HM Treasury

United Kingdom
Debt Management
Office

UK Government Green Financing Framework

June 2021

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1. Introduction

This Framework describes how the UK Government plans to finance expenditures through the issuance of green gilts and the retail Green Savings Bonds that will be critical in tackling climate change and other environmental challenges, funding much-needed infrastructure investment, and creating green jobs across the UK.

It sets out the basis for identification, selection, verification and reporting of the green projects that are eligible for financing from the proceeds of the UK Government's green gilt programme and the retail Green Savings Bonds. The Framework aligns with the Green Bond Principles as published by the International Capital Market Association (ICMA).

1.1 The UK as a Global Climate and Environmental Leader

1.1.1 Climate Leadership

The United Kingdom is committed to leading global efforts to combat climate change. This leadership has been long established, with the UK signing the United Nations Framework Convention on Climate Change (UNFCCC) in 1992 and the Kyoto Protocol in 1997. The UK has continued its leadership by becoming a signatory of the Paris Agreement; by committing to the UN 2030

Agenda for Sustainable Development; and, in 2019, by becoming the first major economy to legislate for net zero. This commitment to reach net zero greenhouse gas emissions by 2050 while also growing the economy aligns with the Paris Agreement target, which requires global net zero emissions by mid century. The UK has already cut its emissions by 43% since 1990, which is the fastest among the G7 countries.[1]

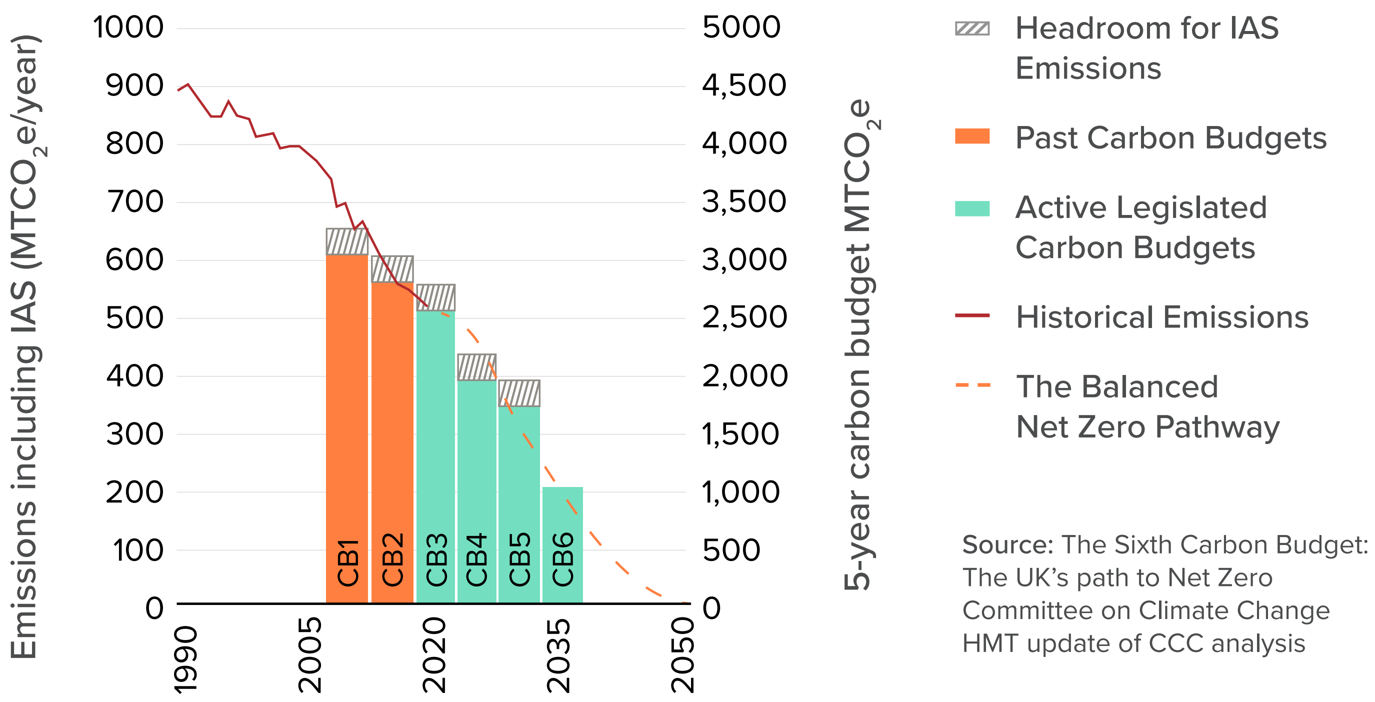
In the 2008 Climate Change Act, the government legislated for long term legally binding targets to reduce emissions, known as carbon budgets. These targets will ensure that the UK remains on track to reduce its contribution to climate change in line with the Paris Agreement goal to limit global warming to well below 2°C and pursue efforts towards 1.5°C.

The UK is already working towards its commitment to reduce emissions in 2030 by at least 68% compared to 1990 levels. In April 2021, the UK also announced that it will accelerate this commitment, and has now set in law the world's most ambitious climate change target: a 78% reduction in carbon emissions by 2035 compared to 1990 levels (see figure 1 below). For the first time, the UK's climate law will also extend to the country's share of international aviation and shipping (IAS) emissions. This will bring the UK more than three-quarters of the way to net zero by 2050[2].

1 Climate Change Committee Carbon Budgets, Climate Change Committee, 2008
2 UK enshrines new target in law to slash emissions by 78% by 2035, BEIS, April 2021

The UK is at the forefront of leading on international climate cooperation to ensure that the ambitions of the Paris Agreement come to fruition. UK International Climate Finance (ICF)[3] plays a crucial role in addressing global climate change. In 2019, the UK Government announced plans to double its provision of international climate finance to £11.6 billion over the period 2021 – 2025[4] to help support developing countries respond to the challenges of climate change.

Figure 1 The recommended Sixth Carbon Budget



Source: The Sixth Carbon Budget: The UK's path to Net Zero Committee on Climate Change HMT update of CCC analysis

3 UK International Climate Finance is a UK Government commitment to support developing countries to respond to the challenges and opportunities of climate change.

