



The Young  
Foundation

# Quest for the 'S' in ESG

**How the social dimensions of ESG  
are interpreted by businesses today**

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## Executive summary

This short report is the start of a 'Quest' for The Young Foundation. It examines how FTSE 100 companies are interpreting the social dimensions of ESG and their business purpose activities. It also draws on a large survey of SME and large UK businesses, exploring how they interpret their environmental and social responsibilities. We find that the movement towards greater levels of environmental responsibility is in strong evidence, and while we have views about the speed, enthusiasm, and extent of industry transition towards net zero targets, it is clear that businesses are seized by the material, moral – and regulatory – responsibility to take action on the climate crisis.

The social challenges besetting the UK and world are severe. Around 14.5 million people now live in poverty in the UK<sup>1</sup>, and 4.5m of those are children. These statistics and more indicate that we are a society under severe stress: people living in the poorest areas of the UK on average are diagnosed with illnesses ten years before their wealthier counterparts<sup>2</sup>; 64% of people think that a transition to net zero will leave parts of the country behind; black men and women in the UK are four times more likely to die of Covid<sup>3</sup>; and long-term exposure to air pollution kills between 28,000 and 36,000 people a year in the UK. The list of social challenges we face is immense, compounded by weakened local government, health sector, and charitable sectors, unable to cope with rising demand. And in the private sector, we find less attention, measurement and commitment to social outcomes as part of ESG strategies.

In this report we seek to offer a basic framework for understanding the steps in the journey towards social impact that can contribute to tackling our complex social challenges. One that takes us beyond a focus on the workforce, where most social ESG activities are focused, toward a sustained and generative relationship with communities, which are cited by 76% of FTSE 100 companies as 'key stakeholders'; and toward a conceptualisation of social and environmental action as being fundamentally part of the same story. In other words, a fair and just transition to a sustainable economy and society.

Taking inspiration from the 'scope one, two and three' formulation of activities to reduce greenhouse gas emissions, this report sets out a similar clustering of social activities; starting with the workforce (scope one) and building outwards towards strategies that seek to work more equitably with partners and communities to drive collective social impact in a local place, or across a specific social issue (scope four).

Through this work, we hope to find allies and partners who are interested in expanding their social impact in this way, which we believe is fundamental to meaningful positive change. The Institute for Community Studies reported that after 15 years of Labour, Conservative and coalition government and £120bn of targeted interventions towards 'Levelling up' activities, there was a zero per cent change in relative economic deprivation. If we want to consign these poor outcomes to history, we must start thinking and working very differently across the sectors.



### CAVEATS:

This paper contains quotes and content from 2021 and 2022 FTSE 100 annual reports and, in doing so, seeks to build a broader understanding (particularly) of how 'communities' of stakeholders are thought about and engaged with through ESG strategies. It also includes statistics pulled directly from FTSE 100 annual reports and references their exact source in the end notes. However, this first report makes no judgements about the impact or efficacy of those ESG activities cited by companies, and none should be inferred.

We describe the ESG or sustainability-related performance, which are given prominence in the first 20 pages of integrated annual reports of 100 FTSE companies; where financial

performance will always be found. The purpose of this exercise is to explore which ESG metrics appear to be of prime importance to different companies; and whether they are featured alongside the financial performance of the company, thus giving a sense of having parity of esteem. This is not to suggest that other ESG goals and measurements are not featured in the remaining pages of annual reports, or in separate ESG or Sustainability Reports, and this should not be inferred.

Finally, we are looking at ESG in relation to responsible and sustainable strategies of businesses to impact society and our environment - not ESG investment activities or strategies.

# Introduction

## Why embark on a quest for the 'S' in ESG?

Given the growing movement of social enterprise; mission-led businesses; corporate adoption of stakeholder capitalism; and strategies for driving corporate environmental, social and governance responsibilities, The Young Foundation wants to understand a few key trends:

1. As the geo-political, climate and economic forces shaping our society impact people's lives in increasingly negative ways, what level of responsibility should businesses hold, to help navigate complex social challenges? Where are the boundaries for a business wanting to demonstrate its desire to 'do good'?
2. While businesses have found a way to understand, act on, and measure environmental factors, why don't we see as much understanding, attention and measurement in relation to social factors?
3. With 76% of FTSE 100 companies citing 'communities' as a key stakeholder, what does this really mean in practice and how does this really connect with their ESG strategies and purpose?
4. Are social and environmental factors really distinct and separate categories, or are they intimately entwined? If so, does this change how we should view ESG strategies and purpose?
5. Where do we see pockets of practice in the mainstream private sector that are more likely to support an inclusive and sustainable economy?

This first report begins to answer some of these questions and inform our own and others' future strategies and activities with private sector partners.

It was written in the second half of 2022, with the UK in the midst of several crises, each inextricably entwined within the last. In late August, Goldman Sachs warned that inflation could exceed 20% in UK if gas prices weren't brought under control, with Ofgem forecasting a likely rise of 80% in energy bills without government intervention<sup>4</sup>. Although this intervention did indeed arrive, we know these macro-economic and global challenges are having severe individual and household consequences. Research from the University of York predicts that two thirds of households will struggle to pay their bills, come January 2023<sup>5</sup>.

This hit comes in the wake of the coronavirus pandemic, with its many health, economic and social impacts; which in turn rests upon a decade of disinvestment into our public services and the civic infrastructure required to maintain a healthy and safe society. With UK temperatures hitting 40 degrees for the first time since records began, August 2022 was also the month the 'shoe dropped' in public consciousness, in relation to what a changed climate might mean for

future living conditions. With the UN Secretary General stating that we are on the "highway to climate hell with our foot on the accelerator"<sup>6</sup>, we remain in a state of perma-crisis, with a heightened anxiety about the future.

Businesses have suffered at the hands of all these challenges to no less degree. With the impacts of Brexit on tariffs, trade, workforce, and logistics still playing out, additional pressures – including war in Ukraine, inflation, and rising energy prices and interruption to supply chains – are creating huge disruption, including for our SME's who collectively employ just over 60% of the UK workforce and half the total private sector turnover<sup>7</sup>. The cost-of-living crisis is creating a winter of discontent, as we see workers striking for pay increases to cope with these rising costs. This may leak into broader unrest on our streets, and a surge in demonstrations and certain kinds of crime could follow, as we saw in the 1970's. In September 2022, these issues, were relegated to the margins of the news cycle as the country went into national mourning for Queen Elizabeth II; itself another moment of change. The path we will tread throughout the winter of 2022/23 and beyond is uncertain, and highly challenging.

Writing a provocation into the changing role of business in supporting society and positive social impact in the autumn of 2022 has, then, been a difficult one. Will the urgent and near-term pressures on businesses slow progress towards industry taking on greater social and environmental responsibilities? Or are the cumulative challenges now so manifest, our collective future so precarious, that they demand us to rethink the role of business in shaping the futures of people and planet? Perhaps business, as the innovative creator of financial wealth, must play an increasing role as the creator of wealth in all its forms.

## The shifting shape of business

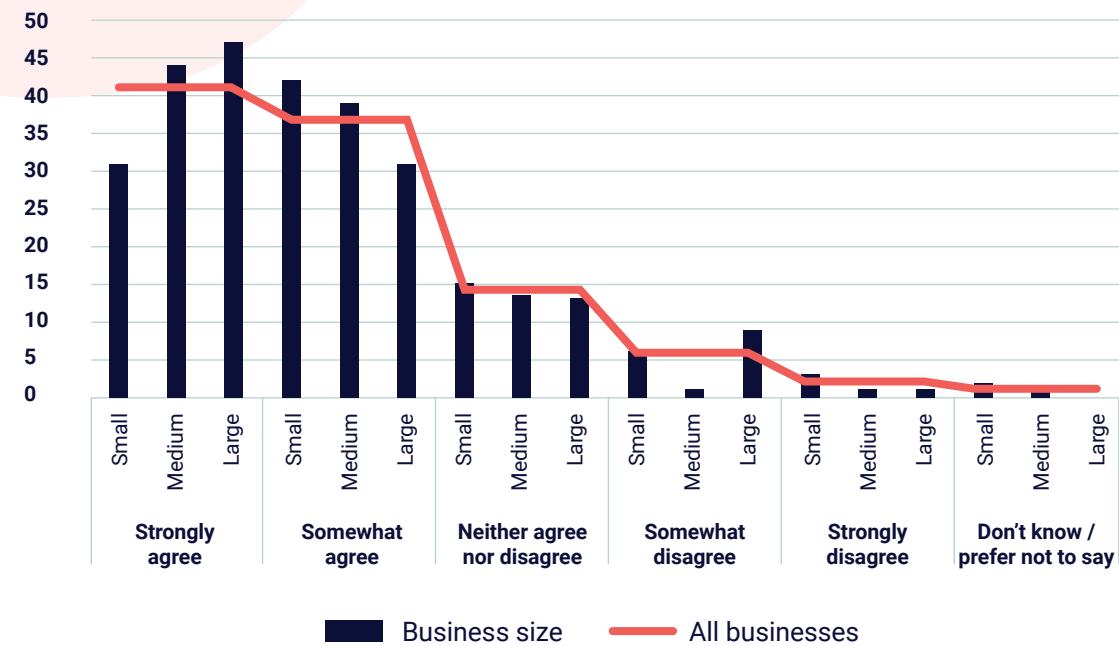
In a recent EY survey, 66% of private sector CEO's and Directors agreed that 'Covid-19 has increased expectations from stakeholders that our company will drive societal impact, environmental sustainability, and inclusive growth'<sup>8</sup>.

Indeed, 70% of the UK public believe that business should have a legal responsibility to people, the planet, and the natural environment - alongside maximising profit. We see similar statistics stating that either capitalism is not working, or is harmful<sup>9</sup>.

