduce overall energy bills for social housing tenants, compared with a counterfactual of no intervention.

Another expenditure is the Public Sector Decarbonisation Scheme, which provides grants for public sector bodies such as hospitals and schools to fund heat decarbonisation and energy efficiency measures, for example heat pumps, solar panels, LED lighting, insulation and efficient building energy management systems. The scheme supports the aim of reducing emissions from public sector buildings by 75% by 2037, compared to a 2017 baseline, as set out in the [Heat and Buildings Strategy](#) and the Net Zero Strategy in October 2021.



Renewable Energy

Reaching the 2050 net zero goal will require a large increase in renewable energy production. This will involve investment into replacing fossil fuel energy sources with low-carbon renewable alternatives.

The Contracts for Difference (CfD) scheme is the government's main mechanism for supporting low-carbon electricity generation, incentivising investment in renewable energy by offering long-term price stabilisation. The CfD scheme is directly funded through a green levy on generating firms collected by a government owned company. This cash is in a separate pot to regular HM Treasury funding and is not managed by HM Treasury; for this reason it is not eligible for inclusion in the Green Financing Programme.

However, other investment in the renewable energy sector is included in the allocation under the Net Zero Innovation Portfolio (NZIP). NZIP invests in developing new technology for the offshore wind, solar power and energy storage industries. This targeted funding aims to develop better and more cost-effective renewable electricity solutions in these sectors. NZIP also funds nuclear innovation, which is excluded from this allocation, consistent with the overall nuclear exclusion in the Green Financing Framework.

The largest allocation in this category is the Renewable Heat Incentive scheme, which funds renewable heating systems in England, Scotland and Wales, including biomass systems, solar thermal systems and heat pumps. Encouraging the take-up of renewable heating solutions is expected to reduce fossil fuel use, helping to decarbonise the sector.



Pollution Prevention and Control

Burning fossil fuels and various industrial processes releases pollutants into the atmosphere. This category concerns the mitigation and reduction of pollutants as well as carbon capture, utilisation and storage (CCUS).

CCUS is the only expenditure currently in this allocation category as most pollution reduction is delivered through regulation as well as policies under other categories. For example, the plug-in vehicle scheme reduces pollution but is included in the Clean Transportation category.

The CCUS spend included in this category will help deploy CCUS in at least two clusters (an area of carbon capture plants with storage facilities) by the mid-2020s, and four clusters by 2030 at the latest, with an ambition to capture 20 to 30 million tonnes of carbon dioxide a year by 2030. CCUS will be crucial for industrial decarbonisation, low-carbon power, engineered greenhouse gas removal technologies and delivering the ambition of up to 10GW of low-carbon hydrogen production capacity by 2030, subject to affordability and value for money.

CCUS is not an alternative to reducing fossil fuel consumption. However, developing CCUS in tandem with other measures can reduce emissions faster than without any carbon capture. Certain industrial processes will require expensive or currently undeveloped technology to decarbonise and CCUS provides an effective solution to decarbonise these sectors rapidly.



Living and Natural Resources

Protecting nature in the UK is central to the government's environmental goals. The government has been leading international efforts to conserve nature through the '30 by 30' initiative, committing to protect 30% of land and sea by 2030. Domestically, the government is backing this objective with new legally binding targets to be set under the Environment Act 2021, including to halt the decline of species abundance in England by 2030.

Funding provided at the recent SR will improve the natural environment and ensure progress towards the goals set out in the government's [25 Year Environment Plan](#), including halting and reversing biodiversity loss, cleaner air and water, and minimising waste, alongside climate mitigation and adaptation.

The [Dasgupta Review](#) was the first biodiversity report commissioned by a finance ministry and in response to the Review the government is investing to expand and enhance woodland cover and to restore, protect and better manage peatland through the Nature for Climate Fund. Restoration of these areas is expected to not only create new carbon sinks but also foster biodiverse habitats. Similarly, the Green Recovery Challenge Fund supports projects which deliver nature conservation and restoration, including ecosystem restoration and species recovery, as well as nature-based solutions and connecting people with nature.

For decades, governments around the world have paid agricultural subsidies to farmers. While intended to support agricultural production, these subsidies have long been criticised for being wasteful, encouraging the unnecessary destruction of natural habitats and acting

to suppress agricultural productivity. That is why the government has commenced the most significant change in farm management for 70 years in England by phasing out area-based subsidies and replacing them with new schemes which encourage sustainable farming, resource-use efficiency, and productivity gain. Between 2021 and 2028 direct payments will be withdrawn and replaced by payments which encourage nature restoration and sustainable farming methods, for instance to create resources for farmland species and reduce the pollution of water and soil.