4 United Kingdom Biennial Finance Communication to the United Nations Framework Convention on Climate Change December 2020: UK Government, December 2020

1.1.2 Environmental Leadership

The UK recognises that combatting climate change and protecting the natural environment are interlinked challenges. The UK's approach reflects the fact that tackling these issues will play a vital role in long term national economic prosperity and wellbeing. The UK Government has committed in its 25 Year Environment Plan[5] to, within a generation, leaving the natural environment in a better condition than when it was inherited.

The plan, published in 2018, sets out a comprehensive strategy for achieving cleaner air and water, reducing waste, using resources more efficiently, ensuring thriving plants and wildlife, and connecting more people with nature.

In February 2021, HM Treasury published the Dasgupta Review: the first ever independent, global review of the economics of biodiversity[6] commissioned by an Economics and Finance Ministry. This review set out a framework for incorporating nature into economics and decision-making. It highlighted that significant declines in biodiversity are undermining the productivity, resilience and adaptability of nature.

The UK Government published its response to the Review in June 2021, setting out the actions it will take in response

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5 25 Year Environment Plan, Defra, 2018

6 The Economics of Biodiversity: The Dasgupta Review, Sir Partha Dasgupta, February 2021

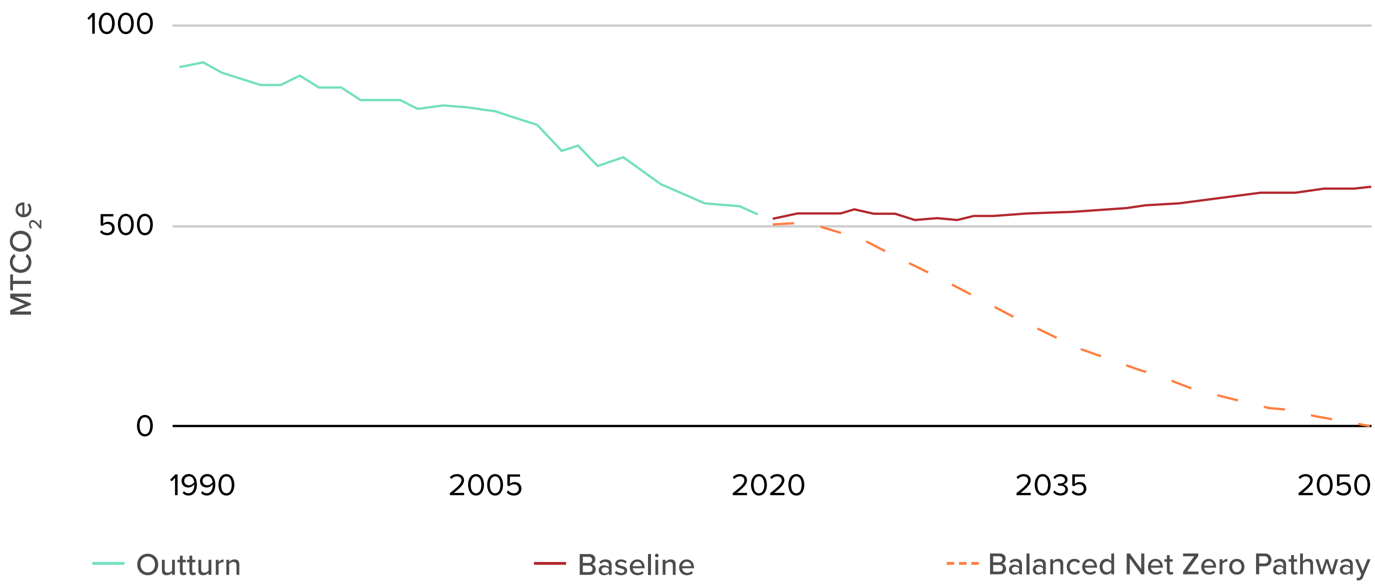
to the Review. The Government agreed with the Review's central conclusion: nature, and the biodiversity that underpins it, ultimately sustains our economies, livelihoods and well-being. The Government is committed to delivering a 'nature positive' future, and to ensuring that economic and financial decision making, and the systems and institutions which underpin it (including this framework), are geared towards delivering that nature positive future.

1.2 The UK's Climate and Environmental Vision

The UK is setting out ambitious plans to help meet its environmental commitments. As part of a new set of emissions targets on the path to net zero, in April 2021, the UK Government set a medium term target for its 6th Carbon Budget spanning 2033-37 a 78% reduction in greenhouse gas emissions compared to 1990 levels: a commitment to reduce emissions at the fastest rate of any major economy. This target, the UK's Nationally Determined Contribution (NDC) under the Paris Agreement, and the domestic Net Zero target will require major infrastructure investments, including transport electrification, expansion of renewable and low-carbon power generation, as well as the development of low carbon hydrogen technologies.

The UK Government will actively support the research and development of innovative technologies required to meet the Net Zero target, whilst crowding-in private investment through regulatory levers. Many innovative technologies already exist but may require further investment to become cost competitive and to be proven at scale. The UK Government can help increase certainty and reduce the cost of capital but may also in some cases want to provide more direct support[7]. For example, the Prime Minister's Ten Point Plan[8] for a Green Industrial Revolution included a £1 billion Net Zero Innovation Portfolio[9] to accelerate the commercialisation of low-carbon technologies, systems and business models in power, buildings, and industry. The Portfolio will decrease the costs of decarbonisation and set the UK on the path to a low carbon future.

Figure 2 The Balanced Net Zero Pathway for the UK



7 Net Zero Review Interim Report, HM Treasury, December 2020
8 The Ten Point Plan for a Green Industrial Revolution, BEIS, 2020
9 Net Zero Innovation Portfolio, BEIS, March 2021

In November 2020, the Prime Minister's Ten Point Plan for a Green Industrial Revolution set out plans to protect the environment, boost green jobs and accelerate our path to net zero by 2050. This included committing to ending the sale of new petrol and diesel cars and vans in 2030; protecting the natural environment; developing innovative clean energy technologies for making homes and buildings net zero ready; setting up a Carbon Capture and Storage (CCS) Infrastructure fund; and driving additional investment in renewable energy such as offshore wind.