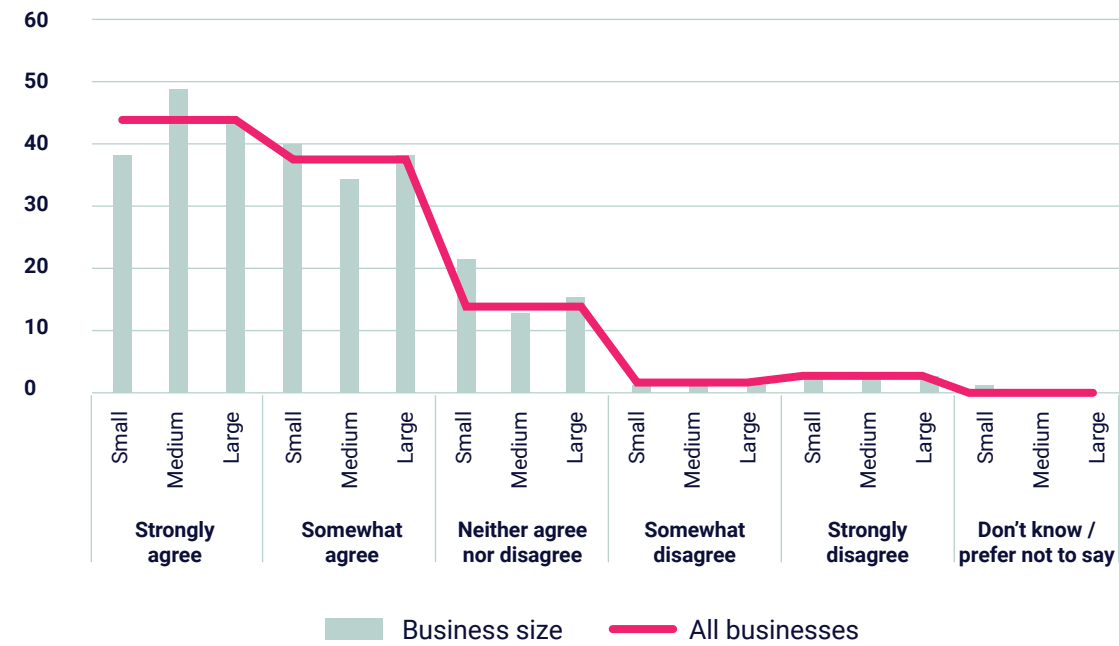
With trust in politicians, government, and the media tumbling, the majority of the population believe the UK is on the wrong track, and worry their lives are going to get worse, not better. Twice as many people think the economic system works against them than believe it works for them - and businesses are increasingly feeling the pressure to espouse and enact practices that 'colour outside the lines' of their traditional remit<sup>10</sup>. These were the early findings from the UK 2022 Edelman Trust Barometer earlier this year, and it's a sobering read - particularly given the dramatic acceleration of inflation and the cost-of-living crisis over the course of 2022.

Edelman underscores what many of us believe: that the societal role of business is here to stay. And businesses across the board seem to think so too. In global research, undertaken by SAGE Group plc with 11,000 SME decision-makers, 96% said having a positive societal and environmental impact, and a commitment to diversity, now matters to their business. More than four-fifths see the recovery from the pandemic as an opportunity to promote sustainability<sup>11</sup>.

Businesses like mine have a responsibility to help tackle climate change, above and beyond considering the direct impact of their own operations.



Businesses like mine have a responsibility toward the health and well-being of the community/locations in which they are working.



Our own UK sample of businesses hints at even deeper commitment, with around 80% of over 250 businesses surveyed feeling responsible to help tackle climate change, above and beyond considering the direct impact of their own operations; and a similar percentage feeling a sense of responsibility toward the health and wellbeing of the community/locations in which they are working. This sense of responsibility is broadly similar across all sizes of business.

Throughout the challenging times we find ourselves in, the business community has shrunk as a whole, yet the pandemic has also begun to shift the economic landscape with the number of start-ups in the UK growing by 22%. Four in five of those firms do not plan to wind down their business. Significantly, they believe it is more important to adapt new technologies, and are 20% more likely to use sustainable materials and suppliers. Yet, the availability of finance remains a key concern, with 55% of businesses highlighting this issue post-pandemic, compared to 42% pre-pandemic.<sup>12</sup> Social businesses are often viewed as more resilient than traditional businesses, yet following the autumn statement, SEUK provided a snapshot of the state of the social enterprise sector and revealed that 3% of social businesses expected to close within the following few months, equating to 4,000 businesses - a much higher rate than the pandemic closures at 1%.<sup>13</sup>

Meanwhile, ESG has rocketed up the corporate and investment agenda in recent years, with ESG-related investments predicted to top \$53tn by 2025.<sup>14</sup> Such a rapid expansion of investment has, predictably, been followed by a fair amount of cynicism; the growth of an industry of consultants, indexes, measurement and monitoring of ESG indicators; and not a few scandals. And during the first year of the Covid-19 pandemic, 79% of US investors deprioritised ESG as an investment criteria.<sup>15</sup>

Despite this, it is evident that the regulation, culture and practice of ESG has taken hold across major businesses and listed companies, and there is increased attention to the experience of workers, minority groups, carbon emissions, biodiversity and so on, which represents a marked change in business attitudes over the last few years. Our analysis shows that 73% of FTSE 100 companies now report some aspect of their ESG performance directly alongside their headline financial performance in 2021/2 annual reports.

The UK has always been a leader in sustainable business, but the milestone just achieved of 1,000 UK B Corps<sup>16</sup>, up from 564 the previous year, demonstrates the commitment of UK businesses as a force for good. When combined with over 100,000 social enterprises across the UK, employing two million people<sup>17</sup>, the role of business in positively impacting society is growing.

The language of ‘purpose’

A purpose is the easiest way for businesses to communicate to their stakeholders the reason they exist, and while not a new concept, in recent years an organisation’s purpose has been given much more of the limelight. Deloitte found that 90% of companies clearly articulated their purpose in their annual reports this year, compared to just 41% five years ago<sup>18</sup>.

There used to be relatively few global companies that were purpose-driven from their inception, putting a sustainably and socially minded vision at the heart of their business strategy. The likes of Patagonia, in stating ‘We’re in business to save our home planet’, have paved the way for global brands to create products that positively impact people and planet. There are now



exciting examples from listed companies, including IKEA and Seventh Generation, who use their purpose to drive strategy as well as a thriving social enterprise sector in the UK and globally. Within our research, we found that around half the FTSE 100 businesses include references to a better future, positive impact, or improved outcomes for individuals within their purpose. But only around 10% had a purpose focused predominantly on positive outcomes for people and/or planet - for example Land Securities, stating 'We create places that make a lasting positive contribution to our communities and our planet', or Legal & General, 'To improve the lives of our customers, build a better society for the long term, and create value for our shareholders'.

This follows similar findings to Deloitte, who analysed 50 companies from among the FTSE 350 and shared that 40% explicitly integrated considerations of people, planet, and prosperity into their strategy. If a company's purpose is only aligned to the interests of its shareholders and not wider society then it would not be unreasonable to assume the decisions the company makes will further exacerbate the crisis we are experiencing.

The Better Business Act also shows that 76% of consumers in the UK want businesses to be legally responsible for their impact. The Act is calling on government to change the law to ensure businesses are legally responsible for benefiting workers, customers, communities, and the environment - alongside delivering profit. With over 1,000 companies in support, momentum is growing for businesses to respond to consumer desires and take ownership of their social and environmental impact.

There is an argument to suggest that, if we are to believe and trust a business' commitment to positively impacting society, it must be present in their stated purpose.



## The 'S' in ESG

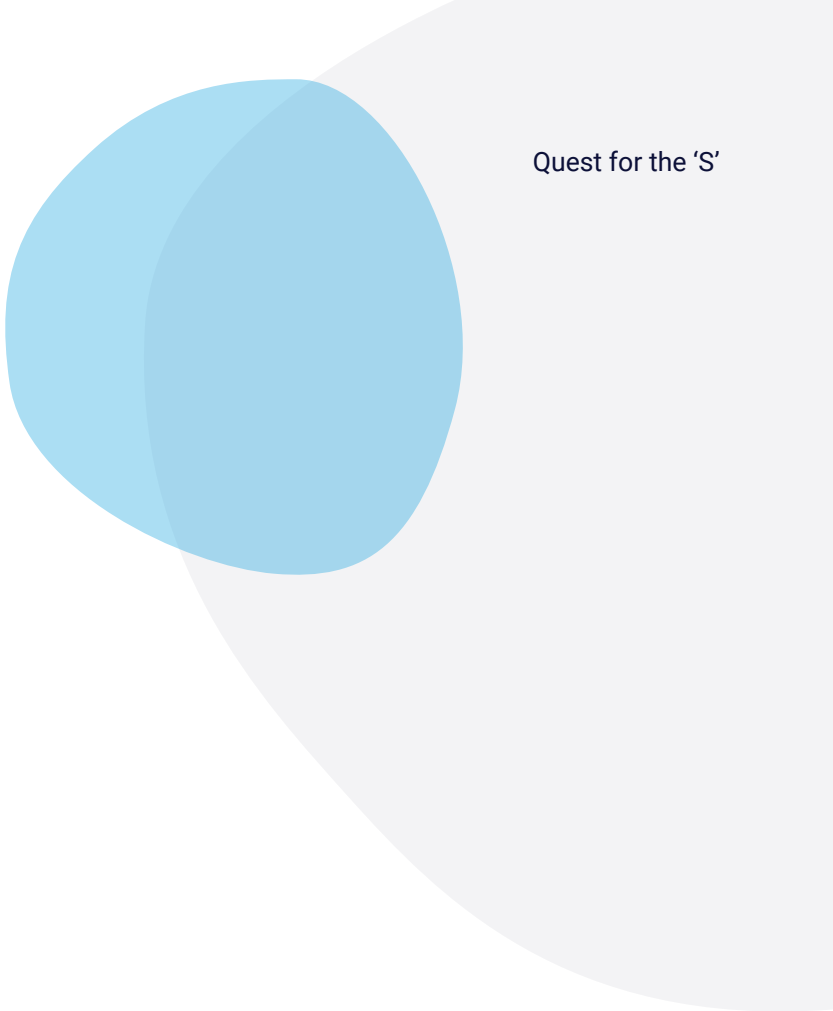
It has been a long and winding journey to explore the activities that businesses describe as being 'social' - as this report covers in later sections. This has posed some interesting questions. Paying taxes: is that a satisfying way of explaining your social value as a business? Selling the fire extinguishers to be installed near wind turbines in case of fire: is it correct to describe that as social impact? Our eyebrows have arched on a number of occasions while reading the vast array of activities that are reported under the 'social' ESG banner. But while there are some outliers, the vast majority of FTSE 100 businesses are undertaking, and reporting on, what they characterise as 'social' activities - and many are clearly thinking about double materiality: namely their impacts on society, as well as the risks posed to the company by social issues. They are expending the necessary effort and time to align with accounting standards, such as the Sustainability Accounting Standards Board (SASB)<sup>19</sup> and the Global Reporting Initiative (GRI)<sup>20</sup> et al.