Climate Change Adaptation

The government is taking significant action to reduce its greenhouse gas emissions and end the UK's contribution to climate change, but the effects of climate change can already be seen in the UK and across all parts of the world, with many types of extreme weather becoming more frequent and more intense – causing flooding, droughts and wildfires.

To adapt to a changing climate, the government is ensuring that policies are resilient to current and future climate risks, both domestically and internationally. Following the publication of the UK's Third [Climate Change Risk Assessment](#) in January, the government is committed to developing its Third National Adaptation Programme for publication in 2023. Significant progress has already been made in adapting to the unavoidable impacts of climate change across the UK, including by improving the resilience of properties at risk of flooding.

Expenditure on flood risk management can be put towards traditional flood defences or natural flood management (such as wetland creation), which aims to provide additional environmental benefits. Funding for flood defences is allocated and managed across a six-year flood investment programme, with the aim of developing around 2,000 new flood defence systems and reducing national flood risk by 11% over the current programme, which runs from 2021 to 2027.

Internationally, the UK is helping countries anticipate, prepare for, and respond to the impacts of climate change. The impacts of those crises are growing exponentially and are highly unequal, increasing poverty and insecurity, degrading future resilience and decreasing well-being, security and development. The UK has committed to providing £11.6 billion of International Climate Finance over 2021–26, striking a balance between mitigation and adaptation.

Case Studies



Case Studies

HM Treasury intends to publish an Impact Report setting out the environmental impacts and social co-benefits of eligible green expenditures at least biennially. Ahead of the inaugural Impact Report in 2023, the case studies presented here highlight some of the schemes which account for major expenditures in the allocation of 2021–22 proceeds. They set out the methodology and key metrics used to appraise the environmental impacts and, where relevant and feasible, social co-benefits of these schemes.

Departments are responsible for appraising and evaluating the schemes they manage, in line with government best practice as set out in the Green and Magenta books, and for the collection of data from delivery partners. As the 2021–22 allocations demonstrate, green expenditures cover a wide range of government projects and schemes contributing to the effort to tackle climate change and other environmental challenges. These schemes have different objectives and scales, are at different phases of their lifecycles, and have anticipated benefits that will accrue over different time frames. Therefore, the most appropriate evaluation methodologies and key performance indicators also vary across schemes, as well as data availability. Established schemes have reported outturn data, whereas schemes earlier in their lifecycle may indicate the data expected in their evaluation methodologies.

Plug-In Car Grant

Green Category: Clean Transportation

Lead Department: Department for Transport



The plug-in car grant (PICG) was launched in 2011. It aimed to encourage the purchase of low-carbon electric vehicles by subsidising the purchase of eligible cars with a grant to reduce the price, narrowing the price difference between electric vehicles (EV) and internal combustion engine vehicles. The objective of the PICG was to stimulate the development of a self-sustaining low and zero emissions vehicles (ZEVs) market.

In 2011 the scheme provided a grant of 25% of the total value for eligible cars, up to a maximum of £5000. As the market developed and prices became less of a barrier to vehicle update, the grant was reduced in steps; in December 2021, it was reduced to a maximum of £1500, with a price cap of £32,000 for eligible vehicles. The category of vehicles eligible for the scheme also narrowed over its duration, to focus on ZEVs from March 2020.

The government closed the plug-in car grant scheme to new orders in June 2022, judging that it had succeeded in creating a mature market for ultra-low emission cars. Fully electric car sales had risen by 70% in the preceding year, and now represent 1 in 6 new cars joining UK roads.¹

The PICG was allocated £500 million across financial years 2020 to 2021 and 2021 to 2022.

Environmental Impact and Social Co-Benefits

- Additional electric car demand.
- Carbon emissions saved.

The Office for Zero Emission Vehicles (OZEV) published an independent evaluation of their grant portfolio, including the PICG, in June 2022.² It found that the grant had had a material impact on the demand for new electric cars and that the market was now maturing, achieving the overall objective of the scheme.

