Environmental Audit Committee

The Environmental Audit Committee is appointed by the House of Commons to consider to what extent the policies and programmes of government departments and non-departmental public bodies contribute to environmental protection and sustainable development; to audit their performance against such targets as may be set for them by Her Majesty’s Ministers; and to report thereon to the House.

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The following members were also members of the Committee during the parliament:

Holly Lynch MP (Labour, Halifax), Jeff Smith MP (Labour, Manchester, Withington)

Powers

The constitution and powers are set out in House of Commons Standing Orders, principally in SO No 152A. These are available online at www.parliament.uk.

Publication

Committee reports are published on the Committee’s website at www.parliament.uk/eacon and by The Stationery Office by Order of the House. Evidence relating to this report is published on the inquiry page of the Committee’s website.

Committee staff

The current staff of the Committee are David Slater (Clerk), Carl Baker (Second Clerk), Tom Leveridge (Senior Committee Specialist), Stanley Kwong (Committee Specialist), Talia Dundoo (Committee Researcher), Ameet Chudasama (Senior Committee Assistant), Baris Tufekci (Committee Assistant), and Nicholas Davies (Media Officer).

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Summary

In this report we examine the Government’s plans to move the Green Investment Bank (GIB) into the private sector. We have focussed our attention on three areas: the process surrounding the decision, the actions required to ensure GIB’s unique position in the green economy, and the Government’s future involvement in the Bank.

Whilst we recognise there are potential benefits resulting from an injection of capital, we found that the Government has taken the decision to privatise GIB without due transparency, publication of relevant evidence, consultation, or proper consideration of alternatives. The absence of these steps is likely to lead to the suspicion that the move and its timing are not evidence-based policy. Before proceeding with the sale, the Government must publish a business case and all impact assessments related to the sale. The Government should provide an evaluation of whether a “phased approach” involving alternative recapitalisation options would be possible. This could allow for greater consultation, transparency and market testing on the form of any eventual privatisation.

The retention of GIB’s green identity should be the most important objective of any sale, and if the protection of the green purposes cannot be ensured then the sale should not go ahead. We do not believe that the Government’s two proposed protections of this identity, relying on the commercial case for retaining GIB’s green purposes and assurances sought from potential shareholders, are robust enough to protect GIB’s green purposes. We recommend that the Government adopts proposals to establish a special share, owned in a way that does not compromise re-classification to the private sector, to protect the green purposes.

However, two key risks to GIB cannot be avoided merely by protecting its green purposes: first, the risk that GIB will move its focus away from novel and complex projects which struggle to find funding in favour of easier and less complex projects, and second, the risk that a privatised GIB could invest in areas which may damage its reputation and undermine its role and leadership in the green economy. The green purposes of GIB must, therefore, not only be protected—they must be strengthened. If the Government goes ahead with privatisation, we recommend that in establishing a special share to protect GIB’s green purposes, it should examine and report on the possibility of using this share’s remit to protect GIB’s wider green identity and role in the green economy. If the Government does not go ahead with privatisation, we reiterate our predecessor Committee’s recommendation that it should have borrowing powers.

Finally, if the Government is to go ahead with privatisation then GIB should be sold as a going concern. We welcome the Government’s commitment to this goal. However, we also recommend that the Government should retain a minority stake in the Bank in order to demonstrate its commitment to the green economy and to ensure the Bank’s long-term strength.
1 Introduction

1. The Green Investment Bank (GIB) began operation in 2012 as a Government-owned institution to support investment in green infrastructure, to mobilise private-sector capital, and to support viable projects which have difficulty obtaining funding. Since 2012 it has invested £2.3bn of public money into 60 projects with a total value of over £10bn.

2. GIB invests on a commercial basis, primarily in areas such as non-domestic energy efficiency, waste, and offshore wind. Each project must make a contribution to one of GIB’s five green purposes, which are set out in the Enterprise and Regulatory Reform Act 2013:

- the reduction of greenhouse gas emissions
- the advancement of efficiency in the use of natural resources
- the protection or enhancement of the natural environment
- the protection or enhancement of biodiversity
- the promotion of environmental sustainability.

Each project must provide market-based commercial returns in line with the project’s risk - GIB does not offer low cost finance or grants. Shaun Kingsbury, CEO of GIB, explains this as follows:

We wanted to invest in those difficult projects but always on commercial rates of return, so we always looked to get more returns, higher returns, rather than lower returns for taking higher risk. Why did we do that? The key to building out the clean green infrastructure that the country needs is private capital. We are never going to solve this with Government money solely; it has to be private capital. Private capital will not invest in this sector because it thinks it is green or it suddenly decides that that would be an interesting place. It will put it there because there are great risk-adjusted returns.

GIB aims to mobilise private sector capital by crowding-in additional finance to the green economy. The terms of its State Aid approval require that it not displace other investors and that its investments are in projects which would not have been funded without GIB’s investment. These terms also restrict the sectors in which GIB may operate.

3. In June 2015 the Government announced its intention to move GIB into the private sector, claiming that this would give it access to a greater volume of capital and freedom to operate across a wider range of green sectors. As part of the privatisation announcement, the Government said it intended to retain the green purposes of the Bank contained in the Enterprise and Regulatory Reform Act. In October 2015, however, the Government announced (based on advice from the Office for National Statistics and others) that the

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1 Green Investment Bank, What We Do; House of Commons Library Briefing Paper 5977, The Green Investment Bank
2 Green Investment Bank, Summary of Transactions, 10 Dec 2015
3 Enterprise and Regulatory Reform Act, Part 1, [Bill 24, 2013]
4 Oral evidence, 28 October 2015 (Q1)
public sector controls in this Act had to be repealed in order for GIB to be re-classified as a private sector organisation, which was one of the Government’s key objectives for the sale. Legislation to achieve this was introduced as part of the *Enterprise Bill [Lords] 2015*.  