Unlike the Race to Net Zero, there is no uncontested **end goal** or 'net zero' equivalent in measuring social impact. Social impact cuts across every single facet of our society - from racial inequity to homelessness; from dying younger simply by dint of where you live, to children living in abject poverty. It can mean anything from the creation of new playgrounds for kids to get their fun and exercise to the mass mobilisation of volunteers to help those shielding through Covid. Net zero it is not. There isn't a small or universal set of measures by which to judge impact and no real articulation and agreement of what 'success' means.

And for many companies, social impact does not contain the same commercial logic as environmental sustainability and the race to net zero. Investors clearly agree. BNP Paribas recently reported that for '51% of investors, the "S" element of their environmental, social, and governance (ESG) investment strategies is essentially a check-the-box exercise'.<sup>21</sup>

When looking at the 'S' in ESG then, we are looking at a much more complex picture, where regulation, compliance, practice and measurement are under-developed across the board.

An open letter from the We Mean Business Coalition to the US Securities and Exchange Commission (SEC), the European Financial Reporting Advisory Group (EFRAG), and the International Financial Reporting Standards (IFRS) Foundation's International Sustainability Standards Board (ISSB) in May 2022 emphasises the frustration and rising demand from businesses to determine a common set of standards for accurate and comparable measurement across all ESG-related activities.<sup>22</sup> And yet the focus is almost entirely on environmental emissions-related data. While the Taskforce on Climate-Related Financial Disclosure (TCFD) has provided a helpful spur towards action on climate-related ESG activities, there is no equivalent for social ESG activities. Achieving universal agreement on more complex social, culturally- and country-variable indicators, which are harder to robustly and comparably measure, may require an entirely different way of thinking, which we explore late in this report.



What does the 'S' in ESG mean for businesses today?

This section explores the way in which the standards around social impact and measurement are evolving, and the social indicators that are most often highlighted by FTSE 100 businesses. In doing so, we get a clearer sense of where businesses and standards are right now, and where the gritty challenges and good opportunities for change lie.

While many environmental issues can be defined and measured in a scientific and objective way, social and, in some respect, governance issues can be much harder to agree - and there is rarely a global consensus. Social issues are often seen as more localised, positively or negatively impacting on people and communities, rather than a global systems issue such as climate change.

Many businesses are choosing to organise their ESG strategies in alignment with the Sustainable Development Goals (SDGs), the 17 commitments to be completed by 2030 to transition to a new circular global economy. The SDGs were developed based on globally shared values and social expectations, with a focus on inclusive and sustainable economic growth. Both SDG's and ESG are focused on long-term solutions to social and environmental issues that can provide a framework for businesses to strive towards. Crucially, SDGs provide guidelines and a goal to aim for and, while ambitious, this direction is needed both at a national level and for organisations working to do social good and measure their environmental and social credentials.

The 'S' in ESG is often broken down into categories covering workforce, the impact of products and services, and the impact of the company on communities and wider society.

The scope of standards bodies' reporting on the 'social' dimensions of ESG, is generally contained to a number of key reporting and disclosure standards relating to social activities:

- **Human rights** A broad theme covering the UN's Universal Declaration of Human Rights (such as the right to equality before the law, the prohibition of torture and slavery, the prohibition of forced labour)
- **Health and safety** The standards and regulations needed to protect our environment, the health of the workforce, and their safety
- **Diversity and inclusion** The make-up of the workforce and the culture that enables diversity within it to thrive
- **Labour relations and employee engagement** Any dealings between management and workers about employment conditions
- **Digital rights** Allowing individuals to access, use, create, and publish digital media or to access and use computers, other electronic devices, or communications networks
- **Socio-economic inequality** Disparities that individuals might have in both their economic and social resources that are linked to their social class

These are all of critical importance, and yet are given very different weightings by businesses. Attention to the hardest of these - socio-economic inequality - is missing for many.

2021 FTSE 100 annual reports and the 'S' in ESG

In the summer of 2022, we explored the annual reports of the FTSE 100. We wanted to understand which 'social' ESG activities were being promoted alongside headline financial performance. Did ESG and the social dimensions of ESG feature? If so, what kind of social indicators were corporations choosing to shine a light on? In undertaking this analysis, we sought to build a broader understanding (particularly) of how social responsibility was being interpreted. And, alongside this, how the many (many) citations of 'communities' as key stakeholders was manifesting in expressed social impact and outcomes.

A jumble sale of indicators

No fewer than 66 different sustainability or ESG-related indicators were given high prominence in the first 20 pages of annual reports, featuring alongside financial performance indicators for 73% of the companies. No two companies chose to highlight exactly the same mix of indicators and, outside carbon-related indicators, there was little standardisation of the language and scope of other ESG indicators. The table below sets out how the indicators clustered into different categories, the language used to describe the indicator, and the percentage of FTSE 100 companies citing this indicator.

ESG-related performance indicators the company has given prominence alongside financial performance indicators in their most recent annual reports		% highlighted by FTSE 100 companies
Benchmarking indicators/index	Customer satisfaction	8
	MSCI ESG rating	7
	Dow Jones sustainability index	5
	CDP scorecard rating	5
	Sustainalytics ESG rating	4
	Own brand sustainability scorecard	3
	GRESB rating	2
	Human Rights Campaign Foundation corporate equality index for LGBTQ+ communities	1
	Bloomberg gender equality index listing	1
	COP21 climate leadership score	1
	Customer satisfaction	1
	Financial support for vulnerable customers	1
Workforce-related	Employee engagement score	20
	% females in senior leadership	16
	Safety record / fatalities	15
	Women as % of total staff	9
	Net promoter score	9
	% employees proud to work for/be associated with company	8
	Female representation on Executive Committee	6
	% ethnically diverse total staff	4
	Financial commitment to inclusion programmes	4
	Training hours per year	4
	Gender diversity	3
	Employee retention (of highly-rated employees)	3
	% women in management positions	3
	% female leaders globally	3
	# employees offered re-skilling / upskilling	3
	% ethnically diverse leaders	2
	Access to universal Employee Assistance Programme	1
	% staff who think their line manager supports their wellbeing	1
	Build up and strengthen a healthy culture	1
	% women in tech roles	1
	Gender pay parity gap	1
	% employees understand how they contribute to sustainability goals	1

ESG-related performance indicators the company has given prominence alongside financial performance indicators in their most recent annual reports (continued)		% highlighted by FTSE 100 companies
Carbon- and GHG-related	% emissions reduced (against a specified baseline)	24
	Direct carbon disclosure emissions (Scope one and two)	23
	% energy from renewable sources	9
	Carbon intensity	7
	Reports on Scope three disclosure emissions	4
	% emissions offset (against a specified baseline)	1
	% energy efficient coolers	1
	Embodied carbon in developments	1
	Fuel reduction \$	1
Water-related	Water efficiency	6
	Making water safer	2
	Water withdrawal	2
Product- and R&D-related	Products with ‘sustainable attributes’ / sustainable products	8
	Reports \$ of R&D spend on ESG/sustainability goals	7
	% revenue generated from consumables-facing regulation	1
Waste- and recycling-related	Recycling/reuse	13
	Waste intensity	2
Bio-diversity related	Committed to ‘Get Nature Positive’	3
	Acres of improved habitat	2
	Trees planted	1
	Km of rivers improved	1
Finance-related	Sustainable finance and investment	13
	£ invested in communities	13
	Taxes paid	8
	Supporting enterprise	3
	Contributions to local communities, via planning obligations	2
	Social value created over year	2
	Value of AUM in SISF funds classified as article eight or nine	1
	Subsidies to deliver affordable housing and social/civic infrastructure for communities	1
Philanthropy- and giving-related	£ raised / donated for good causes	17
	Volunteering hours/day	9
	Goods / food donated	8



Social indicators

Performance indicators specifically associated with social impact are shown below, and these demonstrate a very strong bias towards diversity of the workforce and indicators relating to employee engagement. There is an incredibly strong case for this focus on workforce diversity and engagement, with equity, diversity and inclusion rising up the agenda since 2020 in the global north, and the challenges of retaining and securing staff and labour heightened in the UK since Brexit and, to a degree, the pandemic.