The evaluation initially developed a portfolio-level logic model which set out the intended impacts of the grant schemes and theoretical logical pathways linking the grants to these impacts in terms of outputs and outcomes. The outputs and impacts are interdependent, and attribution of impacts to specific interventions is further challenged by the complex, interconnected and international nature of the EV market. This was used to develop the evaluation methodology in line with Magenta Book guidance and reflecting the limited scope for quantitative evaluation, given variation in objectives and monitoring data as the scheme evolved over time.

Additional electric car demand attributable solely to the reduction in purchase price provided by the PICG is estimated to have been about 90,000 between January 2011 and November 2021. This estimate is of a subset of the overall potential demand side impact, as it does not include any wider market building impacts, or network or signalling effects.

¹ Department for Transport, [Plug-in grant for cars to end as focus moves to improving electric vehicle charging](#), 14 June 2022

² Frontier Economics, [OZEV – Portfolio-Level Retrospective Evaluation](#), 6 May 2022. The Plug-In Van Grant, Electric Vehicle Homecharge Scheme and Workplace Charging Scheme were also included in the evaluation.

Modelling to estimate the potential additional demand attributable to the PICG used Department for Transport data on observed new car registrations funded by the grants, the actual value of the PICG as a proportion of price over time, and estimates of own-price elasticity of demand from the literature (-2.76 for battery electric vehicles and -2.65 for plug-in hybrid electric vehicles).³ The estimate assumes full passthrough of grant value to consumers; market analysis suggests that overall there was a high degree of passthrough to consumers.

The modelling was complemented by qualitative analysis of interviews with market experts and stakeholders. Key stakeholders indicated that, while there are a number of drivers of new EV registrations, the grants have had an important impact in building demand for electric cars in the market, both directly and through its signalling value. Correlations between changes in PICG eligibility and EV purchasing also indicate that the grants may have been a significant driver of consumer demand and purchase decisions. The role of the price incentive provided by the PICG in influencing demand was judged to have lessened over time, consistent with the scheme's objective of maturing the market.

The reduction in pollution from electric cars delivered by the OZEV grants is quantified based on an assumption of the portion of EV demand that can be attributed to the grants. This was used to provide an estimate of the abatement of greenhouse gases and other air pollutants that would have been emitted across the life of the vehicle if individuals had purchased a diesel or petrol car instead of an EV, based on year of purchase. Annual greenhouse gas conversion factors are published by BEIS.⁴ The total estimate does not disaggregate the impact of the PICG from the wider OZEV portfolio, and again does not include wider market-building impacts of the grants.

About 193,000 tonnes of CO₂e greenhouse gases and 7 tonnes of other important air pollutants are implied to have been abated as a result of grants delivered between January 2011 and November 2021, based on the assumption that the grants resulted in additional demand equal to 10% of all PICG-eligible car purchases between 2011 and 2021. This is roughly consistent with lower-range estimates of additional EV demand attributable to the price reduction provided by the PICG, based on academic evidence on price elasticities. Under the alternative assumption that the grants resulted in additional demand equal to 30% of all PICG-eligible car purchases between 2011 and 2021, it is implied that about 580,000 tonnes of CO₂e of greenhouse gases and 22 tonnes of other important air pollutants were abated as a result of the grants. This is roughly consistent with higher-range estimates of additional EV demand attributable to the price reduction provided by the PICG, based on academic evidence on price elasticities.

The evaluation also identified, but did not quantify, a number of potential social co-benefits, including benefits for consumers due to fuel cost savings from switching to EVs and energy security impacts due to changes in demand for imported fossil fuels.

3 Jianwei Xing, Benjamin Leard, and Shanjun Li (2021). What Does an Electric Vehicle Replace? *Journal of Environmental Economics and Management*, 107.

4 Department for Business, Energy and Industrial Strategy, [Government conversion factors for company reporting of greenhouse gas emissions](#).

Electric Rail

Green Category: Clean Transportation

Lead Department: Department for Transport



The government has committed to delivering a net zero rail network by 2050, with the ambition for all diesel-only trains to be removed from the network by 2040.⁵ Removing diesel trains reduces air and noise pollution, brings lower operational costs, and improves performance. Electrification is the primary approach to decarbonising the majority of the rail network. The electrification programme presents opportunities to develop supply chain capacity, support highly skilled long-term employment opportunities in overhead line electrification, and reduce costs.

Expenditure on the expansion and maintenance of the UK's electric rail network received the largest allocation of 2021–22 proceeds. A total of £3,308 million was allocated to track renewal, £1,451 million to enhancements and £1,261 million to track maintenance, accounting for expenditure in 2020–21 and 2021–22.