The National Infrastructure Strategy (the "NIS")[10] published in 2020 set out how the government will transform the UK's infrastructure, including to support meeting the UK's net zero emissions target by 2050. As part of this, the government has launched the new UK Infrastructure Bank (UKIB). Helping to tackle climate change, particularly meeting our net zero emissions target by 2050, is one of the Bank's core objectives, alongside supporting regional and local economic growth. The Bank will make investments in line with its investment principles, in order to 'crowd-in' private investment in support of its two objectives.

The government's world-leading Environment Bill[11] is legislating a framework for new legally binding environmental improvement targets for waste, water, air, and biodiversity, which will support the long term objectives in the 25 Year Environment Plan. Environmental

10 National Infrastructure Strategy, HM Treasury, 2020

11 Environment Bill 2020, Defra, 2020

considerations will also be embedded into policy making across government. These reforms will drive investment in green infrastructure. The UK is mandating net biodiversity gains for new developments, to ensure that much needed new homes do not come at the expense of vital biodiversity.

In response to the Dasgupta Review, the government announced that it will also legislate to introduce biodiversity net gain for new Nationally Significant Infrastructure Projects in England.

The Nature for Climate Fund aims to support a step change in woodland creation and peatland restoration in England over this Parliament, with the UK targeting 30,000 hectares of new tree cover a year by 2025 UK-wide.

1.3 Green Finance as a Driver of Environmental Sustainability

The UK's ambition is to be the global leader in green finance by designing and delivering financial services that are better, more innovative, and more efficient. A green financial services system represents an opportunity for the UK and the City of London which will help catalyse the transition to a green economy.

In 2019, the UK developed a Green Finance Strategy[12] to align private sector financial flows with clean,

12 UK Green Finance Strategy, July 2019

environmentally sustainable and resilient growth, and to ensure the UK's long term competitiveness.

The UK has established the Green Finance Institute, which is playing an integral role in supporting delivery of our Green Finance Strategy and driving the mainstreaming of green finance in the UK and abroad.

To achieve the goals of the Paris Agreement, all finance will need to incorporate the financial risks and opportunities presented by climate change and other environmental challenges. In line with the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), the UK announced in November 2020 that it would become the first major economy to introduce mandatory reporting of climate-related financial information across the economy by 2025, with the vast majority of requirements to be in place by 2023[13]. The UK brokered an agreement among G7 leaders to move towards mandatory climate disclosures at the 2021 meeting. The UK is also working with international partners to promote market-led action on enhancing nature-related financial disclosures through the Task Force on Nature-related Financial Disclosures ("TNFD")[14].

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13 TCFD taskforce roadmap, HM Treasury, November 2020

14 TNFD, 2020

In addition, the UK will implement a green taxonomy[15] defining which economic activities are environmentally sustainable, in order to improve understanding of the environmental impact of firms' activities and investments. In June 2021, the Chancellor announced the formation of the Green Technical Advisory Group (GTAG) consisting of 18 experts. The work of the GTAG is expected to run for at least two years. It will provide initial recommendations to the Government in September 2021[16].

Combined, these measures will provide investors with a clear framework to support the government in delivering the low carbon finance needed for the net zero economy by 2050.

15 Chancellor's plans for future of UK financial services, November 2020

16 Independent expert group appointed to advise Government on standards for green investment, HM Treasury, June 2021

The UK’s Green Finance Strategy

Greening Finance

Mainstreaming climate and environmental factors as a financial and strategic imperative

- Establishing a shared understanding
- Clarifying roles and responsibilities
- Fostering transparency and embedding a long-term approach
- Building robust and consistent green financial market frameworks

Financing Green

Mobilising private finance for clean and resilient growth

- Establishing robust, long-term policy frameworks
- Improving access to finance for green investment
- Addressing market barriers and building capability
- Developing innovative approaches and new ways of working

Capturing the Opportunity

Affirming UK leadership in green finance

- Consolidating the UK’s position as a global hub for green finance
- Positioning the UK at the forefront of green financial innovation and data and analytics
- Building skills and capabilities in green finance

1.4 Sovereign Green Gilt Issuance and Green Savings Bonds

HM Treasury will issue the UK's first sovereign green gilt in 2021 by the UK Debt Management Office. HM Treasury intends to follow up with a series of further issuances to build out a green yield curve.

Additionally, the UK will launch a world-first green retail product: the Green Savings Bonds via National Savings and Investments (NS&I) – the UK Government's retail savings organisation – to enable individuals to support green projects.

These will play a central role in its efforts to mainstream green finance products, attract dedicated funding for climate and environment objectives, deliver much needed infrastructure improvements, and create green jobs across the country.

1.5 Considering the Social Co-Benefits of Green Investment

The path to net zero and nature positive will bring new employment opportunities. For example, new offshore wind, hydrogen and CCS industries may help support new jobs while also pushing forward the UK government's levelling up agenda to invest in regional economies. It is estimated that these projects could support up to 60,000 jobs for offshore wind and up to 8,000 jobs for hydrogen projects in 2030[17]. The programme to retrofit buildings could also result in an increased trained workforce of up to 230,000 by the end of the decade[18] (see figure 3).

