House of Commons

Committee of Public Accounts

The sale of the Green Investment Bank

Twenty-Fifth Report of Session 2017–19

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 7 March 2018

HC 468
Published on 14 March 2018
by authority of the House of Commons

The Committee of Public Accounts

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Summary

The Green Investment Bank failed to live up to original ambitions and now there is no guarantee that it ever will because its green intentions are not sufficiently protected.

Since it was created in 2012, the UK Green Investment Bank plc (GIB) has been successful in attracting private investment into some sectors of the green economy, such as offshore wind projects. However, the Department for Business, Energy and Industrial Strategy does not know whether GIB achieved its intended objectives of encouraging investment in the green economy and creating an institution that lasts. Government chose to sell GIB before fully assessing its impact. In making decisions about GIB's future, the Department prioritised reducing public debt and how much money could be gained from the sale over the continued delivery of GIB's green objective.

In August 2017, the government sold GIB to Macquarie for £1.6 billion. The Department's process for selling GIB took far longer than planned. The Department's approach was reactive and it had to make a number of compromises to complete the sale. The measures the Department put in place to protect GIB's Green Purposes are not sufficient to ensure that GIB is an enduring institution. It is unclear whether Green Investment Group (GIG; the rebranded GIB under Macquarie ownership) will continue to support the government's energy policy, or continue to have an impact on the UK's climate change goals. We believe that it was a misjudgement that the Department has so little assurance over GIG's future investment in the UK and in emerging technologies, which will be crucial to ensuring that the UK's green commitments are met.

Introduction

The UK is committed to moving to a greener economy. As part of this, in 2012 the government established the UK Green Investment Bank plc (GIB) to help address a lack of private investment in the green economy needed to meet the UK's climate change obligations. GIB was designed to provide public money to, and encourage private investment in, green infrastructure projects such as windfarms and waste and bioenergy projects. The government set up GIB as a public company, with the Department for Business, Innovation and Skills—now the Department for Business, Energy and Industrial Strategy (the Department)—as the sole shareholder. In June 2015, the government decided that it could not afford further public investment in GIB, and announced it was considering a sale and other means of bringing private capital into GIB. In March 2016, it launched a process to sell GIB. UK Government Investments (UKGI) ran the sale process. Government sold GIB in August 2017 to a consortium led by the Australian banking group, Macquarie, for £1.6 billion.

Conclusions and recommendations

1. **The UK Green Investment Bank plc (GIB) has attracted substantial private investment into some sectors of the green economy, such as offshore wind, but the Department for Business, Energy and Industrial Strategy (the Department) does not know whether it achieved its intended impact.** By March 2017, GIB had committed £3.4 billion to fund or part fund 100 projects, and had attracted £8.6 billion of private capital alongside its investments. These investments were primarily in offshore wind, and waste and bioenergy, but also in energy efficiency and onshore renewables. GIB told us that many other technologies, such as tidal power and carbon capture and storage, were not sufficiently developed for them to be suitable commercial investments. However, the Department lacked clear criteria or evidence to judge whether GIB was achieving its intended green impact and addressing failures in the green energy market, including a shortage of private investors prepared to invest in green energy projects. It therefore does not know to what extent GIB achieved its intended green impact, or whether overall it achieved as much as it could.

   Recommendation: ***The Department should put in place a robust evaluation framework for all companies it creates. The Department must ensure that its evaluations: refer to the original policy objectives; are continuous; and are completed and published before any decisions are made about a company's future.***

2. **The Department prioritised reducing the level of debt in the public sector and how much money it could gain from the sale over the continued delivery of GIB's green objectives.** The Department had two primary objectives for the sale: to remove GIB from the public sector balance sheet and therefore reduce public debt; and to achieve value for money, which it defined in terms of maximising the sale price. The sale reduced public sector net debt by £1.6 billion and moved responsibility for around £500 million of GIB's future commitments to Macquarie. Subject to achieving its primary objectives, the Department also wanted to ensure that GIB continued as an institution that focused on investing in projects beneficial to the green economy. The government repealed legislation which protected GIB's investment in the green economy—its green purposes—to ensure that GIB would be removed from the public sector balance sheet following the sale. The Department established a 'special share' arrangement to protect GIB's green purposes after the sale, but it did not require bidders to make specific or legally binding commitments to how GIB would continue to deliver these in practice. The Department did not have any certainty over, for example, how potential bidders would invest in different sectors or technologies. Macquarie told us that the special share or other commitments it made were not a burden and did not affect the price it was prepared to pay. It is therefore unclear why the Department did not look to strengthen these commitments contractually.