Social-related performance indicators the company has given prominence alongside financial performance indicators in their most recent annual reports	% highlighted by FTSE 100 companies
Employee engagement score	20
£ raised / donated for good causes	17
% females in senior leadership	16
Safety record / fatalities	15
Sustainable finance and investment	13
£ invested in communities	13
Women as % of total staff	9
Net promoter score	9
Volunteering hours / day	9
% employees proud to work for / be associated with company	8
Goods / food donated	8
Female representation on Executive Committee	6
% ethnically diverse total staff	4
Financial commitment to inclusion programmes	4
Training hours per year	4
Gender diversity	3
Employee retention (of highly-rated employees)	3
% women in management positions	3
% female leaders globally	3
# employees offered re-skilling / upskilling	3
Supporting enterprise	3
% ethnically diverse leaders	2
Contributions to local communities, via planning obligations	2
Social value created over year	2
Access to universal Employee Assistance Programme	1
% staff who think their line manager supports their wellbeing	1
Build up and strengthen a healthy culture	1
% women in tech roles	1
Gender pay parity gap	1
% employees understand how they contribute to sustainability goals	1
Value of AUM in SISF funds classified as article eight or nine	1
Subsidies to deliver affordable housing and social/civic infrastructure for communities	1

Workforce-related indicators were the most prominent included in headline performance in annual reports, although this array of indicators was the most diverse in terms of what was given prominence. For example, perhaps depending on the relative performance of gender diversity in a company, either the number of women in leadership positions, women on executive committees or women as a total percentage of the workforce were headlined. While gender diversity in some form was highlighted by a significant number of companies, ethnic diversity was far less prominent (less than 10% of companies). Is that because this measure is seen as less important? Or perhaps because the data hasn't been collected, or because the results are not as positive? Unlike most carbon-related indicators, very few workforce indicators included either a baseline or a company target.

Employee engagement and Net Promoter scores also feature heavily in what companies choose to headline, whereas upskilling and training hours were barely highlighted. Given the intimate connection with training, reskilling of the workforce to meet environmental targets, we would have expected to see this feature more prominently.

And while engagement and attractiveness as a place to work are a proxy for an employee's wellbeing at work, it feels a very slender interpretation of the S in ESG, given the extent and range of social challenges facing households, communities, and society today.

Carbon-related measures are the indicators highlighted by most companies, which reflects the tendency for environmental aspects to dominate the ESG discussion. Scope one and

two carbon emissions and carbon emissions reduced were both highlighted by about a quarter of companies, with scope three emissions and any offsetting referenced far less.

In relation to 'communities', which around three quarters of FTSE 100 reviewed companies classified as a stakeholder, the majority showed zero baselining of progress and zero definition of any impact goal. On occasion, there was a reference to a target output goal, such as 'reach one million young people' in relation to a social initiative, but this was exceptional and did not include any headlines on what outcomes this was expected to have, or was having, on those young people.

In addition, very few make the link between the 'S' in ESG and their stakeholder communities, outside development and construction, where planning obligations often demand it. Most social impact in communities is revealed through charitable giving and around an eighth of companies also highlighted investment in communities. This can be large in some companies. In others, it is reduced to 'ribbon cutting'. Charitable giving is, of course, critical. The war in Ukraine, and the impact of Covid, have once again demonstrated the potential for financial and in-kind giving in times of great need. But it does not seem a sufficiently strategic way of demonstrating business commitment to generating social impact. This leads to a central question for many non-environmental ESG strategies and metrics: **what counts as 'good' social impact and outcomes for an ESG strategy?**

## What are other businesses in the UK doing?

Since the term 'ESG' was first introduced in 2005, the focus on this area has been steadily growing in and out of the business community. We know that for FTSE 100 companies these issues are given prominence in their reporting, and more than 90% of S&P500-indexed companies publish ESG reports too. But it's often a feature of large companies and corporations, rather than SME's in the UK.

The Young Foundation conducted a survey of more than 250 businesses from across the UK, to gather their thoughts on social issues in their businesses, and to see if this trend spans business size, industry, and geography. The results demonstrated the rising profile of ESG across the entirety of the business landscape. Some 86% of businesses surveyed agreed that the environment and social governance/corporate responsibility is going to be increasingly important in the next five years, with 73% stating it is a core part of their business strategy.

On their environmental responsibilities, 78% agreed businesses must help tackle climate change above and beyond the direct impact of their own operations, and 80% agreed they have a responsibility toward the health and wellbeing of the community/locations in which they are working.

Community involvement is good for business. We hear more and more that employees, and in particular millennials, prefer companies who give back to their community. In our survey, 79% of businesses agreed their organisation understands the needs and priorities of the communities in which they work, and 77% say they understand what would have greatest impact for those communities.

When asked to think about all their activities and operations for creating social value, the majority stated they did this through investing in staff health and wellbeing initiatives (66%), providing secure, fairly-paid work (62%), and delivering or participating in training, mentoring and internship programmes designed to increase the diversity of the recruitment pipeline (54%). Employee volunteering (46%), charitable fundraising (45%) and strategic partnerships with public, education or health sectors (42%) were also popular with businesses.

Only 32% said they invested in and/or contracted with businesses who can demonstrate strong social impact and value, which demonstrates a potentially huge untapped area for delivering social impact. By bringing social value into decisions on procurement, businesses can directly contribute to positive social, economic and environmental impact while also supporting a shift in behaviour in the market to a longer-term system change, focused on positive impact.

More than half the businesses surveyed enabled staff to give money to charity through payroll giving (54%), and the opportunity for staff to take volunteering days (58%). This is a similar trend with the FTSE 100 companies, where donations and staff volunteering were the most common ways of contributing towards social initiatives.

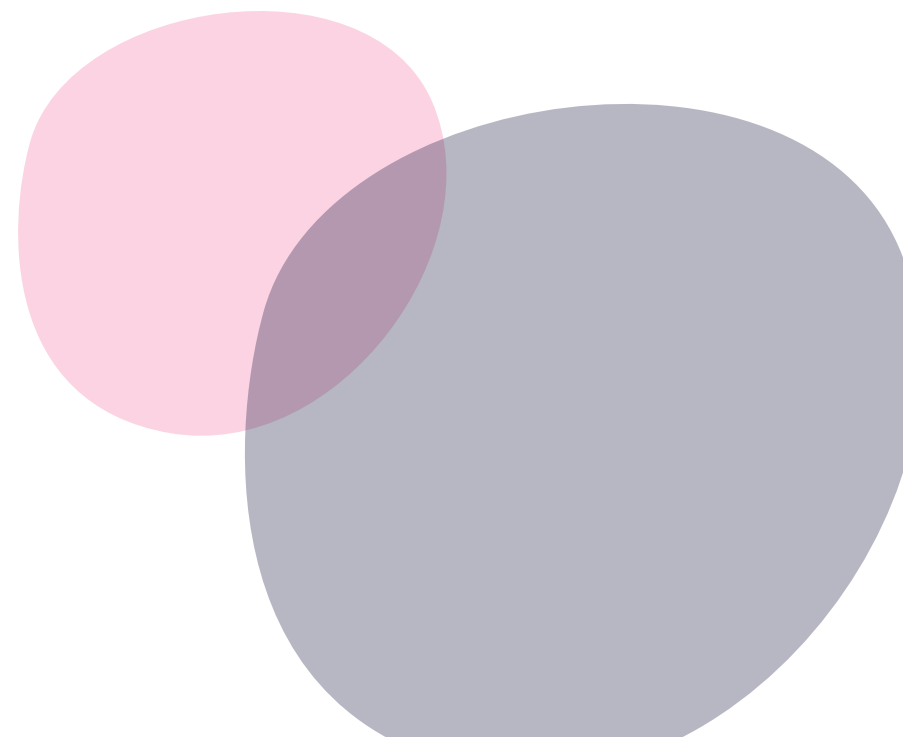
## Scope for social change?

There are countless reasons an organisation should care about its social impact. Aside from the moral argument, and the critical need for businesses to be more engaged in issues the public, charitable, and philanthropic sectors cannot solve alone, greater transparency on social measures and positive action is good for business - and many social disclosures are soon to be mandatory for businesses via regulation. There is an increasing trend in which customers and employees prefer businesses that care about social and environmental issues.<sup>23</sup> A Gen Z and Millennial survey from Deloitte showed that two fifths of these generations would turn down jobs from organisations that don't align with their values, and those who are satisfied with their employers' societal and environmental impact are more likely to stay with their employer for more than five years.<sup>24</sup>

But the scope of the 'social' dimension of ESG is vast and there is currently no real 'clustering', of different social impact activities, that can both bring all those activities into a coherent whole or plot a manageable pathway for a company seeking to progress their social impact over time.

One way of addressing this would be to adapt the notions of 'scope one, scope two, scope three' green-house gas emission indicators that dominate the 'E' of ESG strategies towards net zero. In this model, scope one relates to the GHG emissions made directly by a company; scope two relates to indirect emissions, such as the energy it buys to heat or cool their building; and scope three relates to all the emissions the company is indirectly responsible for, such as the goods and services it procures from others, and the emissions created through customer use of their products. The further out from 'scope one' a business goes in measuring its GHG emissions, the harder it can be to take action, and measure results. To give a sense of that difficulty, only 4% of FTSE 100 companies chose to give headline prominence to their scope three emissions reduction data, compared to 23% of their scope one and two emissions.

The diagram below sets out a possible framework for scoping social impact from one through to four, in a way that both supports and extends our current notions of how to drive social change and impact as a business, and plots the journey toward long-term meaningful collective social impact. A commentary on each scope follows.

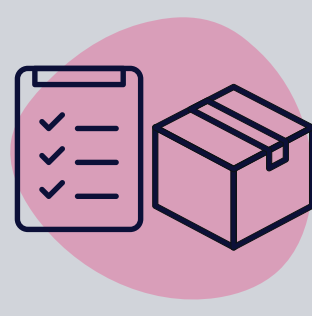




## Scope one

### PEOPLE

Encompassing all measures associated with providing a safe, fair, secure, diverse and well workforce.