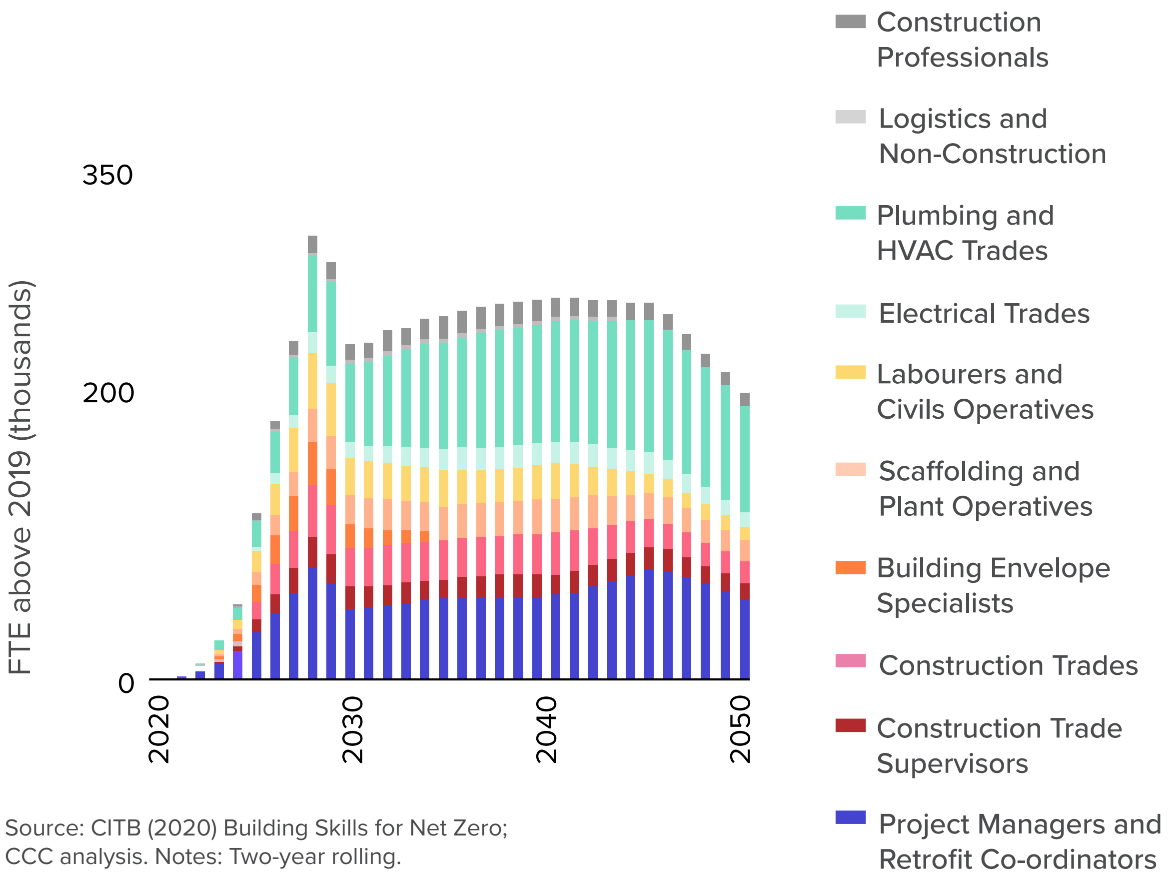
At the same time, where jobs may be lost (for example, in oil and gas extraction and refining), the UK Government is committed to supporting workers to transition to being a part of the new low-carbon workforce, whether within companies undergoing their own transitions or beyond.

The UK is committed to honouring its commitments within the Paris Agreement to recognise the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities. To evidence this commitment, HM Treasury intends to report on the social co-benefits of the Eligible Green Expenditures, as described in this Framework, in addition to the environmental impact of such expenditure.

17 The Ten-Point Plan for a Green Industrial Revolution, BEIS, 2020

18 Building Skills for Net Zero, Construction Industry Training Board, March 2021

Figure 3 Employment in low-carbon heating and energy efficiency (2020-2050)



Source: CITB (2020) Building Skills for Net Zero; CCC analysis. Notes: Two-year rolling.

2. UK Government Green Financing Framework

The UK Government Green Financing Framework (the "Framework") has been developed in accordance with the 2021 ICMA Green Bond Principles (the "ICMA Green Bond Principles")[19].

In addition, HM Treasury intends to align this Framework with the UK's developing classification of environmentally sustainable economic activities (the "UK Taxonomy")[20].

HM Treasury intends, where possible, to adhere to best practices in the market and will review the Framework's alignment with updated versions of the ICMA Green Bond Principles as and when they are released, as well as the UK Taxonomy as it develops. As such, this Framework may be updated and amended in the manner described in Section 4 ("Amendments to this Framework") below.

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19 Green Bond Principles, ICMA, 2021

20 The UK has regulated to establish the taxonomy framework which sets out the six environmental objectives. It also sets out the requirement to establish technical screening criteria for the first two environmental objectives by 1 January 2023.

The Framework is aligned with the four core components and the key recommendations of the ICMA Green Bond Principles, which are:

Core components

Use of Proceeds	The proceeds of the issuance of the bond instrument must be utilised for eligible green projects, which are projects that contribute to the environmental objectives set out in the ICMA Green Bond Principles
Project Evaluation and Selection	The issuer's environmental sustainability objectives, the process by which the issuer determines that projects fit within the eligible green project categories and complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s) should be communicated to investors
Management of Proceeds	The net proceeds of the bond issuance, or an amount equal to these net proceeds, should be tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for eligible green projects
Reporting	Information on the use of proceeds, including allocation and expected impact, should be provided regularly to investors, and updated annually until full allocation

Key recommendations

Green Bond Framework	Recommendation that issuers explain the alignment of their Green Bond or Green Bond programme with the four core components of the ICMA Green Bond Principles set out above in a Green Bond Framework or in their legal documentation which is available in a readily accessible format to investors
External Review	Recommendation that issuers appoint an external review provider to confirm alignment of their Green Bond or Green Bond programme and/or Framework with the four core components of the ICMA Green Bond Principles set out above

2.1 Use of Proceeds

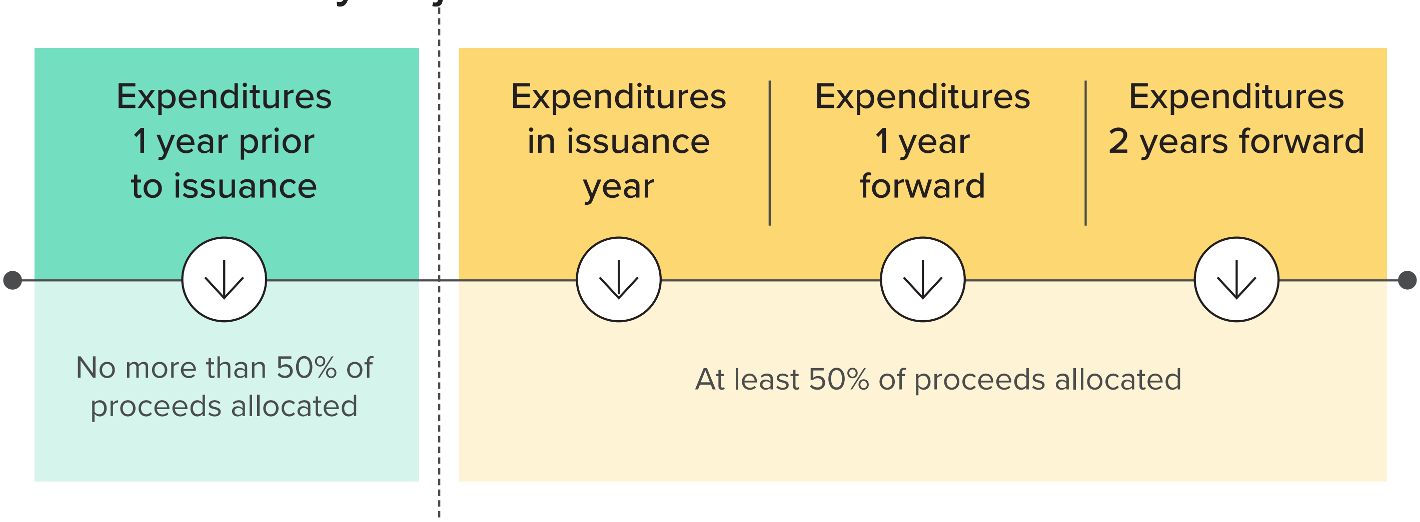
HM Treasury intends to allocate the proceeds[21]raised from any green gilt, Green Savings Bonds, or other specified green finance instrument (together, “Green Financing”) to finance and/or to refinance, in whole or in part, expenditures that meet the environmental eligibility criteria set out in this Framework (“Eligible Green Expenditures”).