Major electric rail schemes within the allocation period include the Transpennine Route upgrade, Midland Main Line programme and cross Manchester capacity and performance enhancements. All schemes in the rail network enhancements pipeline (RNEP) that deliver electrification or electrified infrastructure were eligible for inclusion.

Environmental Impacts

- Estimated carbon emissions saved over appraisal period, MtCO₂e

⁵ Department for Transport, [Decarbonising transport: a better, greener Britain](#), 14 July 2021.

The majority of electric rail schemes funded by green financing allocations remain in the delivery phase, while some – for example, Southampton freight train lengthening – have been completed. For all schemes, the estimated carbon savings are derived from *ex ante* scheme appraisals, noting that, as a major project to decarbonise national transport infrastructure, the environmental benefits will accrue over many years.

For each scheme, an appraisal was conducted in line with the Department for Transport's Transport Analysis Guidance units on rail appraisal and environmental impacts.⁶ This guidance provides a consistent framework to assess all major projects, with the flexibility to reflect features of individual schemes.

The modelling that underpins rail appraisal compares two scenarios: a baseline 'do minimum' scenario – in this case maintaining the existing non-electrified rail network – and a counterfactual in which the scheme under consideration is in place. The standard elasticity-based modelling approach incorporates two sets of assumptions.⁷ Firstly, those influences on rail demand that are outside the control of the rail industry, such as employment, population and GDP changes, which are regularly updated to incorporate outturn data and forecasts. Secondly, those influences on rail demand within control of the industry, such as fare, frequency and crowding. The Passenger Demand Forecasting Handbook, contains standard industry assumptions for many of these factors; however, demand forecasting as a whole remains a key source of uncertainty

These appraisals consider the lifetime of a scheme and therefore impacts cannot be disaggregated when expenditure takes place across multiple financial years. Rail electrification typically has a 30–40-year asset life, with the appraisal period starting in the opening year of the scheme, while the appraisal period for projects with indefinite lives runs for 60 years. Environmental benefits are monetised and, following Green Book guidance, estimates are discounted using the 'social time preference rate', which is set at 3.5% for the first 30 years and declines in steps thereafter.

Transport appraisal considers a range of environmental benefits, including greenhouse gas emissions, air quality, noise suppression, biodiversity and landscape benefits. For electric rail, a significant environmental benefit is typically carbon emissions saved. These are estimated by converting fuel/energy used into carbon emissions using factors published by BEIS⁸ – predominantly diesel in the 'do nothing' scenario compared to electricity. Again, given the role of fuel/energy consumption in dictating total emissions, these estimates are subject to the uncertainty in the underlying demand forecast. Transport Appraisal Guidance also includes bespoke factors for calculating the air quality impacts of electrification, depending on the baseline locomotive type.⁹

6 Department for Transport, [TAG unit A3 Environment Impact Appraisal](#), 30 May 2022; Department for Transport, [TAG Unit A5.3 Rail Appraisal](#), 29 November 2021.

7 Department for Transport, TAG unit M4 Forecasting and uncertainty, 31 May 2019.

8 [Department for Business, Energy & Industrial Strategy, Green Book supplementary guidance, valuation of energy use and greenhouse gas emissions for appraisal, 7 October 2021 \(data table 2b\)](#).

9 [Department for Transport, TAG unit A3 Environmental impact appraisal, 30 May 2022 \(Table 2\)](#).

Public Sector Decarbonisation Scheme

Green Category: Energy Efficiency

Lead Department: Department for Business Energy and Industrial Strategy



The Public Sector Decarbonisation Scheme provides grants for public sector bodies to fund heat decarbonisation and energy efficiency measures. It supports the aim of reducing emissions from public sector buildings by 75% by 2037, compared to a 2017 baseline, as set out in the Net Zero and Heat and Buildings strategies.

The scheme is managed by the Department for Business, Energy and Industrial Strategy (BEIS) and is delivered by the BEIS non-departmental public body Salix Finance Ltd.

The Public Sector Decarbonisation Scheme was allocated £978 million across 2020–21 and 2021–22, which corresponds to Phases 1 and 2 of the scheme. Phase 1 was launched as part of the Plan for Jobs 2020 commitment to support the UK's economic recovery from COVID-19. 461 projects were awarded funding through the Phase 1, to be delivered by 343 public sector organisations. Phase 2 had a stronger focus on heat decarbonisation than Phase 1 in order to deliver greater carbon emission reductions. 54 projects were awarded funding through Phase 2, to be delivered by 49 public sector organisations.