## Scope two

### SUPPLIERS

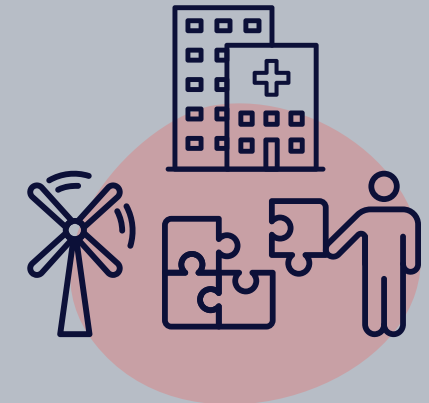
Encompassing all measures associated with enabling a socially responsible and socially impactful supply chain.



## Scope three

### COMMUNITIES

Encompassing all measures associated with meeting the needs and priorities of local and stakeholder communities.



## Scope four

### COLLECTIVE IMPACT

Encompassing all measures associated with meeting community needs and priorities in partnership with other sectors and industries. Where social and environmental outcomes are aligned. Where long-term social outcomes are measured.



## Scope one PEOPLE

### Providing for a safe, fair, secure, diverse and well workforce

The first step for a company to improve its social impact is straightforward; create the right environment, and the right opportunities, for your workforce. In doing so, a company can directly and positively create impact. It is also relatively simple to measure progress in these areas.

#### Why?

There are moral and material reasons for placing a strong social responsibility focus on a company's workforce and as previously discussed, this dimension of social responsibility is what most corporations choose to headline and promote upfront in their annual reports.

Setting targets and measuring diversity has been most prominent, with more bias toward gender than racial diversity. Given all that is known about racial discrimination, the gender pay gap and so on, there is no suggestion by us that this focus be diminished. However, there are well-known additional ways to drive social impact through people in the workforce. Indeed, the TOMs<sup>25</sup> Core National framework, which seeks to attach a robust financial value to social actions by a company (as a requirement for public procurement), is helpful, offering around 20 measures with regard to the workforce. These include recruiting survivors of modern slavery,

people who have been long-term unemployed, those who are disabled, are rehabilitating, or ex-offenders - to name a few. The financial figure a company can attach to this kind of targeted recruitment is very high in relation to other social indicators.

Our survey with a sample of the business community shows that while 80% of businesses have an up-to-date equality, diversity and inclusion policy, only 57% have an action plan of practical steps to improve equality, diversity and inclusion. While 56% published a gender pay gap, only 42% published an ethnic pay gap, mirroring the bias we see amongst the FSTE 100 highlighted indicators. Around half of businesses surveyed have put in offers of support such as mentoring, coaching and leadership programmes for women or minority groups, employee assistance programmes, and mental health support. A higher proportion (around three quarters) of businesses offer flexible working arrangements and reasonable adjustments to retain employees and create a positive organisational culture. And 77% of businesses reported that the take-up of

their employee wellbeing offer has increased over the last 12 months. With challenging conditions - particularly financial - set to continue in the coming year, we will likely see this trend continue to rise.

The joining together of social value creation in the workforce and the transition to net zero was far less in evidence that we had expected in headline reporting in FTSE100 company reports. Despite the National Grid reporting that the UK would need an additional 120,000 green energy sector jobs by 2030<sup>26</sup>, and a net zero transition meaning significant change for 1.3m workers in the UK<sup>27</sup> training and development of the workforce was not given large prominence in FTSE 100 headline reporting. Less than 5% of corporations chose to promote their impact in their reporting headlines and only one company promoted their commitment to tracking the percentage of employees who understood how their job contributed to sustainability goals. Connecting these social and environmental impacts and measures at a workforce level in a much more explicit and consistent way is needed.

#### Recommendation:

Businesses need to take an active role in upskilling their current and future workforce. The shift towards a green economy increases the demand for employees to be reskilled or upskilled to meet the needs of the future. Through upskilling and reskilling initiatives, businesses can invest in a solution that serves their own organisation, their employees, and also the community at large. Apprenticeships, collaborations with online education platforms, and personalised learning opportunities through career portals can enable employees to plan their future and identify missing skills. These initiatives can also serve as an opportunity to make the employment market more just, diverse, and inclusive for low-skilled workers, minorities, and those from low socio-economic backgrounds by removing barriers to entry into skilled roles that have traditionally required degree-level qualifications or vast amounts of previous experience gained through opportunities not accessible to most people.

## Scope two SUPPLIERS

## Enabling a socially responsible and socially impactful supply chain

Scope two has some equivalency to the Scope two for GHG-related emissions, in that it seeks to create positive impact through the purchasing power of a business and, to a degree, its role when acting as a responsible partner in consortia and joint ventures.

### Why?

Social value within procurement is one way of creating benefits for communities, as well as helping drive systemic change toward sustainability within an industry, area, or sector. The Social Value Act, which came into force a decade ago, requires the public sector to ensure the money it spends on services creates the greatest economic, social and environmental value for local communities. The central premise is that the huge amounts of money used in public procurement could be used in a much smarter and more thoughtful way.

While the movement got off to a slow start, the public sector and - in particular - local governments started to lead the way in incorporating social value into commercial activities, which is now gaining momentum across all industries. The ability to make procurement decisions in new ways that take into account the value of contractors paying living wage, using local supply chains, and minimising their risk on the environment, to name a few, can make a big impact in creating a more equal society.

Public bodies now have a mandatory minimum 10% weighting for social value in all procurement, with many local governments going further. In public contracts, margins can be very tight, with little room to manoeuvre on price. A 10% weighting on social value can give purpose-driven organisations the edge over their competitors.

In 2021/22, £379bn was spent by government procurement across the UK – about a third of public sector spending (32%)<sup>28</sup> - but only 21% of this was spent with SME's<sup>29</sup>.

Yet this is not just an area for governments; the average FTSE 100 company spends £4bn on procurement every year, compared to just £10m on Corporate Social Responsibility<sup>30</sup>. There is huge potential to create additional social, environmental and economic impact that can go far beyond outputs achieved through philanthropic means.

The Buy Social Corporate Challenge, led by Social Enterprise UK, helps large businesses engage with a range of innovative suppliers that deliver social value through their core operations. This, in turn, enables social enterprises to grow their revenue and scale, increasing their impact by tapping into corporate purchasing power. The potential is huge. If businesses are spending their money on products and services, they can do this in a way that maximises their positive impact on society.

Several FTSE 100 companies have signed up to the campaign - including AstraZenica,

PwC, and Barclays. A recent report from SEUK shows that participating companies have bought £255m-worth of goods and services from social enterprises between 2016 and 2021.<sup>31</sup> Among the corporate partners that are involved, 95% said the social enterprises deliver comparable or higher quality compared with other suppliers, and 90% agreed they are cost neutral or cheaper than other suppliers.

Social procurement is rapidly rising up the agenda across all professions, and not just within the public sector or forward-thinking organisations. When social-focused organisations are procured, they invest money back into their social or environmental mission, and often employ people facing additional barriers to the labour market. Organisations using their purchasing decisions to actively channel money into social organisations can directly contribute to achieving a fairer and more sustainable economy.

Social enterprises are also more representative of wider society than traditional businesses – with more led by women and people from racialised communities – and they will often involve communities and beneficiaries in their decision-making. They can act as crucial connectors between communities and the business world.

The extensive work The Young Foundation has undertaken to build collaborations and partnerships between social enterprises and larger businesses is long-standing; underpinned by a belief that social purpose



and business practice are compatible and can drive economic, environmental and social outcomes – particularly for people who have been historically placed at deep disadvantage. And the UK has developed a strong infrastructure for supporting mission-led businesses and social enterprises, comprising grant- and seed-funding, incubation, acceleration and scale-up support, as well as a healthy flow of social finance to support it. There are now around 100,000 social enterprises in the UK, contributing £60bn to the economy and employing around two million people.<sup>32</sup> The number of mission-led businesses generating social impact, but still distributing profits could be far higher. Smaller scale, but an energising development, has been the rise of community-owned businesses. There are currently 840 community-owned businesses in the UK, a growth of 3% in 2021, despite the pandemic. Easy to dismiss, the survival rates of community businesses speak for themselves: The survival rate for community-owned shops is 92%, and for community-owned pubs it is 99%. Set this against the average UK small- and medium-sized enterprise having a five-year survival rate of 44%<sup>33</sup> and it's clear we should be paying more attention to why these statistics read as they do.

Despite all this, our analysis shows that less than 10% of FTSE 100 companies reference supporting social enterprise in their 2021 annual reports.

Schroders has established a new partnership in the UK with the Social Business Trust, which works with social enterprises addressing social challenges, such as education disadvantage, employability, and elderly care.

The Lloyds Bank Social Entrepreneurs programme is run in partnership with School for Social Entrepreneurs. The programme provides both financial support (grants up to £10,000) and access to a comprehensive

learning support programme including a business mentoring scheme. The programme, which was jointly funded by The Big Lottery Fund, has supported more than 1,300 social entrepreneurs to start and scale innovative social organisations across the UK, creating 7,000 jobs and reaching over 1m beneficiaries.

Next has a long-standing partnership with Doncaster Refurnish, a social enterprise charity located near their main warehouses. It aims to help the local community by creating sustainable employment and training opportunities. Through Next's donation of safe but unsellable or damaged furniture and home accessories, Refurnish generates funding by converting items for reuse and sale. This funding provides much-needed services in the community, with the additional benefit of diverting tonnes of product from landfill.

BAE Systems focuses its support in the communities in which they have a presence, such as Barrow-in-Furness. They are supporting the development of a university campus (The Learning Quarter), in partnership with the University of Cumbria and Furness College; and the establishment of Community Resilience Hubs in the most disadvantaged areas of the town, contributing £1m over the next three years.

Social enterprises prove it is possible to balance addressing the needs of society with a sustainable income stream, and there is much for industry to learn from them as they move towards more inclusive business models and sustainable development. Over the last three years, and with support from the Cabinet Office, The Young Foundation has brokered more than 200 partnerships between social enterprises, mission-led businesses and large businesses and corporations, creating social impact in three core areas: mental health; helping young people into work; and financial inclusion.