Eligible Green Expenditures can include government expenditures in the form of direct or indirect investment expenditures, subsidies, or tax foregone (or a combination of all or some of these) and selected operational expenditures. The eligible expenditures are limited to government expenditures that occurred no earlier than 12 months prior to issuance, the budget year of issuance, and the two budget years following issuance. HM Treasury will allocate at least 50% of net proceeds to current and future expenditures.

21 All references to the “proceeds” of Green Financing within this Framework refer to an amount equivalent to the net proceeds of any Green Financing raised by HM Treasury.

2.1.1 Eligible Green Expenditures

The following tables outline the categories of Eligible Green Expenditures (Green Category) and provide a non-exhaustive list of sub-categories and examples of projects within these categories. The Eligible Green Expenditures are also mapped to the environmental objectives of the ICMA Green Bond Principles, UN Sustainable Development Goals[22] (SDGs), as well as the UK Taxonomy objectives.



References to 'years' in this graphic relate specifically to budget years.

22 UN Sustainable Development Goals

Green Category: Clean Transportation

UK Taxonomy Objective:

Climate Change Mitigation

SDG Mapping:

Subcategories

- Low and zero emission mobility, including vehicles, incentives, infrastructure, and alternative fuels
- Research and development for low and zero emission transportation technologies

Example expenditures

- Zero-Emission Buses: The UK Government is decarbonising the bus fleet in England by rolling out zero-emission buses which will deliver cleaner and more reliable journeys for households. The National Bus Strategy laid out a plan to support at least 4,000 new zero-emission buses

Green Category: Renewable Energy

UK Taxonomy Objective:

Climate Change Mitigation

SDG Mapping:

Subcategories

- Support development of renewable energy generation capacity such as wind, solar and hydrogen
- Schemes for renewable heat use, including heat networks, heat pumps and hydrogen heating
- Support for energy storage systems, such as batteries, compressed air/liquid air, and gravitational storage
- Research and development for the commercial viability of renewable energy technologies

Example expenditures

- **The Renewable Heat Incentive Scheme** helps UK households, businesses, public sector and non-profit organisations offset the cost of installing and running renewable heat technologies, including solar water heating and heat pumps
- **The Net Zero Innovation Portfolio:** A £1 billion+ research and development portfolio providing funding for low-carbon technologies and systems in power, buildings and industry, including future offshore wind and hydrogen. By decreasing the costs of decarbonisation, the Portfolio will help enable the UK to end its contribution to climate change See here

Green Category: Energy Efficiency

UK Taxonomy Objective:

Climate Change Mitigation

SDG Mapping:

7 AFFORDABLE AND CLEAN ENERGY

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Subcategories

- Support schemes for energy efficiency programmes for the commercial, public and industrial sectors
- Support schemes for residential energy efficiency programmes (including heating, retrofit and insulation)
- Research and development for new energy efficiency technologies

Example expenditures

- The Public Sector Decarbonisation Scheme provides grants to fund heat decarbonisation and energy efficiency measures within public sector non-domestic buildings, including central government departments, non-departmental public bodies, local authorities and the NHS. This Scheme will deliver significant carbon savings within the public sector See here

Green Category: Pollution Prevention and Control

UK Taxonomy Objective:

Climate Change Mitigation

Pollution Prevention and Control

Transition to a Circular Economy

SDG Mapping:

Subcategories

- Reduction of air emissions and greenhouse gas control
- Waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy

Example expenditures

- Carbon Capture, Usage and Storage (CCUS) Infrastructure: The UK Government is providing funding towards the construction of four new CCUS networks by 2030. CCUS has the potential to decarbonise the economy and maximise economic opportunities for the UK

Green Category: Living and Natural Resources

UK Taxonomy Objective:

The Protection and Restoration of Biodiversity and Ecosystems

Sustainable use and Protection of Water and Marine Resources

Climate Change Mitigation

Climate Change Adaptation

SDG Mapping:

2 ZERO HUNGER

15 LIFE ON LAND

6 CLEAN WATER AND SANITATION

14 LIFE BELOW WATER

Subcategories

- Protection and enhancement of terrestrial and marine biodiversity, ecosystems and natural capital
- Sustainable land use and protection, including environmentally sustainable agriculture
- Environmentally sustainable clean water, water storage and wastewater management initiatives
- Funding for environmental activities of public sector arms-length bodies

Example expenditures

- **The Future Farming and Countryside Programme** will introduce new policies and solutions in England to reward environmentally sustainable farming, and to improve farm productivity and prosperity. These include the Sustainable Farming Incentive Scheme, the Local Nature Recovery Scheme, and the Landscape Recovery Scheme. See here
- **The Nature for Climate Fund** involves nature-based climate solutions such as tree planting and peatland restoration in England See here

Green Category: Climate Change Adaptation

UK Taxonomy Objective:

Climate Change Adaptation

SDG Mapping:

13 CLIMATE ACTION

Subcategories

- Flood protection, resilience and other risk mitigation programmes
- Data driven climate monitoring solutions
- Engineering activities and technical consultancy dedicated to adaptation to climate change

Example expenditures

- The flood defence programme builds flood and coastal defences in England designed to provide increased flood protection within a changing climate and with increasing use of nature-based solutions, like water storage areas, which may also boost wildlife

2.1.2 Exclusions:

HM Treasury intends that Eligible Green Expenditures will exclude any expenditures financed and/or refinanced by green financing instruments issued by other government agencies and public sector entities to ensure suitable oversight and avoid double-counting.