Projects funded by the scheme to date include installation of solar panels and lighting upgrades at British Library sites in London and Yorkshire; a new energy centre at Nottingham City Hospital, one of the last hospitals in England to use coal; energy efficiency improvements at the University of Reading; and decarbonisation of heating systems and improvements to energy efficiency at schools and leisure centres throughout England.

Phase 3 of the scheme is currently ongoing and will provide £1.425 billion of grant funding over the financial years from 2022 to 2023 until 2024 to 2025.

Environmental Impacts and Social Co-Benefits

- Carbon emissions saved
- Number of jobs supported in low-carbon and energy efficient sectors

BEIS has procured an evaluation of Phase 1, to include process, impact and economic evaluation. The evaluation includes analysis of scheme delivery data and primary data collected through surveys of grant recipients and the supply chain, as well as interviews with a wide range of groups including both successful and unsuccessful applicants, the scheme administrator, installers and manufacturers.

Where feasible, quasi-experimental analysis is being used to empirically assess the additionality of the scheme through comparison to control groups.

Robust carbon savings impacts can only be calculated following a sufficiently long period of time after installation or project completion over which energy usage and carbon emissions can be measured. As such, carbon impact analysis will be piloted to confirm the most appropriate methodological approach. The full carbon impact analysis will then be conducted in early 2024.

The evaluation report will be published in 2024.

Nature for Climate Fund – Tree Planting Programme

Green Category: Living and Natural Resources

Lead Department: Department for Environment, Food & Rural Affairs



Trees and peatland will play a vital role in achieving carbon targets – they are currently the simplest and most cost-effective way of capturing and storing carbon. Investment in woodland creation will also deliver social, environmental and economic benefits.

The Climate Change Committee has recommended significant increases in tree planting as well as woodland creation and management.

In response to the challenges and opportunities, the Nature for Climate Fund (NCF) Tree Planting Programme (2020–2025) has been designed to accelerate tree planting to the levels required to achieve Net Zero commitments by 2050. The Programme is the primary delivery vehicle to increase tree planting and woodland creation in England to at least 7500 hectares per year by 2025 as well as delivering a range of associated benefits that include strengthened biodiversity, habitat creation, job creation. This programme is expected to generate social benefits such as improving the general public's physical and mental health through increased access to nature.

The Nature for Climate Fund amounts to over £750 million in capital costs for the entire multi-year programme. While a significant majority of tree planting in England between 2020 and 2025 will be funded through the Nature of Climate Fund, the government is also working to develop private markets for woodland carbon offsets and other ecosystem services. This includes a planned £30 million public investment to anchor a Big Nature Impact Fund.¹⁰

Environmental Impacts

The key impacts of the programme include

- an acceleration of tree planting to achieve Net Zero and Climate Change targets on carbon sequestration
- improved biodiversity and wider environmental benefits
- increased social and economic development across urban and rural areas in England

These impacts are underscored by the development of 86 KPIs. High-level objectives include

- an increased planting rate of 7,500 hectares per year by 2025¹¹, to deliver a total of approximately 32,000 hectares of new woodland between 2020/21 and 2024/25
- sequestering 9.71 million tonnes of carbon dioxide equivalent by 2050 (and continuing to sequester thereafter)
- improving the resilience of England's woodlands
- deliver a variety of other environmental benefits that include improved air quality¹²
- increase the number of houses with a woodland view by 4,670 houses
- deliver an additional £377 million in biodiversity benefits over the period 2020 to 2069

10 The Big Nature Fund is a public-private blended finance vehicle which is intended to leverage private finance into new natural capital markets for carbon, water quality, biodiversity, natural flood alleviation and other ecosystem services.

11 For illustrative purposes, an additional £10 million investment into the Nature for Climate Fund could generate up to 575 hectares of planted woodland, based on a capital cost of £17,000 per hectare and no additional resource costs.

12 Air quality removal targets are annual pollutant removal of 385 tonnes of PM10, 196 tonnes of PM 2.5, 123 tonnes of SO2, 134 tonnes of NH3, 46 tonnes of NO2 and 2386 tonnes of O3.

- increase recreational visits to woods by more than 6 million visits per annum

The benefits of the programme will be monitored and evaluated over its duration.