4. Our aim in this inquiry was to investigate (a) whether the proposed privatisation would deliver the benefits claimed by the Government, and (b) whether the move posed a risk to the purpose, identity or performance of GIB. We issued a short call for written evidence and received 10 submissions. We held two public evidence sessions, hearing from representatives of the Green Investment Bank, E3G and Policy Exchange, and from Rt Hon Anna Soubry MP (Minister of State for Small Business, Industry and Enterprise) and Richard Callard (GIB Shareholder Team, Department for Business, Innovation and Skills). We thank all who gave evidence to the inquiry for their time.
2 The Government and GIB’s case for privatisation

5. The Government and the Green Investment Bank (GIB) agree on two main benefits from allowing private capital to invest in the Bank: first, that it will increase the volume of capital available to the Bank and fuel its growth, and second, that it will free the Bank from the restrictions associated with its State Aid approval. The Government’s policy paper also states:

The company also needs certainty about its future funding. The most effective way to secure this is to attract private capital into the company enabling it to access a much larger pool of capital from a wider range of sources than it would in Government ownership and removing the uncertainty attached to its current funding arrangements which are dependent on the spending decisions and limitations of government and state aid permissions.

Echoing this, GIB also indicated that uncertainty about future Government support was a “key part” of their support for privatisation.

6. GIB told us that they did not mind whether the Government sells off a minority or a majority of its share in the Bank. Since any element of private capital would remove State Aid restrictions, they said, even a minority private share would achieve the Bank’s main aims. However, the Government aims to reclassify GIB to the private sector so that any debt it takes on will not contribute to public sector net debt, and as a consequence it regards selling a majority share as a necessary step. A Written Ministerial Statement on 25 June 2015 stated:

It has always been our intention that GIB should leverage the maximum amount of private capital into green sectors for the minimum amount of public money. Moving the company into private ownership is a natural development for GIB that further delivers this aim. Our aim is that a transaction should result in GIB no longer being classified as a public sector body. This would mean GIB would be free to borrow capital so as to achieve its business ambitions without this having an effect on public sector net debt.

Even if privatised soon, however, GIB told us that they do not expect to borrow until 2018–19.

7. More broadly, GIB argue that the loosening of restrictions that would accompany privatisation could be beneficial to the wider market - that when GIB can invest in any project which is both green and profitable, this will ensure competition and drive down the cost of finance for new projects.
8. Some of the above arguments were echoed by external organisations. The Renewable Energy Association, for instance, told us that they recognised the potential benefits of privatisation:

The current restrictions on the Bank’s ability to borrow, despite the attractive interest rates available to it, has limited the scope and number of projects the Bank has been able to support. Limits on the Bank’s ability to borrow have been a political decision to ensure that the GIB does not contribute to the UK’s economic deficit. Therefore, privatisation will achieve the short term aim of relaxing the borrowing restrictions and removing it from the public balance sheet, while also simultaneously reducing concerns about infringements on European State Aid rules.\(^{17}\)

9. On the other hand, E3G told us:

The need for a publicly-backed GIB continues. The UK must deliver around £750bn in new low carbon infrastructure and supply chain investment by 2025; there is significant appetite among institutional investors for low carbon investment opportunities; and there continue to be market-failures which stand in the way of achieving the scale of private investment required to meet our infrastructure needs. There is therefore a continued need for these market failures to be addressed in order to deliver Britain’s low carbon future at least cost and with maximum impact.\(^{18}\)

10. We accept in principle that increasing the volume of capital available to the Bank could be positive for its operations. The ability to borrow will also be important for GIB in the future. Our predecessor Committee called repeatedly for GIB to be given borrowing powers while in public ownership. Nonetheless, these potential benefits do not amount to a case for privatisation. The Government needs to demonstrate how the privatisation of the Bank will contribute to the balance of public and private sector initiatives required to meet the ambitions of the Paris climate change agreement. Accordingly, we have not assessed the underlying case for privatisation. Rather, we have focussed our attention and recommendations on the process surrounding the decision, the actions required to ensure GIB’s unique position in the green economy, and the Government’s future involvement in the Bank.

\(^{17}\) Written evidence, Renewable Energy Association. See also Written evidence, Carbon Capture and Storage Association.

\(^{18}\) Written evidence, E3G
3 Evidence, consultation and alternatives

Evidence and Consultation

11. The Government announced its intention to privatise the Green Investment Bank through a short Written Ministerial Statement in June.\textsuperscript{19} Almost four months later, in October, the Government (again in a Written Ministerial Statement) announced that the public sector controls on GIB had to be repealed in order to meet the Government’s objective of moving GIB into the private sector.\textsuperscript{20} Finally, in November, the Government published a 23-page policy paper setting out the GIB’s history, the Government’s plans to privatise, and the mechanics of re-classifying GIB to the private sector.\textsuperscript{21} To date, this constitutes the entirety of the Government’s published output relating to the proposed privatisation. In addition, the Government has provided information about the privatisation in a letter responding to questions we asked after our evidence session with the Minister. This is published on our website.

12. A key concern around the privatisation process has been the standard of evidence used to (a) support the need for and timing of privatisation and (b) evaluate its potential impact. E3G told us that they did not regard the evidence base for the Government’s sale of GIB to be sufficiently robust:

The Government has failed to make a compelling case explaining the rationale behind, or consequences of, its decision to sell a majority share of the GIB. Its positions on GIB recapitalisation, state aid, balance sheet treatment, crowding out private investors and security of original purposes are ambiguous, at times conflicting, and made without reference to evidence. There has not been any consultation on these plans or alternative options.\textsuperscript{22}

They suggest that the Government should detail and publish all impact assessments and environmental impact assessments produced in support of the sale, as well as estimates of the impact of GIB’s privatisation on the costs needed to meet the necessary long-term investment in the green economy.\textsuperscript{23}

13. In addition to concerns about the evidence base for the sale, we have been told that the Government’s approach to consultation and transparency around the sale have been poor. WWF-UK said:

The process towards privatisation has not so far been conducted in a sufficiently transparent and consultative way. It seems to be progressing unnecessarily quickly and quietly, with little information being available about the ramifications. More time and information is needed to appraise it properly.\textsuperscript{24}