Recognising that many sustainable investors have exclusionary criteria in place around nuclear energy, the UK Government will not finance any nuclear energy-related expenditures under the Framework. The UK Government, however, recognises that reaching net zero emissions will require all energy to be delivered to consumers in zero-carbon forms and be derived from low carbon sources. Nuclear power is, and will continue to be, a key part of the UK's low-carbon energy mix alongside solar and wind generation and carbon capture and storage.

All these technologies are important in tackling climate change and diversifying the UK's supply, contributing to the UK's energy security and sustainable growth.

2.1.3 Other exclusions

- Vehicles powered through fossil-fuel combustion and ethanol
- Fossil fuel exploitation and exploration
- Large-scale hydroelectric energy (>25MW), due to potential risk to natural habitats

- Weapons, tobacco, gaming, palm oil industries, and direct manufacture of alcoholic beverages

It is intended that all the Eligible Green Expenditures financed under this Framework will adhere to internationally recognised guidelines, specifically the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

2.2 Project Evaluation and Selection Process

The evaluation and selection of Eligible Green Expenditures will be performed on an annual basis by HM Treasury, in consultation with other relevant government departments. HM Treasury will be responsible for updating the list of potential Eligible Green Expenditures each year, spanning the eligible expenditure window.

In order to verify the eligibility of each expenditure, HM Treasury will carry out bilateral engagement with the relevant department. Following that, each update of the eligible portfolio will be brought to the cross-government Inter-departmental Green Bond Board (the “IDGBB”) for information and comment.

The IDGBB comprises senior representatives from HM Treasury, the UK Debt Management Office (“DMO”), NS&I and all other departments whose budgets include Eligible

Green Expenditures (see table below for details). The IDGBB is chaired by HM Treasury.

The IDGBB will meet at least twice a year. In addition to project selection and evaluation, the IDGBB also advises HM Treasury and the DMO on, among other things: the design, implementation and maintenance of the Framework; the management of proceeds; and the associated reporting processes as well as alignment with wider strategy and objectives. Final decision-making on all of these matters lies with HM Treasury.

Inter-departmental Green Bond Board

HM Treasury has established an Inter-departmental Green Bond Board, comprising representatives from the: • HM Treasury (Chair) • UK Debt Management Office • NS&I • Department for Business, Energy & Industrial Strategy (BEIS) • Department for Environment, Food & Rural Affairs (Defra) • Department for Transport (DfT) • Foreign, Commonwealth & Development Office (FCDO)	The Inter-departmental Green Bond Board supports HM Treasury to meet its obligations on: • The design, implementation and maintenance of the Green Financing Framework • Evaluation and selection of Eligible Green Expenditures • Allocation and management of Green Financing proceeds • Green Financing investor reporting
Other departments may be added to the IDGBB later as required.	

Department for Business, Energy & Industrial Strategy

Department for Transport

Department for Environment Food & Rural Affairs

Foreign & Commonwealth Office

UK Government direct or indirect investment expenditures, subsidies, or tax foregone.

HM Treasury

HM Treasury will chair the IDGBB and prepare an initial list of potential Eligible Green Expenditures by consulting departments (as necessary).

Inter-departmental Green Bond Board (IDGBB)

The list of potential Eligible Green Expenditures will be evaluated by the IDGBB. The IDGBB will either approve or reject the selected expenditures as Eligible Green Expenditures.

Eligible Green Expenditures

This process is repeated on an annual basis

On an annual basis, HM Treasury intends to review the allocation of the proceeds of all Green Financing raised for Eligible Green Expenditures and determine if any changes are necessary. In the event that expenditures have been cancelled, postponed or otherwise become ineligible, HM Treasury intends to replace the expenditure with another Eligible Green Expenditure, in coordination with the relevant government department.

As per the Green Book[23], relevant ministries will be responsible for monitoring the implementation of eligible projects, and alerting the IDGBB to any potential legal controversies. The IDGBB will analyse any controversies and on this basis may choose to recommend the removal of projects from the Eligible Green Expenditures.

2.3 Management of Proceeds

HM Treasury intends to allocate the proceeds of all Green Financing to Eligible Green Expenditures within two budget years from the date the relevant Green Financing is raised.

23 The Green Book, HM Treasury, April 2013

In the event that amounts raised from Green Financing cannot be immediately and fully allocated to Eligible Green Expenditures, HM Treasury will manage the unallocated proceeds in line with its normal cash management guidelines, which take account of the long standing debt management policy to fully finance HM Treasury's projected overall financing requirement each year.

HM Treasury may from time to time issue further amounts of an existing green gilt through the DMO. Any such further issue is intended to be fungible with the existing amounts of that green gilt. This will not limit HM Treasury's ability to allocate the proceeds of a further issue to any Eligible Green Expenditures under this Framework, even where these differ from those Eligible Green Expenditures to which the proceeds of earlier issues of that green gilt were allocated.

The amount of Green Financing to be issued in each financial year will be announced by HM Treasury as part of the annual government financing remit.

HM Treasury	HM Treasury and NS&I will issue Green Financing instruments against Eligible Green Expenditures. The proceeds of Green Financing will be received and tracked in the same way as funds raised from other UK Government debt issues.
General Account	HM Treasury transfers the proceeds to a general account where proceeds will be held and tracked. HM Treasury intends to allocate the proceeds within two budget years from the date the relevant Green Financing is raised.
Department for Business, Energy & Industrial Strategy; Department for Environment Food & Rural Affairs; Department for Transport; Foreign & Commonwealth Office	HM Treasury will set up a dedicated tracking process within its internal information systems known as the Green Register. Allocations against Eligible Green Expenditure categories will be tracked in this Green Register.
Project 1; Project 2; Project 3; Project 4	On an annual basis, the IDGBB will review the allocation of the proceeds of all the Green Financing raised for Eligible Green Expenditures and determine if any changes are necessary.