   Recommendation: ***When selling public assets UKGI should pin down commitments from buyers to ensure the original ambitions for these assets are achieved. Departments, in conjunction with UKGI, should be clear about, and justify, what commitments they are prepared to water down in order to secure a sale and what***

impact this may have on future benefits for British taxpayers. In this case the Department should have sought explicit assurances as to the quantum of future investment in the UK.

3. **The Department succeeded in selling Green Investment Bank, but its approach to the sale was reactive, meaning that it had to make compromises to secure the sale.** The Department followed a standard auction process but this took nearly 18 months, more than double the time expected. The delays were caused by a range of factors to which the Department had to react. Responding to what it saw as a "subdued" initial level of interest, the Department developed an alternative for a phased sale starting in late 2018. This alternative gave the Department a fall-back in its negotiations with Macquarie and helped secure a higher price. However, the Department only fully evaluated the potential benefits and risks of the phased sale option in February 2017, 11 months after launching the sale and after several key decisions had already been taken. The Department estimated that the phased sale option would raise £63 million more than selling GIB to Macquarie, although the high end of its range was £197 million more and the low end £75 million less. The Department decided not to adopt the phased sale option as it concluded it involved greater risks and would have delayed declassification. The sale to Macquarie also assumed that government would retain a 90% stake in five of GIB's assets, which the bidder valued below government's own valuation. In April 2017, the Department decided to sell GIB to Macquarie for less money than its mid-estimate in order to minimise its exposure to the risks associated with the phased sale option.

   Recommendation: ***When selling an asset, all government departments should clearly outline at the start what they are selling, when they can be flexible, and when they will walk away. Analysis should be used to support these decisions before they are made, not after they are taken. The Department should seek to evaluate the assumptions it made to value GIB's assets under construction, report this to the Committee, and set out how this will inform its future approach to assessing risk.***

4. **The Department put in place measures intended to protect GIB's green objective, but these measures will not ensure that GIB is an enduring institution.** The Department wanted GIB to be an "enduring institution" that continued to play a role in delivering its goals for energy policy but it was, and remains, unclear what this means in practice. In acquiring GIB, Macquarie agreed to retain GIB's five Green Purposes following the sale. The Department established the Green Purposes Company (GPC) with the aim of protecting GIB's green purposes, covering greenhouse gas emissions, efficient use of natural resources, the natural environment, biodiversity and environmental sustainability. The trustees of the Green Purposes Company will have powers to veto any changes made to the Green Purposes. However, these arrangements rely on Macquarie agreeing to continue funding the GPC. The trustees' powers do not extend to approval of investment decisions. Macquarie has committed GIB to investing or arranging investment worth more than £3 billion in green energy projects over the three years after sale. However, these commitments are not legally binding and rely on a number of

factors, including market conditions and future government policy decisions. The Department did not fully explore whether it could have obtained stronger green commitments to ensure that GIB continue to support its energy policy.

Recommendation: ***Government must clearly define relevant terms (such as 'enduring institution') so it can monitor performance and, in this case, evaluate alternative sale options. If an objective is not important in the context of a sale or other transaction, government should be explicit so it does not constrain decision making.***

5. **Without any legally binding commitments, Green Investment Group's (GIG) future impact on the UK's climate change goals is uncertain.** Government intervenes in a number of ways to help tackle climate change, such as providing financial support for low carbon energy sources and for improved energy efficiency. It is unclear, however, how the Department expects GIG (the rebranded GIB under Macquarie ownership) to contribute to these interventions or the UK's industrial strategy, for which the Department is also responsible. GIG is not currently required or incentivised to invest in the UK, or innovative technologies, or to focus on any of GIB's five Green Purposes. Macquarie told us that a significant majority of projects where it will consider investment in the UK are likely to require some form of financial support from the government, and are therefore dependent on future government policy. Such projects include the proposed tidal lagoon in Swansea, where Macquarie told us its investment was very dependent on government policy and support. It is unclear how the Department plans to monitor GIG's performance against the commitments that Macquarie has made, or the impact on government's wider green goals.