\textsuperscript{19} Green Investment Bank, HCWS554, 25 June 2015
\textsuperscript{20} UK Green Investment Bank, HCWS239, 15 October 2015
\textsuperscript{21} Future of UK Green Investment Bank plc, BIS, November 2015.
\textsuperscript{22} Written evidence, E3G
\textsuperscript{23} Written evidence, E3G
\textsuperscript{24} Written evidence, WWF-UK
E3G also pointed out the contrast between the extensive consultation carried out before the inception of GIB (as evidenced, for example, by the Green Investment Bank commission and its report\textsuperscript{25}), and the apparent lack of external consultation preceding the privatisation announcement:

Plans to privatise the GIB did not appear in the Conservative Party manifesto and there has not been any consultation with Parliament, industry, civil society or the Devolved Administrations in advance of this change. It is very surprising that an institution born of very detailed and rigorous consultation, evidence gathering and market testing which carries a broad consensus across political parties, civil society and industry, could be fundamentally changed without wider consideration and consultation.\textsuperscript{26}

E3G suggested that Government should take time to consult widely before taking plans for privatisation forward.

14. We asked the Minister what consultation was done externally before the announcement to privatise was made. She only pointed to a conversation with the Chair of the Bank:

For my part, one of the most important conversations I had was with Lord Smith. I will be very blunt about that. For me to have that conversation about his views helped me to settle it in my mind. I was very open-minded on this. As I said, I am not an ideologue who just goes charging off thinking I want to sell everything off and privatise and so on. I wanted to listen to all the arguments and when he was as convinced as he was, I listened to somebody who knows arguably a lot more about it than I do.\textsuperscript{27}

The timing of privatisation

15. The need for robust evidence to support Government sales and their timing has recently been reiterated by the Comptroller & Auditor General of the National Audit Office who, when commenting on the sale of Eurostar, said:

This case illustrates some general lessons for government as it embarks on an unprecedented asset sales programme forecast to exceed £62bn over this Parliament. These lessons include: the need for detailed business cases in support of the decision to sell; objective and robust valuations to decide if, and when, to sell; and getting good value from advisers.\textsuperscript{28}

The Government says that they have followed this best practice, prepared a full business case, and have consulted with the NAO about their approach.\textsuperscript{29}

16. The Government claims that the time is right to privatise GIB, claiming that this is a “natural next step” for the Bank.\textsuperscript{30} We invited the Minister to respond to one potential concern about the timing of the sale, namely that it may be too early to obtain value for

\begin{footnotesize}
\begin{enumerate}
\item Unlocking investment to deliver Britain’s low carbon future, The Green Investment Bank Commission, 2010
\item Written evidence, E3G
\item Oral evidence, 26 November 2015 (Q134)
\item NAO, The Sale of Eurostar, 6 November 2015
\item Written evidence, Letter from Rt Hon Anna Soubry MP
\item Future of UK Green Investment Bank plc, BIS, November 2015.
\end{enumerate}
\end{footnotesize}
money in a sale, since GIB only turned its first modest profit (£0.1m) in 2014/15. Her response reflected the Government’s approach found in its policy paper and elsewhere:

That is an argument that some may wish to make. I would not subscribe to it. I think it is the right time to do it. It is going to take a little time. We have the legislation to put through and so on, but I think it is the right time to do it. The market is in a good place and clearly people are interested, so let’s get on with it and do it.31

17. We received evidence on both sides of the argument about the timing of the move. Ingrid Holmes (Director, E3G) stated that an early sale risked a sub-optimal outcome:

I know how long deals take to put together. They take time. This is a fantastic institution with real value and we do need to pause it now. We need to create some time and space for a conversation about how we can achieve the Government’s objectives. That will require some strong leadership in saying there is a plan. […] . Rushing now is just going to get us not necessarily to the place we want to, either from the GIB’s perspective or from the public’s.32

18. On the other hand, Richard Howard (Head of Environment and Energy, Policy Exchange) noted that the urgent need for a new financial commitment weighed in favour of the timing. He said that while the Bank was not mature enough for the move to have happened sooner, the Bank needed to know where its capital for the near future is coming from.33

19. In a similar spirit, Shaun Kingsbury (CEO of GIB) argued that this was a “Goldilocks moment” for privatisation:

There is a lot of infrastructure interest in the UK in particular. We see a lot of activity around when there are assets for sale, whether those be airports or water companies or those types of things. Having built the track record we have that is emerging in the projected returns, we think there is a lot of interest and now is a great time to do this and I would urge people to get on with it, frankly. You want to go fishing when the fish are biting and that is my assessment of the market at the moment. So I think just right, we need to get on with it. I do not think it has been unduly delayed or unduly hurried.34

**Options for recapitalising the Bank**

20. There has been no discussion of alternatives to privatisation or alternative ways of recapitalising the Bank in the Government’s published information relating to its plans for GIB. The evidence we have received from other organisations suggested there was a range of viable options for widening the Bank’s capital and ownership. Richard Howard told us:

[T]here are lots of potential pots of money that we could be looking at. It is not a case that the only option here is to put the money fully into private hands. I

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31 Oral evidence, 26 November 2015 (Q127)
32 Oral evidence, 28 October 2015 (Q81)
33 Oral evidence, 28 October 2015 (Q80)
34 Oral evidence, 28 October 2015 (Q38)
think there are lots of shades of grey between where we are and that position and it could be about other public bodies investing or other European sources of funds. There are all sorts of possibilities that could be looked at further, but I do not think we need to paint this as black and white. [...] there are lots of grey areas on a sliding scale from where we are to a full privatisation with no Government involvement. If you take baby steps from where we are and say, “What if we had some other public sector investors, some other private sector investors?” whether that is insurance funds, pension funds, infrastructure funds, I think that would be a helpful addition.  

21. The Aldersgate Group and E3G drew our attention to the possibility of citizen finance through GIB ‘green ISAs’:

Issuing GIB ISAs could make green infrastructure projects cheaper to finance, whilst helping to diversify the GIB’s sources of capital. In Germany for instance, citizen finance has enabled the financing of green infrastructure projects at a cost of finance of up to 3 percentage points less than what would have been the case if these projects had been funded by more traditional investors.  