2.4 Reporting

To enable investors to follow the progress and positive impact delivered, HM Treasury intends to publish an allocation report on its Eligible Green Expenditures on an annual basis and an impact report setting out the environmental impacts and social co-benefits at least biennially. Reporting will be informed by the guidelines and recommendations of HM Treasury on how to appraise and evaluate policies, projects and programmes, as set out in the Green and Magenta Books[24].

The Magenta Book provides holistic guidance on the design and management of evaluation processes, while the Green Book further provides information on valuing environmental metrics, issues around valuation, and also provides information on government research and guidance on the quantification and monetisation of impacts.

Allocation reporting will be updated annually until full allocation of the proceeds of all Green Financing raised to Eligible Green Expenditures under this Framework.

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24 The Magenta Book, HM Treasury, April 2011

Project 1 | Project 2 | Project 3 | Project 4

Department for Business, Energy & Industrial Strategy

Department for Environment Food & Rural Affairs

Department for Transport

Foreign & Commonwealth Office

Information on Expenditures

The ministries/government departments collect information related to the Eligible Green Expenditures: amounts allocated, environmental impacts and social co-benefits.

Inter-departmental Green Bond Board (IDGBB)

The IDGBB consolidates information on Eligible Green Expenditures into an allocation and impact report.

Draft Allocation Report

Draft Impact Report

External Audit

External auditor reviews the allocation and impact report.

HM Treasury (Final Reports)

HM Treasury publishes allocation (annually) and impact (at least biennially) reports on its Eligible Green Expenditures.

2.4.1 Allocation Reporting

HM Treasury intends to provide information on the allocation of its Eligible Green Expenditures annually on the UK Government Green Financing website. The information will contain at least the following details:

I. Overview of the allocation of the proceeds of Green Financing to the main Eligible Green Expenditures categories

II. Breakdown of allocation by Eligible Green Expenditure sub-categories

III. Balance of unallocated proceeds with confirmation that any temporarily unallocated funds were managed in line with the HM Treasury's normal cash management guidelines

IV. Share of allocation of proceeds to refinancing existing Eligible Green Expenditures versus financing for new and future Eligible Green Expenditures, and % share of co-financing where relevant

V. Any material developments related to the Eligible Green Expenditures

2.4.2 Impact Reporting

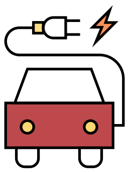
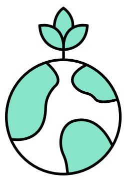
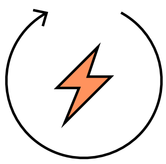
Impact reporting will be made available to investors at least biennially on the UK Government Green Financing website. It will contain, where relevant and feasible, information addressing the positive environmental impacts and social co-benefits of the Eligible Green Expenditures and case studies.

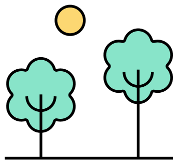
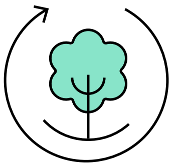
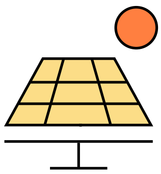
HM Treasury may provide additional updates due to the time-lag in the publication of specific environmental impact metrics. The approach to impact reporting may be updated over time to align with emerging reporting standards and methodologies.

2.4.2.1 Indicative Environmental and Social Co-Benefits

The table below outlines the environmental impact metrics and social co-benefits that HM Treasury intends to use, as applicable, in impact reports. This list is non-exhaustive, and HM Treasury may update these metrics or provide additional metrics in the future.

Table 1. Environmental Impact Metrics and Social Co-Benefits

Green Category: Clean Transportation 	**Environmental Impact Metrics** • Annual greenhouse gas emissions reduced/avoided in tonnes of carbon dioxide (CO2) equivalent • Project lifetime greenhouse gas impacts (MtCO2) • Project lifetime reduced carbon emissions • Reduction of air pollutants: particulate matter (PM), sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs) **Social Co-Benefits** • Number of jobs created/supported • Number of loans to SMEs and/or microenterprises • Number of SMEs that receive support for equipment and facilities and technological modernisation • Number of people with access to sustainable transport systems
Green Category: Climate Change Adaptation 	**Environmental Impact Metrics** • Number of flood defences • Number of properties better protected **Social Co-Benefits** • Estimated number of beneficiaries from adaptation projects • Number of jobs created/supported
Green Category: Energy Efficiency 	**Environmental Impact Metrics** • Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings) • Annual greenhouse gas emissions reduced/avoided in tonnes of carbon dioxide (CO2) equivalent • Level of certification by property **Social Co-Benefits** • Number of households benefitted • Number of jobs created/supported

Green Category: Living and Natural Resources 	**Environmental Impact Metrics** • Annual greenhouse gas emissions reduced/avoided in tonnes of carbon dioxide (CO2) equivalent • Increase of area under certified land management (ha) • Number of native species which have benefitted from the project • Absolute or % reduction in air/water pollutants • Hectares of protected areas restored/maintained **Social Co-Benefits** • Number of jobs created/supported
Green Category: Pollution Prevention and Control 	**Environmental Impact Metrics** • Annual greenhouse gas emissions reduced/avoided in tonnes of carbon dioxide (CO2) equivalent • Reduction of air pollutants: particulate matter (PM), sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs) • Waste that is prevented, minimised, reused or recycled before and after the project in % of total waste and/or in absolute amount in tonnes p.a. • Amount of waste reused or recycled (tonnes or in % of total waste) **Social Co-Benefits** • Number of SMEs that receive support • Number of jobs created/supported
Green Category: Renewable Energy 	**Environmental Impact Metrics** • Annual greenhouse gas emissions reduced/avoided in tonnes of carbon dioxide (CO2) equivalent • Capacity of renewable energy plant(s) constructed or rehabilitated in MW **Social Co-Benefits** • Number of households and businesses supported to transition to low carbon heating • Number of households benefitted

3. External Review

HM Treasury aims to adhere to the highest standards in terms of external review of the Framework.