## Recommendations:

### Support sustained social impact through the procurement of social- and mission-led enterprises by corporates and larger businesses.

There is no doubt that supporting charities and the VCSE sector is a necessary and critical thing, particularly given some of the crises we have experienced over the last three years. However, a transformation towards a more socially responsible economy is needed. Encouraging, and investing in, social businesses and enterprises should be part and parcel of any procurement policy for a large business or corporation.

### Companies who are procured and commissioned on the basis of their social value contribution should report on the outcomes of that work, not just the financial value of the contribution.

Measuring social value at the point of procurement is not the same as measuring social outcomes. Whether job creation for marginalised groups or support for the VCSE sector or social innovation to tackle the climate emergency, businesses should be clear on the sustained value creation of those endeavours and report their progress against them.





## Scope three COMMUNITIES

## Meeting the needs and priorities of local and stakeholder communities

Where community needs and priorities are understood and a company's action is taken to align their social activities to those needs.

### Why?

'Scope three' for social impact seeks to bring a number of disparate social actions and indicators together. Through centring the local community in determining 'what matters?' the company can align both their business activities (where possible and relevant) and direct their employee volunteering and charitable giving towards areas of greater need and impact. This was strongly in evidence when viewing FTSE 100 annual reports and how they directed their giving, fundraising, in-kind donations, and volunteering towards supporting people and communities through the Covid-19 pandemic. While little is known about the aggregate contribution of business effort through the pandemic, the coherent response to meeting one core local need was very clear.

The Institute for Community Studies at The Young Foundation conducted a vast exercise in understanding the needs of communities across the UK in 2019, resulting in a 'Top 10' list of priorities, as determined by communities themselves. This prioritisation put 'safety' as the number one priority in five regions across the UK, and in the top five of all regions. While, in hindsight, we could rationalise why this might (even pre-pandemic) feature so strongly, it was a surprise result. This was a powerful reminder that asking our communities what they care about is valuable; challenging assumptions and company bias about what a stakeholder community cares about. Thus enabling a business to bend efforts and resources to where they can have most tangible impact - alongside building trust with communities who are so often cited as 'key stakeholders' for larger businesses. Engaging with communities not only provides benefits and opportunities to community members, but can improve a company's insight, legitimacy, and competitiveness by gathering local knowledge and boosting recruitment.

Section 172 of Companies Act (2006) states that a director of a company has a duty to promote the success of the company and, in doing so, have regard to (among other matters) the impact of the company's operations on the community and the environment. How do corporations define community and how do they engage?

As an organisation working to support stronger communities across the UK, The Young Foundation is no stranger to the question 'what do we mean by community?'. Looking at our 100 FTSE companies, we see that 'the community' is cited as a stakeholder in 76% of cases. Where it is not, we often see substitutes such as 'society'. Very few organisations make no mention of community, outside their 'investor community' in their annual reports. In our engagement with non-listed, smaller businesses, 79% agreed their business understands the needs and priorities of the communities in which they work and 77% agreed they understand what would have greatest impact for those communities.



## Aligning purpose and community

Packaging company, DS Smith has a goal to lead the way in sustainability. This guides its community programmes and charitable foundation, which supports local and larger initiatives - from sponsoring local educational projects to making donations to environmental and education-focused charities. Some 100 per cent of their in-scope sites contributed to their communities throughout 2021/22, with engagement focused on their Community Programme themes of circular economy education and biodiversity. Examples include engaging young people on the International Day of Education and improving local environments on World Clean-up Day.

## How is 'community' described?

Definitions of 'stakeholders' are broadening, and businesses are reacting to this with 76% listing the 'community' as a stakeholder - but only 37% articulating what 'community' means to them. Where communities are described as stakeholders, the 'community' is often described geographically. For example, Land Securities describe their community stakeholders as 'those who live in areas where we work or where we have assets. For example, local residents, businesses, schools and charities.'<sup>34</sup> Mondi are clear focusing their 'community engagement, investments and initiatives on people who live adjacent to our operations, on or around our landholdings and within our zone of influence'.

Although the words tend to change, the spirit of this meaning of community is common among many other companies. The Ashtead group includes another community stakeholder; the families of employees.

It is distinctive in this regard, stating that 'Supporting the families of our staff is just the right thing to do.'<sup>35</sup> Some companies are very clear on who they are engaging with in communities, and have a long-standing interest in supporting particular groups or social issues, as we might also expect. For example, Howden's Joinery is in the 17th year of partnership with Leonard Cheshire to support disabled young people find jobs<sup>36</sup>.

But community is not 'the community at large' for most large corporations. It is a social group or social issue on which the company wishes to focus. Results are dominated by describing outputs not impact. There is clear focus on particular issues (STEM, education, etc) but very little stated connection with other actors in a place or wider collaboration on a stated social outcome.



## What kind of community engagement?

Around half of FTSE 100 companies are clear on their engagement strategies with local communities. For example, Mondi explain they 'use a wide variety of stakeholder engagement tools the outcomes of which inform our community development programmes, social investments, initiatives and community forums'.<sup>37</sup> As one might expect, those sectors that have significant impact on local physical environment and communities (eg construction, retail estate, mining, etc) often describe their engagement strategies in more depth.

It was rare to encounter a listed company that was not engaged with some form of financial and non-financial giving to local communities who had been identified as stakeholders; sometimes through corporate foundations. Employee volunteering was cited in around half of FTSE 100 companies; financial donations or giving to charities in 44%; and 22% set out their non-financial giving, such as meals, laptops, PPE etc.



## Measuring business social impact in a place or community

Companies both large and small are well versed in tracking the outputs in relation to their 'community stakeholders'. Counting volunteering hours or days, the financial value or in-kind donations - or philanthropic or charitable giving - is a relatively straightforward (if often labour-intensive) process. Businesses seeking to attach a financial figure to the social value they create has been helpfully incentivised through public procurement and the Social Value Act. Platforms such as TOMS (Themes, Outcomes, Measures) have been successful and helpful, to a degree, in enabling this financial figure to be determined at the point of procurement.

However, we should be clear that this is not the same as measuring social impact; nor it is an entirely reliable proxy for impact. And while many charities and social sector organisations still rely on output numbers to indicate the scale of their activities, focusing on outputs over outcomes is much more broadly recognised as an incomplete and potentially distorting way of understanding the social impact an organisation is having.

This raises questions in relation to how a company can understand and measure social outcomes, not outputs, in relation to their work with communities. And secondly, how are those outcomes understood in relation to the many other interventions and activities that are prevalent across different parts of the private, civic, and public sectors? This is explored in "Scope 4" and is particularly timely and relevant as 'place' and 'community' are increasingly used as a lens for co-ordinating lots of different organisations to tackle inequalities of different kinds.

Research carried out by Boston College found that while 92% of Fortune 500 companies have a dedicated Employee Volunteering and Giving Programme (EVGPs), the vast majority of companies programmes are not structured for high impact on society or the company.<sup>38</sup> The report identified Drivers of Effectiveness for EVGPs including cause effective configuration, strategic business positioning, sufficient investment, culture of engagement, strong participation and actionable evaluation. Most organisations scored fairly low against these drivers, which is not surprising as benchmarking for volunteering programmes and effective measurement had not been adopted and, for many organisations, volunteering programmes are seen as a prerequisite rather than a strategic business function or solution to social sector issues. That's not to say they are not having impact on people, communities, and companies - just that there is, potentially, a much larger pool of untapped potential that, if worked up with communities at the heart, could lead to more meaningful impacts for all involved.

One often ignored input into understanding the outcomes of a company's social efforts is the experiences and opinions of the communities themselves. Just as we have seen that it is beneficial to involve communities in determining priorities to inform business and CSR plans, so too should their voices be considered in evaluating the efficacy of those plans.



## Recommendations:

### Measuring business social impact in a place or community

Stakeholder perspectives in annual reporting Listed companies citing their stakeholder activity (such as communities and suppliers) in shareholder annual reports should produce a public, short, accessible annual report expressly for those different stakeholders. This reporting should incorporate the experiences of stakeholders in both quantitative and qualitative ways – and the headline results referenced in shareholder annual reports. If stakeholder capitalism is to mean anything, accountability to those stakeholders through reporting feels critical.

### Community as a partner, not a beneficiary

In general, and for understandable reasons, there is an overall tendency for corporations to see communities as 'beneficiaries'; as people in need. And, no doubt, there is huge need across the country - particularly in late 2022, as we reel from multiple events impacting the most vulnerable, and increasingly more people, in very negative ways. But a broader movement towards 'community power' – of communities wanting and taking action to improve their neighbourhoods, and increasingly supported by an array of philanthropic funders and campaigners – will be outside the field of vision of most businesses.

Yet there is an increasing number of signals that the classic models of 'consultation', 'public engagement' and 'doing to' communities are increasingly unsatisfying; being distrusted, and undermining of good community relations. As more communities strive to place themselves on a more equitable footing with those organisations who have the power to influence their wellbeing, we see a range of community partnerships. What this means, in straightforward terms, is that the idea of partnering with a community is not only possible but can be productive and positive for all involved. It is not up to a corporation to 'deliver' social outcomes to people and communities but to create the enabling conditions for communities themselves to do so. The Barking Riverside case study shows how communities can partner with major developers to create long-lasting social value in a new development.

## How?

Barking Riverside is an area undergoing massive change. With 10,000 new homes being built alongside a new overground station, it is one of the largest-scale developments underway in Europe. As the area changes, master developers Barking Riverside Ltd, want to understand what residents really want for their community. They commissioned The Young Foundation to help understand resident priorities and regularly monitor and evaluate progress towards these.

Thames Futures began in 2019. Over the course of a year, a team of trained local community researchers spoke to over 400 residents about their hopes for the area. The research created a Community Vision, outlining nine priorities for residents. This Vision is now being used to ensure that decisions made about the development at Barking Riverside have a positive social impact for everyone living, working and growing up in the ward.