Given the capital intensive nature of most low carbon investments, scaling up citizen finance has potential to make the delivery of large scale infrastructure more affordable, while democratising the gains from investments.

22. The Aldersgate Group also suggested that GIB might be able to access funds from the European Fund for Strategic Investments:

In the near term, the GIB could also look at accessing funds under the European Fund for Strategic Investment[s] (EFSI), which consists of €21bn in public financing and aims to mobilise at least €315bn of investment in infrastructure. We understand that all government contributions to the EFSI will be categorised as off balance sheet and that whilst the UK has made £6bn of UK guarantees available to match fund EFSI infrastructure projects in the UK, there is currently no effective intermediary within the UK to help British projects access these funds.

When we asked the Minister about the option of financing via the EFSI, she said that it is “primarily debt focused at a time when GIB is increasingly investing equity into construction projects, and could not be used for investing in GIB itself.” Nevertheless, she said that GIB could potentially use the fund either in private or public ownership.

23. Three other options suggested to us were devolved shareholding, direct equity investment from the European Investment Bank, and investment by the Environment Agency Pension Fund. E3G suggests how these various options may add up to a coherent “phased approach”:

In 2016/17, the GIB should be focused on accessing the European Fund for Strategic Investment (EFSI) for British Infrastructure projects while exploring
different models of recapitalisation that are a good fit with continuing to deliver on the Bank’s original aim and purpose. These could include investment by UK pension funds and green ISAs, EIB investment amongst others. In this way there could be a phased approach to recapitalisation.\textsuperscript{40}

Richard Howard provided a similar description:

Imagine a set-up where we have UK pension funds investing in it, local authorities investing in it, maybe the public investing in it, having a much more pluralised investment in this vehicle.\textsuperscript{41}

24. When we asked the Minister what alternatives the Government had considered, she said:

It happens like this. You think this would be a good thing to do; can we now go through the pitfalls, the things that are against it, the difficulties and so on. So you start with an idea and then you make sure that that actually is a good idea. That was exactly what we went through as a team of Ministers and we came to the conclusion it was a good idea. [...] In that process you would look at different options. If you decided it had run its course in its current form and there was a real feeling that that was the case, then you would say, “So in that event, would you want to sell it?” but obviously you then go through all the upsides and the downsides of that. It is all part of that process of coming to a conclusion that you then have confidence in.\textsuperscript{42}

25. We regret that the Government has taken the decision to privatise GIB without due transparency, publication of relevant evidence, consultation, and proper consideration of alternatives. The Government’s case could have been strengthened if it had provided evidence that this is the right time to privatise the Green Investment Bank. The absence of this, coupled with the Government’s reliance on its view that this is merely the “natural next step” for the Bank, is likely to lead to the suspicion that the move and its timing are not evidence-based policy.

26. We are disappointed that the Government appears not to have considered a wider range of options for recapitalising the GIB such as citizen finance and the European Fund for Strategic Investments. We are surprised that the Government has apparently undertaken little or no external consultation around the move, especially since the inception of GIB was marked by a laudably high degree of consultation.

27. Before proceeding with the sale of GIB, the Government must publish a robust businesses case and impact assessment in support of the decision to sell and the timing of the sale, in accordance with the “lessons” identified by the Comptroller and Auditor General of the National Audit Office from the sale of Eurostar. As part of these publications, the Government must also indicate whether the full range of options for the Bank’s future, including innovative recapitalisation options, were considered before the announcement of the intention to privatise - and if they were not, it must explain why.

\textsuperscript{40} Written evidence, E3G
\textsuperscript{41} Oral evidence, 28 October 2015 (Q84)
\textsuperscript{42} Oral evidence, 26 November 2015 (Q132, Q133)
28. The Government should evaluate whether a “phased approach” involving recapitalisation options such as the European Fund for Strategic Investments would be possible. This could allow for greater consultation, transparency and market testing on the form of any eventual privatisation.
4 Preserving the Bank’s green identity

29. The central question for the Government’s plans for the GIB is whether a privatised Bank will retain its unique role in the green economy. One of the Government’s key aims in privatising GIB is to ensure that it is re-classified as a private sector organisation, allowing it to borrow without contributing to public sector net debt. Although this was not made clear at the beginning of the process, the Government eventually concluded that the public sector controls on the Bank’s Articles, as well as references to the green purposes, had to be repealed from the Enterprise and Regulatory Reform Act 2013. The Government argues that it would not have taken this action if it were not a “necessary, practical step to achieve our ambitions for GIB”, and that it would otherwise have been “content to leave the legislation in place”. It argues that retaining any kind of public sector control over the investments the Bank can make would lead to the Office for National Statistics refusing to re-classify GIB as a private sector organisation.

Preserving the green purposes

30. If the Government’s plans are carried out, there will no longer be a statutory requirement for the Green Investment Bank to invest in green sectors. While this would not automatically change GIB’s articles of association, the Bank admits that it would in principle be possible for future shareholders to change the Bank’s mandate and to alter the articles to remove the requirement for it to invest in green projects.

31. In response, the Government argues that there would be two main forms of protection on GIB’s green identity. It identifies the main protection as ‘commercial reality’: that since the company has a clear commitment to its green mission and the green economy, new shareholders will be interested in the Bank because of its green focus and not despite it. As a result, the Government argues, it would not make sense for such new shareholders to alter the focus of the Bank. As well as being supported by GIB itself, this view was echoed by the Renewable Energy Association:

[T]he bank will be an attractive opportunity for a large number of investor groups, including institutional and international bodies, who will be keen to have a stake in a bank already shown to provide strong returns. It is expected that such investors will recognise the nature of this opportunity, and the strength of the GIB green ethos, so will likely uphold the original green principles.