   Recommendation: ***The Department should, by 31 December 2020, write to the Committee with a detailed explanation of GIG's activities and performance in the UK, including: against the intentions Macquarie made to the Secretary of State in April 2017; its impact on the UK's climate change goals; and the effectiveness of the special share arrangements.***

1 The effectiveness of the Green Investment Bank

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Business, Energy and Industrial Strategy (the Department), UK Government Investments (UKGI), the UK Green Investment Bank plc (GIB) and the Macquarie Group (Macquarie) on the creation and sale of the GIB.[1]

The objectives of the Green Investment Bank

2. The government established GIB in October 2012 to help address a lack of private investment in the green economy needed to meet the UK's climate change obligations. GIB was designed to provide public money, and encourage private investment, into green infrastructure projects such as windfarms and waste and bioenergy projects. Its role was to help accelerate the flow of private capital into green infrastructure and accelerate the UK's transition into a greener economy.[2] Government intended that GIB would achieve this by addressing market failures in green investment, including a shortage of private investors prepared to invest in green energy projects.

3. The government set up GIB as a public company, with the Department for Business, Innovation and Skills—now the Department for Business, Energy & Industrial Strategy (the Department)—as the sole shareholder. GIB's remit was limited to investing in areas where market failures had been identified in order to ensure it didn't crowd out private investors.[3] GIB was also required to invest in projects that furthered its five Green Purposes:

- reduction of greenhouse gas emissions;
- advancement of efficiency in the use of natural resources;
- protection or enhancement of the natural environment;
- protection or enhancement of biodiversity; and
- promotion of environmental sustainability.[4]

GIB's contribution to the green economy

4. Government gave GIB the authority to invest up to £3.8 billion of public money in green infrastructure. By the end of March 2017, GIB had committed £3.4 billion of this capital to 100 projects.[5] GIB attracted £8.6 billion of private capital alongside its investment, meaning it secured around £2.50 of private capital for each £1 of its own capital committed to projects. Its investments were spread across the four primary

1 Report by the Comptroller and Auditor General, The Green Investment Bank, Session 2017–19, HC 619, 12 December 2017
2 GIB 2014–15 Annual report & accounts, page 12
3 Q 20, The European Commission initial approval allowed GIB to invest in three priority sectors (offshore wind power generation, waste infrastructure and non-domestic energy efficiency) and five non-priority sectors (biofuels for transport, biomass power, carbon capture and storage, marine energy and renewable heat)
4 C&AG's Report, para 1.7
5 C&AG's Report, para 8

sectors GIB targeted—offshore wind, waste and bioenergy, energy efficiency and onshore renewables—but the extent to which GIB invested in each varied by sector (see appendix for details). GIB invested significantly more in some sectors, such as offshore wind and waste and bioenergy, than others, such as energy efficiency.[6] GIB told us that the much smaller average size of transactions of energy efficiency projects meant GIB wasn't able to commit as much capital to the sector as it would have liked.[7] GIB also told us that investment opportunities in other technologies were not sufficiently developed for them to be suitable, commercial investments. For example, GIB told us it wasn't able to invest in carbon capture and storage or tidal energy projects, as during the lifetime of GIB no such projects were sufficiently advanced or had the structure in place needed for it to invest.[8]

5. The Department asserted that GIB had largely addressed market failures in some sectors, but accepted that GIB's record in other sectors was "mixed".[9] The Department hired independent economic consultants, NERA Consulting, to conduct a survey of investors and developers. NERA found that in the offshore wind and waste & bioenergy sectors, GIB had provided the market with the financial backing that it needed to invest in projects and was demonstrating that such projects were financially viable and suitable for investment. However, NERA was less certain of GIB's impact in other sectors, such as non-domestic energy efficiency and onshore renewables.[10] The Department did not develop its own criteria for judging whether GIB was successfully achieving its green objective, and addressing market failures. The Department told us that it considered its existing evidence base on the success of GIB was sufficient and needed no improvement.[11] However, the National Audit Office found that there were further steps that the Department could have taken to improve its evidence base on GIB's impact, and therefore increase confidence that GIB's intended mission had been completed. For example, the Department did not publish the NERA evaluation before or during the sale. This would have enabled taxpayers and Parliamentarians greater scrutiny and challenge prior to making decisions about GIB's future. Instead, the Department published the evaluation over two years after NERA reported its findings.[12]