To achieve these goals and an effective transition into NCF's successor Environmental Land Management scheme¹³, the NCF programme aims to generate further economic, social and environmental benefits in its own right:

- improved capacity, capability, funding and skills across a number of areas such as nurseries, domestic timber, forestry, and active woodland management
- a rapid expansion and take-up of green finance initiatives
- improved access to trees outside woodland and to good quality woodland, particularly for under-represented people in deprived areas

The ambition behind these objectives has been informed by a combination of factors such as the historic planting rate of trees, the likely take-up of grants, and the average cost of planting per tree. The forecasts are also dependent upon expected sectoral capacity – particularly nursery capacity for the supply of sapling and seeds, alongside labour market factors such as necessary skills and workforce gaps.

The impact on the environment and net zero is driven by both planting rates and carbon sequestration. Carbon sequestration can be impacted by the age, size and density of tree planting – and more diverse tree species can have broader benefits for biodiversity; a study by the Royal Society suggested that *“a diverse forest stores twice the amount of carbon as the average monoculture”*.¹⁴ The scheme makes assumptions of an 80/20 split in favour of broadleaf over conifer trees – with the benefits of each woodland modelled using typical tree stocking densities for each woodland type.

¹³ Following the UK's departure from the EU, The Environmental Land Management (ELM) scheme will replace the Common Agriculture Policy which will provide payment for public goods, transitioning from NCF funding. NCF is a programme that provides a foundation and momentum of increased tree planting before a smooth transition to ELM.

¹⁴ Xiaojuan Liu, Stefan Trogisch, Bernhard Schmid et al, [“Tree species richness increases ecosystem carbon storage in subtropical forests”](#) – Proceedings of the Royal Society B.

Flood and Coastal Defence Programme

Green Category: Climate Change adaptation

Lead Department: Department for Environment, Food & Rural Affairs



The current Flood and Coastal Defence Programme is expected to run from 2021–27 and aims to improve protection for homes, businesses, and infrastructure against flooding, whilst improving natural habitats and local environments. Climate change will make extreme flood events more frequent and this programme will help the nation to become more prepared and more resilient.

Expenditure on flood risk management can be put towards traditional flood defences or natural flood management (such as wetland creation), which aims to provide additional environmental benefits. Funding for flood defences is allocated and managed across a six-year flood investment programme.

During the last six-year programme, running from 2015 to 2021, over 314,000 homes were better protected from flooding, exceeding the target amount for the period by 14,000 homes. This period also saw 850 flood defence schemes built, reducing national flood risk by 5%. The government has announced a record a £5.2 billion in funding for the current flood investment programme, which runs from 2021 to 2027. This funding will be used to develop around 2,000 new flood defence schemes and reduce national flood risk by a further 11%. The additional defence against flooding is expected to help avoid £32 billion of wider economic damage – and bring a range of benefits for local communities and the environment. Households and business will experience less damages and recover more quickly should a flood happen avoiding the cost of repairs or mental health treatments and minimising damages to assets and disruption to the economy.

The government has set out the [Flood and Coastal Erosion Risk Management Strategy Roadmap](#) which directly supports the implementation of the £5.2 billion Flood and Coastal Defence Programme and provides more detail on how the scheme will be implemented. This includes the commitment to renew the national assessment of flood risks, a requirement that risk management authorities ensure flood and coastal projects requiring planning permission provide at least a 10% biodiversity net gain, and engagement with the insurance sector to increase pay-outs to improve resilience in properties which have suffered flood damage.

Key Performance Indicators

Benefits Category	Percentage	Lifetime benefits, £ billion (discounted)
Property	78%	21.8
Response and Recovery	6%	1.7
Infrastructure	6%	1.8
Physical and mental health	9%	6.7
Total avoided damages		32.0

The baseline for the calculations is ‘do nothing’ – which assumes no modifications to flood or coastal defences from the completion of the 2015-21 scheme. The damage avoided is then monetised using a comprehensive economic benefits methodology which covers a full range of benefit categories.

In estimating the number of properties affected by floods in the future, a range of extreme rainfall and tidal condition scenarios are generated. Computer models of river and coastal systems are then run using these scenarios to generate predictions of extreme river flows as well as tide and wave conditions on the coast. These are then combined with a digital model of the terrain to provide an assessment of areas at risk of flooding in England.