32. On this point, E3G told us:

On security of GIB purposes, we are not comforted by the Government’s assertion that there is a commercial case for retaining these purposes. As we
set out above, the original purpose of GIB was not simply to invest in green projects, it was to tackle market failures existing in the low carbon economy.51

33. The Government intends to use the sale of GIB to add a second layer of protection for the green purposes. New shareholders will be asked to “demonstrate their commitment to preserving the green mission of the Bank”.52 This may involve new shareholders agreeing to retain the green objectives in the Articles of Association, ensure GIB’s positive green impact, and maintain existing reporting standards.53 The Government will assess the commitment of potential investors since it currently owns the shares.54 GIB told us that they expect new shareholders to make a commitment to the green mandate of the Bank through a shareholder’s agreement. They also indicated that investors would welcome this commitment.55 However, the Government admits that it cannot “impose binding conditions” on future shareholders if GIB is to be re-classified to the private sector.

34. We have been told that further measures may be needed to protect the green purposes of GIB. WWF-UK suggested that a golden share held by an independent organisation could offer such protection.

[If the original legislation underpinning the GIB must be changed then other ways need to be found to ensure safeguards are put in place to protect its green purposes. This could perhaps be through the use of a Charitable Trust mechanism or similar approach. This would require an independent third party to hold a golden share which would stop changes to the company’s articles if these were deemed inconsistent with its green mission.56

A non-Government amendment proposing a similar mechanism was added to the Enterprise Bill in the House of Lords. The amendment requires the establishment of a new charitable organisation to hold a special share in GIB. This share would have no income or capital rights, and no voting rights except on a vote to amend the green objectives of GIB or a vote to alter the rights of the special share.57 While the Government’s policy paper indicates that a golden share mechanism may fall foul of the public sector classification requirements of ONS, it is not clear that whether would remain the case if the share was held by an organisation entirely independent from Government.

Beyond the green purposes

35. Some of the potential concerns we have heard about GIB’s future green mission cannot be resolved merely by securing a lock on the green purposes. These concerns are about gradual and small (but significant) shifts in focus and ethos in ways which may not be inconsistent with the green purposes of the Bank but would nevertheless undermine its role in the green economy.

36. The Aldersgate Group told us that GIB’s current role in investing in novel and complex projects which are profitable over the longer term is potentially in tension

51 Written evidence, E3G
52 Oral evidence, 28 October 2015 (Q27)
53 Future of UK Green Investment Bank plc, BIS, November 2015; REFERENCE FROM 26 NOV SESSION
54 Oral evidence, 28 October 2015 (Q22)
55 Oral evidence, 28 October 2015 (Q27)
56 Written evidence, WWF-UK
57 Enterprise Bill [HL], as amended on report
58 Future of UK Green Investment Bank plc, BIS, November 2015
with “shareholder pressure to maximise short-term returns” which may arise from privatisation.\textsuperscript{59} Privatisation would lead to the lifting of restrictions on GIB’s operation relating to its State Aid approval, which the Aldersgate Group argue exacerbates this concern. These restrictions require GIB to invest only in projects where its presence is ‘additional’ - projects with insufficient investment from the private sector - meaning that its investment does not compete with existing capital and focuses on projects which would not otherwise be funded. GIB explains this restriction as follows:

Our obligation to avoid crowding-out private sector investors is a negative form of control designed to minimise the risk that a state-financed development bank is displacing private investors or adversely affecting competition. This is a requirement set by the European Commission in our State Aid approval. In practice this requires us to make an evidence-based assessment on a project-by-project basis to satisfy ourselves that, in the absence of such investment, there is a reasonable likelihood that the investment would not have been made on acceptable terms and in the manner and time required by the relevant project.\textsuperscript{60}

37. As the Aldersgate Group and E3G told us, this helps to ensure that the GIB invests in novel projects.\textsuperscript{61} While GIB’s freedom from State Aid restrictions would carry the benefit of widening range of the sectors in which it could invest\textsuperscript{62}, they argued that it posed the risk that GIB would shift its focus in the kinds of projects it in invested in, and thus that GIB’s unique role in the green infrastructure sector would be undermined. The Renewable Energy Association also expressed a similar concern:

[We fear] that, while private owners may well recognise the value of upholding the green ethos of the GIB, their attention may become increasingly focused on well-established low-carbon technologies in order to reduce risk and increase returns on investment.\textsuperscript{63}

38. The Aldersgate Group told us that the GIB’s existing focus was necessary in the near term to secure a number of novel projects:

There are a range of novel projects that will require the GIB’s current strategic focus in order to get off the ground in the coming years, such as commercial offshore wind projects using new technologies (such as the floating turbines to be tested off the coast of Peterhead), non-domestic and domestic energy efficiency projects and projects aimed at improving the state of the UK’s natural capital (as recommended earlier this year by the Natural Capital Committee) such as peatland restoration, woodland planting near town centres and wetland creation.\textsuperscript{64}

39. The Government says that it “believed and continues to believe” that GIB will be most effective when investing in relatively mature sectors which suffer from a lack of investment.\textsuperscript{65} Also, GIB claims that their expertise and knowledge puts them in a unique position to address market failures by investing in potentially profitable projects which lack

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{59} Written evidence, Aldersgate Group
\item \textsuperscript{60} Written evidence, Green Investment Bank
\item \textsuperscript{61} Written evidence, Aldersgate Group
\item \textsuperscript{62} Future of UK Green Investment Bank plc, BIS, November 2015; Oral evidence, Green Investment Bank, Q15–16
\item \textsuperscript{63} Written evidence, Renewable Energy Association
\item \textsuperscript{64} Written evidence, Aldersgate Group
\item \textsuperscript{65} Future of UK Green Investment Bank plc, BIS, November 2015.
\end{itemize}
\end{footnotesize}
funding - and that the Bank will “keep doing what we are doing”.

However, protecting the green purposes alone will not ensure this aspect of GIB’s ongoing green mission. For this reason, WWF-UK suggested that new shareholders should be required to commit “to going beyond just adhering to the green ethos of the Bank.”

The boundaries of “Green”

40. WWF-UK told us:

The GIB has an important role in investing in green opportunities and accelerating the transition to a low-carbon economy. It must be able to overcome market failures by supporting projects that might currently appear insufficiently attractive to secure investment from conventional sources.