6 C&AG's Report, Figure 7
7 Qq 3–5, 19
8 Q 6
9 Q 3
10 Qq 8–10, C&AG's Report, para 2.10
11 Q 12, C&AG's Report, para 1.16
12 C&AG's Report, para 2.15

2 The sale of the Green Investment Bank

6. In June 2015, the government decided that it could not afford to continue to invest public money in Green Investment Bank plc (GIB), and announced it was considering both selling GIB and other means of bringing private capital into GIB. In March 2016 it launched a process, run by UK Government Investments (UKGI), to sell GIB. The Department for Business, Energy and Industrial Strategy (the Department) had two primary objectives in selling GIB: to remove GIB from the public sector balance sheet and therefore reduce public debt, and to achieve value for money, which it defined in terms of maximising the sale price. Subject to achieving these objectives, the Department also wanted to ensure that GIB was an "enduring institution" and continued to focus on green outcomes.[13] Following a competitive process the Department awarded "preferred bidder" status to a consortium led by the Australian banking group, Macquarie Capital (Macquarie). The Department agreed to sell GIB to Macquarie in April 2017, and completed the sale in August 2017 for £1.6 billion and moved responsibility for around £500 million of GIB's future commitments to Macquarie.

The sale process

7. The process for selling GIB took the form of a standard two-part auction, and was marketed to over 120 institutions. The Department received only five bids in Round 1, with UKGI considering the level of interest to be "satisfactory" but "subdued". The Department told us that the subdued level of interest is characteristic in transactions of this kind. UKGI told us that the subdued level of interest was due to the complexity of the GIB business.[14] Nevertheless, at the time UKGI became aware of risks which would cause the transaction to be unsuccessful. At the end of the final round of bidding, the Department received just two bids: one from a consortium led by Macquarie, and the other from a consortium led by Sustainable Development Capital Limited (SDCL). The Department decided in April 2017 to sell GIB to the Macquarie consortium.[15]

8. Overall, the sale process took nearly 18 months, more than double the time expected. The delays were caused by a range of factors to which the Department had to react, including: increasing the time allowed for bidders to conduct due diligence of GIB; undertaking the restructuring Macquarie required of GIB before completing the sale; and an application for judicial review towards the end of the sale process.[16] The Department told us that this was a complicated asset to sell, but it did not appear to have made any allowances for this when considering how long the sale was likely to take.[17]

9. In response to its concerns regarding the low level of interest shown by bidders during Round 1 of the sale, in May 2016 the Department began to develop an alternative option: a phased sale process that would start in late 2018.[18] This alternative gave the Department a fall-back in its negotiations with Macquarie and helped secure a higher price. However,

13 Q 2
14 Qq 35, 88, C&AG's Report, para 3.13–3.14
15 Q 89, C&AG's Report, para 3.16–3.18
16 Q 90, C&AG's Report, para 13
17 Q 90
18 C&AG's Report, para 3.14–3.27

the Department only fully evaluated the potential benefits and risks of the phased sale option in February 2017, 11 months after launching the sale and after several key decisions had already been taken.[19] The Department told us that it was only possible to properly analyse and develop a credible alternative towards the end of the sale process.[20]

10. The Department estimated that the phased sale option would raise £63 million more than selling GIB to Macquarie. At the upper end, it estimated that the phased sale could raise £197 million more than selling GIB to Macquarie, but it recognised that it could also result in £75 million less. The Department told us that, while potentially raising more money, the phased sale option involved greater risks and would have delayed removal from the balance sheet, which was one of its primary objective.[21] In April 2017, the Department sold GIB to Macquarie for less money than its mid-estimate in order to minimise its exposure to the risks associated with the phased sale option. The sale to Macquarie also assumed that government would retain a 90% stake in five of GIB's assets, which the bidder valued below government's own valuation. The Department told us that it considered the discount was a fair price to pay to avoid these risks.[22]