The Second-Party Opinion, Pre-issuance Impact Assessment Report, and Post-issuance external verification, as described below, will be made available on the following websites:

- HM Treasury: https://www.gov.uk/government/publications/uk-government-green-financing
- DMO: https://www.dmo.gov.uk/responsibilities/green-gilts
- N&SI: https://www.nsandi.com/green-saving

3.1 Second-Party Opinion

HM Treasury has appointed Vigeo Eiris (V.E.) to provide an external review on the Framework. V.E. has reviewed the Green Financing Framework and concluded that the Framework is credible and impactful and aligns with the ICMA Green Bond Principles (2021).

3.2 Pre-issuance Impact Assessment

HM Treasury has appointed Carbon Trust to provide a pre-issuance impact assessment on the alignment of the intended allocation of proceeds of Green Financing with the UK Government's climate targets and environmental policies. The Carbon Trust has concluded that the intended allocation of proceeds will be aligned with these targets and policies.

3.3 Post-issuance External Verification

As noted in 2.4 Reporting, HM Treasury intends to provide annual allocation reporting beginning one year after the relevant Green Financing is raised and impact reporting will also be provided at least biennially. This reporting will be subject to external verification by an authorised independent entity. Verification will be provided until full allocation of the proceeds of outstanding Green Financing, and then in case of any material changes.

The review will verify:

- The compliance of expenditures financed by the proceeds of Green Financing with the Eligible Green Expenditures as defined in the Use of Proceeds section in this Framework

- Allocated amount related to the Eligible Green Expenditures financed and/or refinanced by the proceeds of Green Financing
- The management of proceeds and unallocated proceeds
- Review of environmental impacts and social co-benefits of Eligible Green Expenditures

3.4 Stakeholder Discussion Forum

The UK government has taken the decision to set up a Stakeholder Discussion Forum (“SDF”) on which it can draw for specialist knowledge and expertise on technical aspects of the initiative to issue green gilts and green aspects of retail savings products, under the joint chairpersonship of HM Treasury and the DMO.

The purposes of the SDF are to provide: (i) a range of perspectives on topics as determined by HMT/DMO that is external to government; and (ii) expert opinion on technical matters as requested, drawing on knowledge and experience gained by the individuals and organisations represented at the forum.

4. Amendments to this Framework

HM Treasury, with input from the IDGBB, will review this Framework on a regular basis, including its alignment to updated versions of the ICMA Green Bond Principles as and when they are released and the UK Taxonomy as it develops, with the aim of adhering to best practices in the market.

The Framework may be amended from time to time to take account of these updates or other changes that HM Treasury considers appropriate. If not minor in nature, amendments will be subject to the prior approval of an external review provider. HM Treasury commits to keeping or improving the current levels of transparency and reporting disclosures in any future updated version of this Framework, including aligning with wider UK Government work on sustainability reporting.

Any updates to the Framework, will be published on the UK Government Green Financing website and will replace this Framework unless otherwise indicated.

5. Green Financing and Legal Considerations

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

There is currently no clear definition (legal, regulatory or otherwise) of, nor clear market consensus as to what constitutes, a “green” or “sustainable” or equivalently labelled project or as to what precise attributes are required for a particular project to be defined as “green” or “sustainable” or such other equivalent label, nor can any assurance be given that a clear definition or consensus will develop over time nor if a definition or consensus develops, that it will not change over time. Accordingly, no assurance is given that the Eligible Green Expenditures will satisfy any present or future investment criteria or guidelines with which an investor is required, or intends, to comply, in particular with regard to any direct or indirect environmental or sustainability impact of any project or uses, nor that it will meet investor expectations or requirements regarding such “green”, “sustainable”, “social” or similarly labelled performance objectives (including those aligned with Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (the so called “EU Taxonomy”) or Regulation (EU) 2020/852 as it forms part of domestic law in the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 or the UK Taxonomy) or any other definition or market consensus (together, “Investor Requirements”). Investors should have regard to the factors described in this Framework and determine for themselves the relevance of such information for the purposes of an investment in any Green Financing, before deciding to invest.

No representation or assurance is given as to the relevance, suitability or reliability of any opinion or certification of any third party made available in connection with this Framework. Any such opinion or certification is not a recommendation by HM Treasury or any other person to buy, sell, hold or invest in any Green Financing. As at the date of this Framework, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. Prospective investors must determine for themselves the relevance, suitability and reliability of any such opinion or certification and/or the information contained therein.

In the event that any green gilts are listed or admitted to trading on a dedicated “green”, “sustainable”, “social” or other similarly labelled segment of a stock exchange, securities market or index or given any other similar accreditation (a “Green Listing”), no representation or assurance is given by HM Treasury or any other person that any such Green Listing satisfies any present or future Investor Requirements. Furthermore, it should be noted that the criteria for any Green Listing may vary from one stock exchange, securities market or index to another. No representation or assurance is given or made by HM Treasury or any other person that any Green Listing will be obtained in respect of any green gilts or that any Green Listing that is obtained will be maintained during the life of the green gilts.

While it is the intention of HM Treasury to apply an amount equivalent to the proceeds of any Green Financing to Eligible Green Expenditures and to report on the Eligible Green Expenditures as described herein, there is no contractual obligation to do so. There can be no assurance that any such Eligible Green Expenditures will be available or capable of being implemented in the manner anticipated and, accordingly, that HM Treasury will be able to use the proceeds for such Eligible Green Expenditures as intended. Furthermore, no assurance is given that any projects or uses the subject of, or related to, Eligible Green Expenditures will be completed as expected, that the stated aims and/or impacts of any projects or uses the subject of, or related to, any Eligible Green Expenditures will be met or made, nor that adverse environmental, social and/or other impacts will not occur during the implementation of any projects or uses the subject of, or related to, any Eligible Green Expenditures. None of these events, nor a failure by

HM Treasury to allocate the proceeds of any Green Financing to Eligible Green Expenditures, nor to report on Eligible Green Expenditures as described herein, nor a failure by a third party to issue (or its withdrawal of) an opinion or certification in connection with any Green Financing, nor the failure of any Green Financing to meet Investor Requirements, nor a failure to obtain or maintain any Green Listing, will constitute an event of default or breach of contract with respect to any Green Financing. Any such event may have a material adverse effect on the value of the relevant investment and/or may have consequences for investors with Investor Requirements.