41. In relation to this, a concern about the Bank’s future green identity was “mission creep” in its approach to projects, which could gradually grow to encompass areas that are at best questionably green. Richard Howard told us that the five green purposes of GIB are very broad:

There is a list of five things. The Bank must invest in things that tick one of a number of boxes. One is reduce greenhouse gas emissions, one is protect biodiversity, and so on. They are very, very broad statements. You could do just about anything that is vaguely green and tick one of those boxes and that would be allowed.

42. Howard indicated that energy-efficient coal power stations and unconventional gas projects could in principle satisfy the letter of GIB’s green purposes. Indeed, the Minister and Richard Callard (Executive Director of the GIB Shareholder team at BIS) told us that GIB’s green remit would not exclude it from investing in fracking once privatised, despite the fact that the role of shale gas in Britain’s green economy is contested. Callard said:

Technically it could. It is a question of whether it would. […] They have a team of green specialists, none of which deal with fracking, so it does not have any experience of fracking.

Given that GIB plans to expand into new areas as a result of restrictions on its operations being lifted, and that this is one of the Bank’s main motivations for wanting private capital, the present absence of any experts on fracking does not appear to constitute an ongoing guarantee. The Minister’s further comments indicated that she was relaxed about the possibility of GIB investing in fracking since it is preferable to some existing technologies.

43. The ongoing protection of GIB’s green identity should be regarded as the most important objective for any sale. While we are convinced of the present management’s commitment to the green identity of GIB, we do not believe that the Government’s proposed protections are sufficient to ensure GIB’s green purposes in the long term. Consequently, we support attempts to find a stronger mechanism. However, the risk to
GIB’s unique identity cannot be eliminated simply by protecting the green purposes as they stand, and this should not be seen as a panacea. A privatised GIB could still gradually move its focus away from novel and complex projects which struggle to find funding, in favour of easier and less complex projects. In doing so, it would lose its crucial role of offering leadership in emerging green markets. Even strict adherence to the Bank’s green purposes could not rule out this risk. This concern is exacerbated by the probable removal of State Aid restrictions requiring additionality in GIB’s investments.

44. Furthermore, we are concerned that a privatised GIB would be free to invest in questionably green sectors such as fracking and energy-efficient coal while adhering to its green purposes. Whether or not one believes that fracking should be considered green, such projects are not in line with a Green Investment Bank focused on “taking on the more difficult infrastructure projects, de-risking new sectors and helping to lower the cost of capital for green projects,” as the Bank describes themselves.\(^\text{72}\) If GIB can invest in such projects, this could pose a risk not only to the green economy, but also to the reputation of the Bank. We were surprised by the Minister’s apparent support for a privatised GIB’s freedom to invest in fracking.

45. The Government must implement stronger protections for the green purposes of GIB than those set out in its policy paper. We recommend that the Government adopt a plan to establish a special share, owned in a way which does not prevent re-classification to the private sector, to protect the green purposes. If the protection of the green purposes cannot be ensured then the sale should not go ahead.

46. However, in order to ensure that GIB retains its unique role in the UK’s green economy, the Government must also strengthen the green purposes of the Bank. For instance, in establishing a special share, owned in a way that does not compromise re-classification to the private sector, to ensure the longevity of the green purposes, the Government should investigate defining the share’s purpose in a way that addresses this problem. The Government should examine and report on the possibility of including under the share’s protection: (a) a nominated set of priority sectors, which would be much wider than that allowed under the State Aid rules and could establish GIB’s focus on specific Sustainable Development Goals in which the UK already excels, such as Affordable and Clean Energy, Industry Innovation and Infrastructure, and Responsible Consumption and Production; and (b) an explicit statement of GIB’s focus on projects which lack sufficient funding. If such protections via the special share are not practicable, the Government must say how it intends, through the sale, to preclude the possibility of “mission creep” even if the green purposes are protected.

47. We welcome the Government’s assurance that it will ask bidders to agree to continue GIB’s standards of green reporting. This should conform to UN sustainability reporting standards in being high-frequency, outcome-focused and science-based. This Committee will be keen to hear from GIB on an annual basis on its green purposes and investments.
5  The proposed sale and the future

The proposed sale

48. Questions remain over the form and structure of the sale that the Government plans to undertake. E3G told us:

Many questions remain outstanding. Is the Government selling the team? Is it selling the assets? Will GIB be sold as a bank? Will it be sold as funds? What evidence has or will inform these decisions? What options have been considered, dismissed and why? The answers to these questions will have a substantial bearing on whether a future GIB can fulfil its aims and purposes.\(^{73}\)

This issue was raised not only by opponents of privatisation, but also by GIB itself. GIB are keen to ensure that the sale allows the Bank to grow and flourish. Indeed, they regard the wrong kind of sale as a key risk to their future:

[I]t is worth noting that the main risk to the objective of crowding-in new capital and investors would be the acquisition of GIB by an investor with the aim of only acquiring the assets of the business without a firm intention to fund GIB’s future growth. The impact of this would be to effectively close GIB to future business, removing any on-going investment capability and future policy benefit.\(^{74}\)

When we asked the Minister about this concern, her responses focused on the need to obtain “a good deal” and “do the best thing for the taxpayer”.\(^ {75}\) In a letter, the Minister assured us that the Government is planning a sale on the basis that GIB will continue to be a going concern.\(^ {76}\) E3G told us that if GIB did not exist, then the consumer and taxpayer would have to pay more for the investment required to transition to a green economy.\(^ {77}\)

49. The Government is right to look for a good deal for the taxpayer if GIB is sold. However, both the price obtained and the form of the sale have consequences for the taxpayer. The wrong kind of sale could undermine GIB’s future growth and role in the green economy and prove more costly to the taxpayer in the long term. We welcome the Minister’s assurance that the Government intends to sell GIB as a going concern. If the Government goes ahead with plans to sell GIB, it must abide by its aim to sell it as a going concern, in a way that allows it to grow and flourish in the long-term, and with a view to maximising the strength of the green economy.