19 C&AG's Report, para 15
20 Q 91
21 Q 37
22 Qq 47, 92

3 The legacy of the Green Investment Bank

11. When it launched in 2012, the Department for Business, Energy and Industrial Strategy (the Department) wanted the Green Investment Bank (GIB) to be an "enduring institution". But it did not make it clear what this would mean in practice when establishing the bank. We asked the Department what it had meant by the term. It told us that it did not have "any special meaning other than the ordinary sense of the words" but that an "enduring institution" would be something that was not just throw away or temporary, and that had an institutional embodiment. GIB also confirmed that "enduring institution" wasn't a specific term that the organisation thought about. GIB told us that it is nonetheless confident that the sale to Macquarie will ensure that GIB is an enduring institution.[23] The Department told us that in the sense that GIB remained "a group of people, with a particular way of doing business, a particular capability, a brand, a presence and a location", it was confident that the sale had safeguarded GIB's status as an enduring institution. But it is still unclear what an "enduring institution" means in practice. Neither the Department not GIB could give us an example of what an "enduring institution" looks like or tell us of an "enduring institution" of which they were aware.[24]

Protecting GIB's green mission

12. The government decided to repeal the legislation covering GIB's Green Purposes to ensure that GIB would be removed from the public sector balance sheet following the sale.[25] Instead, the Department asked bidders during the sale process to sign-up to a special share arrangement intended to protect GIB's green mission.[26] Following discussion with the Office for National Statistics (ONS), the Department established the Green Purposes Company Limited (GPC) to protect GIB's Green Purposes after a sale. The GPC is a not-for-profit company limited by guarantee which holds a special share in the privatised GIB.[27] The GPC has five directors, referred to as trustees, who were appointed by an independent process in October 2016. The special share gives the trustees powers to approve or veto any proposed amendment to the Green Purposes set out in GIB's articles of association.[28] The Department told us that the protection of the Green Purposes was more effective when enshrined in GIB's articles of association than in a sale agreement. The Department also told us that if the protections had been included in the sale agreement, government would still have been deemed to have effective control, preventing GIB from being removed from the public sector balance sheet.[29]

13. Beyond the special share arrangements, the Department did not seek to strengthen the commitments it received from bidders regarding GIB's green future by including their specific intentions more clearly in a sale agreement, for example how they would invest in different sectors or technologies. During the Department's negotiations with Macquarie

23 Qq 25–26
24 Qq 13–17
25 C&AG's Report, para 3.6
26 Q 58
27 Department for Business, Energy and Industrial Strategy, Report to Parliament on the disposal of the Crown's shares in UK Green Investment Bank, November 2017, para. 3.22–3.23
28 C&AG's Report, para 3.33
29 Q 56–59, 64

the Chair of GIB, concerned about uncertainty regarding GIB's future, talked directly to Macquarie and obtained clearer, more specific commitments, including short-term commitments to retaining staff and GIB's Edinburgh office. The Department told the NAO that it had received commitments from Macquarie in its final bid and subsequently the GIB Chair spoke directly with Macquarie to make those commitments clearer and more specific.[30]

14. In acquiring GIB, Macquarie has signed up to the special share arrangements and agreed to retain GIB's five Green Purposes following the sale.[31] But the special share arrangements do not extend to allowing the trustees powers to approve investment decisions, and the trustees cannot influence the general investment strategy of GIB. The special share arrangements also rely on Macquarie agreeing to continue funding the GPC. Macquarie told us it supports the GPC and assured us that anything that GIG looks to invest in will be subject to the GPC and special share arrangements.[32] Macquarie told us that it did not regard the special share and other commitments it made as a burden and that they did not affect the price it was prepared to pay for GIB. It told us that it bought GIB with the intention of continuing to work in the green sector.[33] The Department similarly told us that it concluded at the beginning of the sale that any organisation wanting to buy GIB would also want to continue to invest in the green economy as this formed a core part of what it was selling. As a result, it did not consider a requirement to continue to invest in Green Purposes would be a burden.[34]

Future impact on the UK's climate goals

15. Macquarie rebranded GIB as the Green Investment Group (GIG) after the sale completed in August 2017. Macquarie has made a number of commitments regarding the future of GIG and its role in the green economy. These include:

- a commitment to GIB's green objectives and the Green Principles (protected by the special share and the GPC);
- to continue to invest in sectors including energy efficiency, biomass, energy from waste, onshore wind, offshore wind, solar, tidal and energy storage;
- to target GIB to invest, or arrange new investment, over £3 billion in the three years after the sale;
- to maintain GIB's independence, brand, and Edinburgh office; and
- to continue to support the Department's UK Climate Investments (UKCI) pilot, a joint venture between GIB and the Department to invest in renewable and energy efficiency projects in developing nations.[35]

30 Qq 44, 55, C&AG's Report, para 3.19–3.22
31 C&AG's Report, para 3.33
32 Qq 114–116
33 Qq 78–80
34 Qq 81–82
35 C&AG's Report, para 3.32

16. These commitments are set out as 'intentions' in the sale agreement and therefore are not legally binding.[36] Macquarie told us that the delivery of these commitments will rely on a number of factors, including market conditions and future policy decisions. For example, Macquarie told us that a significant majority of projects where it will consider investment in the UK are likely to require some form of financial support from the government, and are therefore dependent on future government policy.[37] Such projects include the proposed tidal lagoon in Swansea, where Macquarie told us its investment was very dependent on government policy and support.

17. The Department did not fully explore whether it could have obtained stronger green commitments to ensure that GIB delivers the intentions set out by Macquarie, and continues to support the UK's energy policy. The Department told us that it felt it had pushed as far as it could on the commitments, along much of the detail secured around the commitments were obtained following an intervention from the Chair of GIB. Although Macquarie was happy to make these commitments, the Department was unsure if other investors would have been prepared to make those commitments had it introduced them earlier in the process.[38]

18. The government intends GIB to continue contributing to green financing to help the UK meet its climate change obligations and commitments. Macquarie has made a range of commitments regarding the future of GIB, but it is not required or incentivised to invest in specific technologies or sectors.[39] There is also no restriction on the extent to which GIG focuses its investment on a limited number of its Green Purposes, rather than furthering all five objectives.[40] Macquarie's commitment to invest or arrange investment of £3 billion in the three years following the sale is similarly not limited to investment in the UK. Macquarie could not tell us how much of the £3 billion it has committed GIB to investing would be invested in green emerging technologies in the UK, in projects which support the UK's climate change obligations, or, more generally, support Research and Development in the UK.[41] It admitted, however, that it already has plans to target the European and Asian markets.[42] The Department could not explain how it plans to monitor GIG's performance against the commitments that Macquarie has made.[43] It also could not explain to us how GIG's future development links to its wider energy policy goals, or to the UK's industrial strategy for which it is also responsible.[44]

36 Qq 53–59
37 Q 69
38 Qq 53–55
39 Qq 83–84
40 Qq 70–73
41 Qq 107–108
42 Qq 85, 100–106
43 Qq 64–65
44 Qq 100–104

Appendix: The UK Green Investment Bank's investment by sector

GIB investment activity between October 2012 and March 2017, by sector					
Sector	**Offshore wind**	**Waste & bioenergy**	**Energy efficiency**	**Onshore renewables**	**Total**
Number of projects	11	37	35	17	100
GIB capital committed (£ millions)	2,211	756	292	150	3,409
Private capital mobilised (£ millions)	4,660	3,479	286	150	8,575
Average total transaction size (£ millions)	625	114	17	18	120

Source: Analysis of Green Investment Bank information. Source data available here: http://greeninvestmentgroup.com/media/144426/gib_transaction_table_140617.pdf

Formal minutes

Wednesday 7 March 2018

Members present:

Meg Hillier, in the Chair

Bim Afolami
Sir Geoffrey Clifton-Brown
Chris Evans
Caroline Flint
Luke Graham
Gillian Keegan
Shabana Mahmood
Layla Moran
Anne Marie Morris
Bridget Phillipson
Lee Rowley

Draft Report (*The sale 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 18 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Twenty-fifth 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.