So far, Barking Riverside Ltd. has made over 50 project proposals that will help the Community Vision become a reality. In February 2022, a team of researchers went back out into their neighbourhoods to find out how things are shaping up against the Community Vision and to ask what more can be done. This will be repeated every year so that BRL can measure progress and ensure they achieve their targets.

Thames Futures is a pioneering project, creating an important benchmark for how to increase transparency and collaboration in areas experiencing growth and transformation. In 2021, it was winner of the Community-led Placemaking category at the Planning Awards.

## Scope four

### COLLECTIVE IMPACT

## Meeting community needs and priorities in partnership with other sectors and industries

**Encompassing all measures associated in achieving this, where social and environmental outcomes are aligned, and where long term social outcomes are measured.**

Local and combined authorities, the NHS and Integrated Care Partnerships, universities, arts and cultural institutions are all looking to work more closely with their local communities, or (as in the case of the new Integrated Care Systems) have a new remit to support social and economic wellbeing in a place. The Civic University movement has advanced over the last two years, with universities seeking to ensure that - through their workforce, their real estate, their supply chain, faculty and student body - they are benefitting their local community.

This phenomenon of local organisations all seeking to work differently to respond to severe social challenges is indicative of a genuine shift towards shared priorities,

outcomes and deeper collaboration in the places we live, work and love.

Underpinning these shifts, happening across different sectors, lies a fundamental, half-glimpsed truth: that our patterns of organising to meet the bewildering demands of a complex (and somewhat troubled) society are no longer fit for purpose. The needs 'out there' in our communities demand that institutions tend toward collaboration which, if effected in its deepest sense, will ultimately shift not just our ways of working, but our infrastructure, institutions and accountabilities over the longer term.

It is difficult to strategise this kind of collaboration because it is the practice of

working in new ways, and the capability to reflect and learn from that practice that is the core activity; as well as serving to cultivate the necessary leadership competencies to navigate highly complex and changing operating environments in every sector. Scope four, then, refers to the ability for a business not just to understand the needs of local communities and have a plan for how to align those needs to resources of different kinds, but to then work in partnership with other organisations who are seeking the same social outcome. And having the long-term mindset and measurement tools to track their contribution to those social changes over many years.

### Why long-term, and why collective?

While the term 'Levelling up' has had highs and lows as a political project, it is difficult to argue with the central premise that parts of the UK have consistently not benefitted from economic growth, creating areas of high demand on public services and health, and so-called 'left-behind communities'. This challenge - and the associated policy priority to tackle it - is not new. Back in 2001, the government launched its National Strategy for Neighbourhood Renewal with a vision that 'within 10 to 20 years, no-one should be seriously disadvantaged by where they live'. From the Community Development Projects of the 1970s, through the creation of City Action Teams in the 1980s and the Single Regeneration Budget in the 1990s, there has been a vast array of interventions over the last half century, designed to address the needs of left-behind areas across the country. And despite all of these, representing billions of

pounds, we are still wrestling with the same challenges; now intensified by the impacts of the pandemic and a cost-of-living crisis. As some 'Levelling up' funding flows once more across the country to tackle spatial inequalities, we are sadly not in a position to draw evidence-based conclusions about which historic initiatives have favoured or failed the lives they were trying to affect - still less understand this in the context of private sector investments and their business strategies and aggregate charitable contributions of different kinds. What we do know is that more successful initiatives are ones that bring communities closer to the heart of decision-making, priority-setting, and involvement in solutions.

There are clear opportunities for the public, and for the health and charitable sectors, to share key data that can help inform community (of place) strategies. One prominent example of this is the L&G IHE Places Fund [see boxed content]. This approach to cross-sector partnership leans heavily into the work of those in academia, to reveal the nature and scale of health inequalities in communities, using this to inform and target L&G's charitable giving and support new initiatives to directly improve health and equality.

As previously discussed, attaching a financial value to one or many social contributions from a business is a useful device for driving social value, and being able to account for this contribution in a universal way. But when it comes to long-term social impact on a particular issue, or in a specific locality, the social value measurements through systems like TOMS and the Social Value portal take us only so far.

The TOMS (Themes Outcomes Measures) framework has provided a consistent way to attach a financial value to the environmental and social contributions of businesses, which in turn has been incentivised by the use of public procurement and the Social Value Act. The table below shows how the 2022 Core and Non-core TOMS indicators map to our ‘Scope’ framework. This work is rudimentary; however, a number of things are apparent. Crucially, we can see that indicators tend to be most dominant in the area of Scope one – People (i.e. jobs and the workforce). As we have set out earlier, this is a necessary and vital step on the journey towards social value creation. However, there are fewer, more vague, indicators associated with generating deeper impact in communities, particularly on issues we know have profound impacts on people’s lives, such as air pollution, crime, and so on. And (an understandable but highly imperfect) focus on measuring inputs, not outcomes.

The importance of working with communities is evident in a small number of core indicators (eg innovative measures to enable healthier, safer and more resilient communities, these could be co-designed with stakeholders or communities) however, on large scale procurement projects far greater social impact would be achieved if local communities themselves had a role in assessing and priorities the issues that most matter to them, alongside pre-existing public data relating to the inequality and socio-economic measures of a locality. And then using this to direct individual and social efforts toward a genuinely shared goal, measuring our collective contributions against an agreed index.

Headline core and non-core 2022 TOMS indicators, mapped to scope one to four social outcomes

<div>Scope one</div> PEOPLE	<div>CORE</div> <div>Jobs: promote local skills and employment:</div> <div><div><div></div></div><div>Improved employability of young people</div><div>Improved skills</div><div>Improved skills for disadvantaged people</div></div> <div>Growth: supporting growth of responsible regional business:</div> <div><div><div></div></div><div>Improving staff wellbeing and mental health</div><div>Reducing inequalities</div></div> <div>NON-CORE</div> <div>Jobs: promote local skills and employment:</div> <div><div><div></div></div><div>More local people in employment</div><div>Fair work</div><div>More opportunities for disadvantaged people</div><div>Improved skills for disadvantaged people</div><div>Improved skills for a low-carbon transition</div><div>Improved employability of young people</div><div>Retaining jobs and skills during the Covid-19 crisis</div></div> <div>Growth: supporting growth of responsible regional business:</div> <div><div><div></div></div><div>Reducing inequalities</div></div>
<div>Scope two</div> SUPPLIERS	<div>CORE</div> <div>Growth: supporting growth of responsible regional business:</div> <div><div><div></div></div><div>More opportunities for local MSMEs and VCSEs</div><div>Improving staff wellbeing and mental health</div><div>Ethical procurement is promoted</div><div>More opportunities for local MSMEs and VCSEs</div></div> <div>Innovation: promoting social innovation:</div> <div><div><div></div></div><div>Social innovation to create local skills and employment</div><div>Social innovation to support responsible business</div></div> <div>NON-CORE</div> <div>Growth: supporting growth of responsible regional business:</div> <div><div><div></div></div><div>Cyber security risks are reduced</div><div>Social value embedded in the supply chain</div><div>Supporting workers, SMEs and VCSEs to face the Covid-19 crisis</div></div>



<b>Scope three</b> <b>COMMUNITIES</b>	<b>CORE</b>  Social: healthier, safer and more resilient communities: <ul style="list-style-type: none"><li>• Creating a healthier community</li><li>• Vulnerable people are helped to live independently</li><li>• More working with the community</li></ul> Innovation: promoting social innovation: <ul style="list-style-type: none"><li>• Social innovation to enable healthier safer and more resilient communities</li></ul> <b>NON-CORE</b> <ul style="list-style-type: none"><li>• Crime is reduced</li><li>• Creating a healthier community</li><li>• More working with the community</li></ul> Social: healthier, safer and more resilient communities: <ul style="list-style-type: none"><li>• Supporting communities to deal with the Covid-19 crisis</li></ul>
<b>Scope four</b> <b>COLLECTIVE IMPACT</b>	<b>CORE:</b>  Innovation: promoting social innovation:  social innovation to safeguard the environment and respond to the climate emergency

Over the last five years, the social sector has developed indices for measuring the impact of place-based investments. This includes The Young Foundation’s measurement tools, such as the Community Strength Index, the Community Wellbeing Index, London’s Civic Strength Index, as well as developments from other organisations, such as the Community Needs Index, the Thriving Places Index, the Vibrant Economy Index, the London Prosperity Index and the Social Fabric Index. This list is not exhaustive and it is born of a social sector designed to advance our understanding of the relative strength of place-based communities in ways that can transcend and complement well-honed measures, such as gross value added (GVA) and multiple deprivation. These indices all provide ways to track the long-term social impacts in a particular geographic place and, in theory, at least provide a way to plot the collective impact of multiple contributions from across different sectors.

There is clear scope for companies that explicitly focus on ‘supporting the communities in which they operate’ to look at these different indices to both inform the strategic direction of their efforts and track long-term shifts. For example, the Community Wellbeing Index allows a company to enter an office or factory postcode and explore levels of health, equality, trust, education levels and so on, in relation to the national average; thus making clear the priorities that would be most advantageous to that particular community - and the ability to track impact on specific metrics over time.

Recommendation:

**Contribution not attribution: assess the collective impact of contributions to tackling social challenges through the adoption of a common index for community wellbeing across all actors working in a locality.**

Large institutions - such as universities, local councils and combined authorities, integrated care boards, and anchor institutions - are using locality and place as a lens through which to tackle health inequalities, create fair, secure employment, and create sustainable places to live and thrive. Use of a common index of measuring key social outcomes in a locality – and tracking this annually - will give a more meaningful picture of social impact on the people and communities we collectively care about. Too often, organisations seek to attribute their input and activity towards tackling overly large and complex social challenges. While perhaps difficult to shift mindsets, it is likely that the collective contributions of many different actors on a shared challenge will have greater long-term impact, than will shorter term, individualistic actions, designed to prove attribution.