Benefits and costs are projected over the life of the scheme built, usually up to 100 years. This includes future maintenance costs over the expected life of the defences.

In calculating the damage avoided to residential properties assumptions are made on future sea level rise and river levels based on climate change impacts in the future.

The weather impacts are from independent climate change projections elaborated by the Climate Change Committee, UK.¹⁵

15 Climate Change Committee, [Third UK Climate Change Risk Assessment \(CCRA3\): Future flood risk](#), July 2020.

Legal Considerations

This Allocation Report does not constitute, or form part of, a prospectus or other offering document.

This Allocation Report is not, and should not be construed as, an invitation or offer for sale or subscription of, or a solicitation of any offer to buy or subscribe for, any securities of HM Treasury in any jurisdiction or an inducement to enter into investment activity.

For further information, please refer to the Framework and, in particular, the section entitled “*Green Financing and Legal Considerations*” (which should be read as applying to this report in addition to the Framework).



Third-Party Verification

INDEPENDENT PRACTITIONER'S REPORT ON A LIMITED ASSURANCE ENGAGEMENT REGARDING THE ALLOCATION REPORT 2021–2022 PREPARED UNDER THE UK GOVERNMENT GREEN FINANCING FRAMEWORK

To HM Treasury representing the UK Government

Engagement

I have performed a limited assurance engagement under ISAE (UK) 3000 – Assurance Engagements Other Than Audits or Reviews of Historical Financial Information on UK Green Financing Allocation Report 2021–2022.

The UK Green Financing Allocation Report was prepared on the basis defined by the UK Government Green Financing Framework. My assurance engagement was limited to assessing the accuracy of the UK Green Financing Allocation Report with regard to the allocation of the proceeds from Green Financing to the Eligible Green Expenditures in accordance with the requirements for allocation reporting set out in the UK Government Green Financing Framework.

I did not validate whether the expenditures are Eligible Green Expenditures. My engagement did not cover any other aspect, other than whether the UK Green Financing Allocation Report reconciles with returns from Departments and has been properly prepared in line with the requirements for allocation reporting set out in the UK Government Green Financing Framework.

Specific purpose

The Allocation Report was prepared to report on the allocation of Eligible Green Expenditures. Therefore, the Allocation Report may not be suitable for another purpose.

Responsibilities of HM Treasury

HM Treasury, is responsible for preparing the Allocation Report in accordance with the UK Government Green Financing Framework.

The responsibilities of HM Treasury include the selection and application of appropriate methods for preparing the Allocation Report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. In addition, HM Treasury is responsible for such arrangement and measures determined necessary to enable the preparation of the Allocation Report that is free from material misstatement, whether due to fraud or error.

Responsibilities of the Independent Practitioner

My responsibility is to express a conclusion on the Allocation Report, based on the work performed within my limited assurance engagement in accordance with ISAE (UK) 3000.

I apply International Standard on Quality Control (UK) 1 and, accordingly, maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

I have complied with the independence and other ethical requirements of the FRC's Ethical Standard as applicable to listed entities which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour

I conducted my work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" developed and approved by the IAASB. This standard requires that I plan and perform the assurance engagement so that I can conclude with limited assurance whether matters have come to my attention to cause me to believe that the Allocation Report as a whole has not been prepared, in all material respects, based on the departmental returns in accordance with the UK Government Green Financing Framework.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. The choice of assurance work is subject to the practitioner's professional judgment. The engagement section above provides further detail on the nature, timing and extent of procedures performed.

Practitioner's Opinion

Based on the work performed and evidence obtained, nothing has come to my attention that causes me to believe that in all material respects the UK Green Financing Allocation Report 2021–2022 does not reconcile with returns from Departments or that it has not been done in accordance with the process for expenditure selection and has been properly prepared in line with the requirements for allocation reporting set out in the UK Government Green Financing Framework.

Opinion on other matters

In my opinion, based on the work undertaken in the course of the audit the information given in the UK Green Financing Allocation Report, except for the Table of Allocations, for the financial year for which the UK Green Financing Allocation Report is prepared is consistent with the Table of Allocations.

Restriction of Use and Reference to Limitation of Liability

This report is addressed to HM Treasury representing the UK Government only. This report is not intended to be used by third parties as a basis for making (financial) decisions. I issue this report based on the Letter of Engagement issued on 16 September 2022. I assume no responsibility with regard to any third parties.

Gareth Davies
Comptroller and Auditor General
September 2022

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