[Adjourned till Monday 12 March 2018 at 3.30pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 20 December 2017	*Question number*
Alex Chisholm, Permanent Secretary, Department for Business, Energy and Industrial Strategy, **Anthony Odgers**, former Deputy Chief Executive, UK Government Investments, **Shaun Kingsbury**, former Chief Executive, UK Green Investment Bank plc, and **Mark Dooley**, Global Head of Green Energy, Macquarie	Q1–116

List of Reports from the Committee during the current session

All publications from the Committee are available on the publications page of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401 (Cm 9565)
Third Report	Hinkley Point C	HC 393 (Cm 9565)
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396 (Cm 9575)
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397 (Cm 9575)
Sixth Report	The growing threat of online fraud	HC 399 (Cm 9575)
Seventh Report	Brexit and the UK border	HC 558 (Cm 9575)
Eighth Report	Mental health in prisons	HC 400 (Cm 9575)
Ninth Report	Sheffield to Rotherham tram-trains	HC 453 (Cm 9575)
Tenth Report	High Speed 2 Annual Report and Accounts	HC 454 (Cm 9575)
Eleventh Report	Homeless households	HC 462 (Cm 9575)
Twelfth Report	HMRC's Performance in 2016–17	HC 456
Thirteenth Report	NHS continuing healthcare funding	HC 455
Fourteenth Report	Delivering Carrier Strike	HC 394
Fifteenth Report	Offender-monitoring tags	HC 458
Sixteenth Report	Government borrowing and the Whole of Government Accounts	HC 463
Seventeenth Report	Retaining and developing the teaching workforce	HC 460
Eighteenth Report	Exiting the European Union	HC 467

Nineteenth Report	Excess Votes 2016–17	HC 806
Twentieth Report	Update on the Thameslink Programme	HC 466
Twenty-First Report	The Nuclear Decommissioning Authority's Magnox	HC 461
Twenty-Second Report	The monitoring, inspection and funding of Learndirect Ltd.	HC 875
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HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Green Investment Bank: creation and sale, HC 468

Wednesday 20 Dec 2017

Ordered by the House of Commons to be published on 20 December 2017.

Watch the meeting

Members present: Geoffrey Clifton-Brown (Chair); Bim Afolami; Heidi Allen; Chris Evans; Caroline Flint; Luke Graham; Gillian Keegan; Shabana Mahmood; Nigel Mills; Stephen Morgan; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Simon Reason, Director, NAO, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-116

Witnesses

I: Alex Chisholm, Permanent Secretary, Department for Business, Energy and Industrial Strategy, Anthony Odgers, former Deputy Chief Executive, UK Government Investments, Shaun Kingsbury, former Chief Executive, UK Green Investment Bank plc, and Mark Dooley, Global Head of Green Energy, Macquarie.

- Report of the Comptroller and Auditor General: The Green Investment Bank

Examination of witnesses

Witnesses: Alex Chisholm, Anthony Odgers, Shaun Kingsbury and Mark Dooley.

Q1 **Chair:** I welcome everybody, particularly our witnesses, to this public evidence session on the Green Investment Bank. Today we have in front of us Mark Dooley, who is the head of infrastructure at the Europe Macquarie Group. We also have Shaun Kingsbury, the former chief executive of the UK Green Investment Bank. We have, on repeat return, Alex Chisholm, the Permanent Secretary at the Department for Business, Energy and Industrial Strategy. Finally, we have Anthony Odgers, the former deputy chief executive of UK Government Investments and former director of the UK Green Investment Bank. You are all very welcome. Our hashtag today is #greeninvestmentbank, for those following us on Twitter.

Perhaps I could direct the first question to you, Mr Chisholm. Can we have a general update on where we are with the Government's green and environmental strategy? Of course, the Chancellor has changed the goalposts a bit in the Budget, because he abolished the levy control framework, which was going to amount to £7.6 billion by 2021, and introduced the control for low carbon levies. Will that ensure that the consumer gets at least as good electricity prices as he or she does now?

Alex Chisholm: Yes, that is certainly the intention. As you will recall, we looked at the levy control framework in a previous evidence session, and I said then that we were open to it changing because of the role of contracts for difference, particularly in restraining the prices paid and giving us a reasonable degree of predictability over future cost. We had an absolute commitment to make sure that we minimise the cost to consumers. We have tried to continue to give evidence of that, in the clean growth strategy published in October and also in some of the results we have been able to achieve through competitive auctions, notably for offshore wind, where the price had fallen 50% over the previous 18 months, which was a very welcome reduction in costs for consumers. The Committee may also have seen that we invited the well-known academic Dieter Helm to do a pretty fundamental review for us of the cost of energy, which he produced and we published two months ago. That has given us some further food for thought and ideas about how we can minimise the cost to consumers. So yes, that remains absolutely part of the mission.