The Government’s future share in GIB

50. The Government proposes to sell a significant majority of its 100% share in GIB. It has made no commitment on the future of its proposed minority share after the initial sale. However, Richard Callard told us that the Government intends to eventually exit entirely from the Bank.\(^ {78}\) When asked why, the Minister said:

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73  Written evidence, E3G
74  Written evidence, Green Investment Bank
75  Oral evidence, 26 November 2015 (Q98, Q99)
76  Written evidence, Letter from Rt Hon Anna Soubry MP
77  Written evidence, E3G
78  Oral evidence, 26 November 2015 (Q137)
We know where we want to get to so it is a process of how you get to where you want to get to.\textsuperscript{79}

We asked further whether any option other than a full sale had been considered. The Minister responded only that the total sell-off was “the right thing to do”.\textsuperscript{80}

51. However, GIB told us that wanted the Government to remain a minority shareholder for “as long as possible”\textsuperscript{81}, for two reasons:

First, they have been a very good shareholder, let me be clear, and I would like their continued presence in the shareholding of the company to bring that continuity as we move through from being purely publicly owned to being publicly and privately owned. The second reason I think that is important is it demonstrates a commitment to the Bank, and with that commitment you will get much more interest in the people wishing to buy the reciprocal 70%-ish, 75%, whatever that number is. That is important in terms of driving the competitive tension in the process to get the best possible price, to get the best possible commitment to the greenness of the Bank going forward, and to make sure that we have an enduring institution here that is around in five years’ time, in 10 years’ time building the clean, green infrastructure the country will still need.\textsuperscript{82}

Richard Howard also suggested that retaining Government involvement would be beneficial, though this might not need to be an indefinite arrangement:

I think having some Government involvement is probably helpful. Does it need to be 100%? No, I do not think so. There is benefit in bringing in other investors into this vehicle. […] It is helpful for the Government to retain some ownership. As we get used to the idea of other money coming into this institution, we might relax about that.\textsuperscript{83}

52. WWF-UK echoed the sentiment that future Government involvement could be helpful:

In addition, the GIB needs an appropriate shareholder base to enable it to continue to focus on long-term investment. We would therefore argue that the Government should keep at least a significant minority interest for the long term, and continue to be an active shareholder. Other approaches such as devolved governance structures could also be explored.\textsuperscript{84}

53. WWF-UK also describe a broader concern about the sale which is relevant to these points:

[T]here is a risk that the sell-off of the GIB will constitute a signal that the Government is not supportive of a green and low carbon agenda, particularly in light of other policy announcements since the election. This will also reduce

\textsuperscript{79} Oral evidence, 26 November 2015 (Q138)
\textsuperscript{80} Oral evidence, 26 November 2015 (Q139)
\textsuperscript{81} Oral evidence, 28 October 2015 (Q37)
\textsuperscript{82} Oral evidence, 28 October 2015 (Q35)
\textsuperscript{83} Oral evidence, 28 October 2015 (Q84)
\textsuperscript{84} Written evidence, WWF-UK
the probability of a successful sell-off, by reducing the attractiveness of the GIB as an investment itself, because it implies that future government policy cannot be relied upon to support a low carbon trajectory.

If the Government commits to remaining an active shareholder in GIB and thereby demonstrates its long-term commitment to the green economy, it could allay the risk described here.

54. The Government’s intention to exit entirely from GIB could send the wrong signals about the Government’s commitment to the green economy. We are surprised that the Government’s position on this matter was not previously made clear and only specified by the Minister in oral evidence.

55. If GIB is privatised, then the Government must retain a minority stake in order to ensure the Bank’s long-term strength and to demonstrate the Government’s commitment to the green economy. Any future sale of Government shares in GIB must be preceded by a period of consultation and evidence-gathering, and accompanied by a report on the success and impact of the initial majority sale.
The Future of the Green Investment Bank

Conclusions and recommendations

The Government and GfB’s case for privatisation

1. We accept in principle that increasing the volume of capital available to the Bank could be positive for its operations. The ability to borrow will also be important for GfB in the future. Our predecessor Committee called repeatedly for GfB to be given borrowing powers while in public ownership. Nonetheless, these potential benefits do not amount to a case for privatisation. The Government needs to demonstrate how the privatisation of the Bank will contribute to the balance of public and private sector initiatives required to meet the ambitions of the Paris climate change agreement. Accordingly, we have not assessed the underlying case for privatisation. Rather, we have focussed our attention and recommendations on the process surrounding the decision, the actions required to ensure GfB’s unique position in the green economy, and the Government’s future involvement in the Bank. (Paragraph 10)

Evidence, consultation and alternatives

2. We regret that the Government has taken the decision to privatise GfB without due transparency, publication of relevant evidence, consultation, and proper consideration of alternatives. The Government’s case could have been strengthened if it had provided evidence that this is the right time to privatise the Green Investment Bank. The absence of this, coupled with the Government’s reliance on its view that this is merely the “natural next step” for the Bank, is likely to lead to the suspicion that the move and its timing are not evidence-based policy. (Paragraph 26)

3. We are disappointed that the Government appears not to have considered a wider range of options for recapitalising the GfB such as citizen finance and the European Fund for Strategic Investments. We are surprised that the Government has apparently undertaken little or no external consultation around the move, especially since the inception of GfB was marked by a laudably high degree of consultation. (Paragraph 27)

4. Before proceeding with the sale of GfB, the Government must publish a robust businesses case and impact assessment in support of the decision to sell and the timing of the sale, in accordance with the “lessons” identified by the Comptroller and Auditor General of the National Audit Office from the sale of Eurostar. As part of these publications, the Government must also indicate whether the full range of options for the Bank’s future, including innovative recapitalisation options, were considered before the announcement of the intention to privatise - and if they were not, it must explain why. (Paragraph 28)

5. The Government should evaluate whether a “phased approach” involving recapitalisation options such as the European Fund for Strategic Investments would be possible. This could allow for greater consultation, transparency and market testing on the form of any eventual privatisation. (Paragraph 29)
Preserving the Bank’s green identity