## Case study: Legal & General

### How businesses can help to reduce health inequalities

Health is a critical factor in driving societal and economic wellbeing and will play a vital role in the levelling up agenda. Work to date has examined how government and the NHS can reduce health inequity, but until now no-one has really considered the role of business.

Legal & General aim to change that by playing a leading role in a new mission to help business use its scale and influence to tackle the injustice of health inequity across the UK, partnering with Professor Sir Michael Marmot at University College London; a world expert on health inequity.

They have established a ground-breaking partnership with the UCL Institute of Health Equity to examine how businesses can help to reduce health inequalities. The partnership will lead to a multi-million-pound charitable fund - The Legal & General IHE Places Fund - to examine how improvements to the design and construction of our towns and cities can help to address health inequalities across the UK.

The fund will sit alongside a new Legal & General IHE Network for UK public authorities and businesses to support idea creation, sharing of best practice and insight, and innovation, which can help increase long-term health-span, and reduce health inequalities. The partnership represents a significant step forward as, for the first time, it brings business together with local government and the voluntary and community sector to make a real difference to the conditions in which people are born, grow, live, work, and age, and to health equity.

Legal & General's Group Social Impact and Investment Director, Pete Gladwell, explains: "Health inequality is one of the great injustices in our society, affecting millions of people, and directly relevant to 'levelling up'. Our work with Sir Michael Marmot and the team at IHE is focussed on the role of industry in addressing this injustice. We are encouraging businesses to move beyond ESG to focus on ESHG - such is the importance of health in improving people's lives."

The latest Marmot Review, published by the UCL Institute of Health Equity in partnership with Legal & General, confirms that businesses with a strong social purpose attract and retain the best employees - who increasingly seek more than just a paycheck.

## Case study: University of Northampton

### Embedding 'changemaking' in the student body

The University of Northampton has repositioned itself in the higher education market by embedding 'changemaking' - the process of developing creative solutions to social problems - at the heart of their strategic plan. The University has a long track record of community engagement, which made the new strategy's commitment to social good a natural transition. The nature of building a student experience focused on changemaking also enhances graduates' future employment prospects and consultation with employers indicates the skills associated with changemaking are highly valued within the 21st century labour market.

Changemaking was made a campus wide priority ensuring there was whole university buy in. A bottom-up design process engaging faculty, staff, students, and employers developed a 'Framework of Graduate Attributes' which redesigned the relationship between curriculum and the extra-curricular offer. Meaningful engagement with the attributes within the curriculum became possible by understanding how they can integrate and align with learning outcomes. A COGS learning outcomes toolkit (Changemaker Outcomes for Graduate Success) supports faculty to write assessable learning outcomes that embody changemaker attributes and measure student progression within the subject discipline. The rewriting of learning outcomes across all 305 undergraduate programmes and 1512 modules has provided a unique approach to developing student employability through changemaking.

It is too early to understand the full impacts of this transformational change, this strategy is seen as a 15 to 20 year journey and a natural extension to the existing culture and practice of the university. Yet, there are [positive testimonies](https://www.northampton.ac.uk/student-life/changemaker/changemaker-awards/) from employers and students along with countless examples of students creating meaningful change - <https://www.northampton.ac.uk/student-life/changemaker/changemaker-awards/>

## Beyond scope four - towards a 'just transition'

As COP27 met in Sharm el Sheik in November 2022 the United Nations Environment Programme reported there was no credible pathway to keeping global temperatures below 1.5 degrees, despite legally-binding promises made in Paris in 2015<sup>39</sup>. We know that, in order to tackle existential environmental challenges including climate change, pollution and plummeting biodiversity, nations and businesses need to transition towards greener, more resilient, and climate-neutral economies and societies.

Achieving net zero targets requires fundamental changes in all aspects of daily life over an immediate and yet ambiguous time period. However, there isn't a single route to 'transition'; people face different intersections of advantages and disadvantages in rising to the challenge, and different consequences. The Young Foundation, through the Institute for Community Studies and Ipsos, investigated how this might inform policymaking in the UK and conducted a nationally representative survey of 2,100 seeking to understand the UK public's perceptions of and confidence in achieving net zero targets by 2050.

The results showed that 64% of people are worried that some communities and certain parts of the country will be 'left behind' in the net zero transition. People in regions with greater dependence on high-carbon industries were more sceptical that a just transition will be achieved. There was broad support for wide participation in decisions to reach net zero, with 44% of people calling for local communities to be involved, 57% local government, 57% private business, and 50% individual people.

A recent report<sup>40</sup> from Toynbee Hall points to similar socio-economic challenges that will arise from a transition to net zero without targeted interventions. And our own studies show a high probability that a transition to net zero will exacerbate the 'poverty premium' (that goods and services are more expensive if you are poorer). The prohibitive cost of low or renewable energy products and services, and the likelihood of being left with high-cost legacy technologies, place poorer consumers in a bind that is almost impossible to see a route out of without significant support.

There are also particular challenges for tenants in the private rented or social housing sector, where high tenant churn rates, an inability to make modifications without the landlord, and a fear that such changes might impact rents and service fees, are all felt keenly by lower income households. Poorer households in rural areas reliant on oil-heating (for which there is no energy price cap) and where transitions to different energy supplies are financially out of reach, also risk tipping more people into poverty, through a transition to net zero.

A 'just transition' means achieving a sustainable, net zero society and economy in a way that is as fair and inclusive as possible for everyone, creating decent, secure work opportunities in a green economy, and ensuring poorer people are not disproportionately and negatively impacted. The private sector has a huge role, and an expressed commitment, to transitioning to net zero. As we have seen in previous sections, most listed companies in the FTSE 100 and 250 cite communities as a core stakeholder, and 15% of the FTSE 100 talk explicitly about supporting a 'just transition'.

We have set out the challenges of current ways of enacting, measuring and regulating social aspects of a company's ESG strategy. It is clear that we are on track to a temperature rise of 2.4-2.6 degrees<sup>41</sup> by the end of this century. We know that climate models break down at a local level, making predictions about when and which places will face catastrophic weather events in the nearer term very difficult. Even if we can't imagine what Zurich Insurance's prediction of 2.1 billion people fleeing their homes and countries would look like<sup>42</sup> by 2050, we already know who the first UK climate refugees from rising sea levels will be – and have known this for many years.<sup>43</sup> Domestic climate migration is not one of the top climate topics in the UK, although the redrawing of the UK's coastline will surely engender it.

These are a small sample of the many, many data points and scientific predictions that have been made in relation to the precarity of our planet and ourselves, if we do not act.

Viewed in this way, social and environmental strategies are, necessarily, one and the same. The protection of our planet is the protection of our society.

The combination of high prices of unsustainable goods and services, poorer communities and people being disadvantaged by a transition to net zero and a bias towards environmental over social action in business leads us in one direction: That all social CSR activities must incorporate environmental sustainability, and all environmental sustainability activities must consider their social impact.

But just 15% of the FTSE 100 companies referenced a 'just transition' in their annual reports. That figure needs to be much, much higher if we are to build sustained, equitable partnerships between communities, local government, businesses and education to accelerate change and transition.

M&G stand out as one of the few FTSE 100 companies that recognise and understand the large and complex risks emerging from a transition to a more sustainable planet. They highlight that commitments towards net zero are not enough, with climate being one of many interconnected environmental systems that, if put under too much strain, will have catastrophic economic and social risks. M&G refer to the costs and benefits of a transition to a low-carbon economy being shared fairly between generations, regions, and communities. An example of this is the phasing out of coal from their investments in developed countries.<sup>44</sup>

M&G have committed significant funding to scale up climate innovation ventures and nature-based solutions, and to help transition the energy sector towards renewable sources. This is certainly a welcome investment, along with the growing number of companies reporting reductions in their carbon emissions. However, an area few policymakers, and those leading the way delivering transition strategies, have considered is the potentially negative impacts on people who are already experiencing the greatest disadvantage – as well as the positive opportunities they may benefit from. There must be opportunities for the most deprived and poorest communities to participate in



the UK's shift to net zero, ensuring transition isn't simply another macro policy change that leaves people behind.<sup>45</sup>

This is where businesses need to engage, listen to, and understand the communities in which they operate. SSE were one of the first companies to publish a 'just transition' strategy, setting out 20 principles for a 'just transition' as they switch from an energy company with a high proportion of unabated fossil fuels, to one increasingly dominated by renewable energy growth. They consider

the impact SSE might make on employees, consumers and communities, and how, traditionally, economic growth and innovation have not necessarily been paired with social fairness. An awareness and understanding of these potential injustices allows SSE to mitigate against them with practical actions to support a just transition. For example, through sharing the value of renewable projects with local communities via 46 community benefit funds across the UK, providing expected payments of £250m to 2050.<sup>46</sup>

## Recommendation:

### Use the lens of a 'just transition'.

Companies should assess the **vulnerabilities** in their communities in relation to their plans to transition to net zero, targeting their social, community support towards these households and groups.

## Conclusion

Whether an enthusiastic supporter or a hardened cynic of business's role in driving social and environmental change, there is no denying its incredible power to effect change on all our lives and there is little point other sectors talking of systems change (as so many are) without deeper engagement with the private sector. It is our view that centring the needs, capabilities and priorities of community stakeholders forms the foundation of a much deeper and sustained route to driving social impact and value for today's business, and for all those collaborating and partnering with business. Our communities are neither passive recipients nor helpless beneficiaries but active agents for change in their own lives and communities - given half the chance. Supporting social impact and change starts in the social realm.

This report holds that conceptualising social impact through the "Scope 1 – 4" prototype framework provides an opportunity to unpack and organise the muddle of social indicators into a pathway for expanding the social purpose and social value of a business. Crucially, in a way which ultimately recognises that it is collaboration with others or conscious alignment on shared a social purpose, that is most likely to garner success.



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