6. The ongoing protection of GIB’s green identity should be regarded as the most important objective for any sale. While we are convinced of the present management’s commitment to the green identity of GIB, we do not believe that the Government’s proposed protections are sufficient to ensure GIB’s green purposes in the long term. Consequently, we support attempts to find a stronger mechanism. However, the risk to GIB’s unique identity cannot be eliminated simply by protecting the green purposes as they stand, and this should not be seen as a panacea. A privatised GIB could still gradually move its focus away from novel and complex projects which struggle to find funding, in favour of easier and less complex projects. In doing so, it would lose its crucial role of offering leadership in emerging green markets. Even strict adherence to the Bank’s green purposes could not rule out this risk. This concern is exacerbated by the probable removal of State Aid restrictions requiring additionality in GIB’s investments. (Paragraph 44)

7. Furthermore, we are concerned that a privatised GIB would be free to invest in questionably green sectors such as fracking and energy-efficient coal while adhering to its green purposes. Whether or not one believes that fracking should be considered green, such projects are not in line with a Green Investment Bank focused on “taking on the more difficult infrastructure projects, de-risking new sectors and helping to lower the cost of capital for green projects,” as the Bank describes themselves. If GIB can invest in such projects, this could pose a risk not only to the green economy, but also to the reputation of the Bank. We were surprised by the Minister’s apparent support for a privatised GIB’s freedom to invest in fracking. (Paragraph 45)

8. The Government must implement stronger protections for the green purposes of GIB than those set out in its policy paper. We recommend that the Government adopt a plan to establish a special share, owned in a way which does not prevent re-classification to the private sector, to protect the green purposes. If the protection of the green purposes cannot be ensured then the sale should not go ahead. (Paragraph 46)

9. However, in order to ensure that GIB retains its unique role in the UK’s green economy, the Government must also strengthen the green purposes of the Bank. For instance, in establishing a special share, owned in a way that does not compromise re-classification to the private sector, to ensure the longevity of the green purposes, the Government should investigate defining the share’s purpose in a way that addresses this problem. The Government should examine and report on the possibility of including under the share’s protection: (a) a nominated set of priority sectors, which would be much wider than that allowed under the State Aid rules and could establish GIB’s focus on specific Sustainable Development Goals in which the UK already excels, such as Affordable and Clean Energy, Industry Innovation and Infrastructure, and Responsible Consumption and Production; and (b) an explicit statement of GIB’s focus on projects which lack sufficient funding. If such protections via the special share are not practicable, the Government must say how it intends, through the sale, to preclude the possibility of “mission creep” even if the green purposes are protected. (Paragraph 47)

10. We welcome the Government’s assurance that it will ask bidders to agree to continue GIB’s standards of green reporting. This should conform to UN sustainability reporting standards in being high-frequency, outcome-focused and science-based. This
Committee will be keen to hear from GIB on an annual basis on its green purposes and investments. (Paragraph 48)

The proposed sale and the future

11. The Government is right to look for a good deal for the taxpayer if GIB is sold. However, both the price obtained and the form of the sale have consequences for the taxpayer. The wrong kind of sale could undermine GIB’s future growth and role in the green economy and prove more costly to the taxpayer in the long term. We welcome the Minister’s assurance that the Government intends to sell GIB as a going concern. If the Government goes ahead with plans to sell GIB, it must abide by its aim to sell it as a going concern, in a way that allows it to grow and flourish in the long-term, and with a view to maximising the strength of the green economy. (Paragraph 50)

12. The Government’s intention to exit entirely from GIB could send the wrong signals about the Government’s commitment to the green economy. We are surprised that the Government’s position on this matter was not previously made clear and only specified by the Minister in oral evidence. (Paragraph 55)

13. If GIB is privatised, then the Government must retain a minority stake in order to ensure the Bank’s long-term strength and to demonstrate the Government’s commitment to the green economy. Any future sale of Government shares in GIB must be preceded by a period of consultation and evidence-gathering, and accompanied by a report on the success and impact of the initial majority sale. (Paragraph 56)
Formal Minutes

Wednesday 16 December 2015

Members present:
Huw Irranca-Davies, in the Chair

Peter Aldous Peter Heaton-Jones
Mary Creagh Mr Peter Lilley
Geraint Davies Caroline Lucas
Luke Hall John McNally
Carolyn Harris Rebecca Pow

Draft Report (The Future of the Green Investment Bank), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 55 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Second Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for publishing with the Report (in addition to that ordered to be reported for publishing on 26 November).

[Adjourned till Wednesday 6 January 2016 at 2.00 pm]
Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the Committee’s inquiry page at www.parliament.uk/eacom.

**Wednesday 28 October 2015**

**Shaun Kingsbury**, Chief Executive Officer, and **Euan McVicar**, General Counsel, Green Investment Bank

**Richard Howard**, Head of Environment and Energy, Policy Exchange, and **Ingrid Holmes**, Director, E3G

**Thursday 26 November 2015**

**Rt Hon Anna Soubry MP**, Minister for Small Business, Industry and Enterprise, and **Richard Callard**, Executive Director, Green Investment Bank Shareholder Team, Department for Business, Innovation and Skills
Published written evidence

The following written evidence was received and can be viewed on the Committee’s inquiry web page. GIB numbers are generated by the evidence processing system and so may not be complete.

1 Aldersgate Group (GIB0002)
2 Biofuelwatch (GIB0004)
3 Carbon Capture and Storage Association (GIB0008)
4 Civil Engineering Contractors Association (GIB0005)
5 Department for Business, Innovation & Skills (GIB0011)
6 E3G (GIB0010)
7 Green Investment Bank (GIB0009)
8 Martin Blaiklock (GIB0006)
9 Renewable Energy Association (GIB0007)
10 Storelectric Ltd (GIB0003)
11 WWF-UK (GIB0001)
List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the Committee’s website at www.parliament.uk/eac.

**Session 2015–16**

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<td>Second Special Report</td>
<td>Climate change adaptation: Government Response to the Committee’s Tenth Report of Session 2014–15</td>
<td>HC 590</td>
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