Q2 **Chair:** Thank you very much for that answer. Let us move to the Green Investment Bank. Your two prime objectives in wanting to sell it or privatise it were value for money and declassification, but a further objective was to pursue your green agenda in its widest form. Now that you have sold it, do you feel that you will be able to continue to achieve that green investment agenda? If you saw market failures similar to those you saw in the need to set it up, would you be inclined, with all the knowledge you have from the whole process, to set another similar one up again?

Alex Chisholm: Thank you for the question. You are absolutely right: those were the objectives that the Government set itself for the sale and declared to Parliament—the two primary ones of value for money and declassification, and the subsidiary one of continuing with the green purposes. I am confident that the way in which we have provided for and conducted the sale and the ongoing arrangements ensure that we will give continued expression to those green purposes. Let me try to set out why I feel that level of confidence.

First, it was always in the situation that someone investing in this asset—investing quite considerably, in this case: £1.75 billion approximately—was going to want to get the most out of it. The value of it lay not only in the previous investments but in its future capability as a green investor, or what they apparently call in investor banker parlance a "platform"—the capability to invest the expertise, the brand, the staff, the facilities and all of that. That was fundamentally a degree of assurance, but we felt we needed more than that. In addition—this idea in part came from Parliament—the Environmental Audit Committee, in its 2015 report, after taking evidence from some of my predecessors, recommended that the Government should put in place a special share. That special share arrangement—

Chair: Can we come on to that?

Alex Chisholm: But that does give—

Q3 **Chair:** Let's not prejudge where we are going to get to. I think we have got nearly all we want from that particular question. I have one final question before I hand over to my colleague. Did it achieve in total the need to address market failures in certain green investment policy? If it did, why was the Government so worried about getting European state aid renewal in 2018? That would imply that it had not achieved all of its objectives.

Alex Chisholm: Again, you are right in saying that the objective of setting up the GIB was to address market failures squarely. That was very clearly declared to Parliament. It was worked up, I think, in a multi-party method, and there was a lot of consultation and involvement with stakeholders. The particular kind of market failures that were being addressed were in green infrastructure. At that time—this is quite soon after the financial crisis—there was a lack of liquidity in the big markets, particularly for things like offshore wind, which was obviously important to our plans, and also waste and energy efficiency. Those are the ones that have been tackled.

I think we would give ourselves a score of two and a half out of three there, in essence—I might involve one of my colleagues shortly. In offshore wind, we feel that we have really squarely addressed that market failure. In fact, there is a very handy figure in the NAO Report—figure 10 on page 27—which shows the volume of investment. In 2012, when we got started you are looking at about £10 billion in annual investment. By 2016, you are up to about £28 billion. The green bar is the offshore wind one, and you can see a huge expansion in that market. So from the point of view of market failure, we felt confident that we had addressed that.

In relation to biomass and waste, again it had a very good impact. The Green Investment Bank people were finding it hard to find good-quality deals which they needed to be in—because if the market is going well, there is no need for taxpayers' money to be put into it. They were involved in nearly half of the transactions in the market and were finding it harder to find good, necessary opportunities to invest in.

In relation to energy efficiency—I will ask my colleague Shaun Kingsbury to comment on that—it is a much more diffuse market. The relative market share was less and it was more of a mixed record as to whether or not we had solved all of the issues there, but we did not feel that they could be addressed well by the continuation of the particular mode we had in the GIB. Maybe you want to add—

Chair: Thank you. Mr Kingsbury, please keep your answers brief, because we want to try to finish the session relatively timelily.

Shaun Kingsbury: The challenge with energy efficiency is that it tends to come in small bite sizes. We probably did more transactions in energy efficiency than we did in offshore wind, but we may have on average invested £5 million to £10 million in each, whereas in offshore wind it might have been £150 million to £250 million.

Q4 **Chair:** Hence it does not show up in the figures.

Shaun Kingsbury: Exactly.

Q5 **Caroline Flint:** Given that offshore wind is so popular and we have seen the price of offshore wind plummet, it seems to me that that is not necessarily something that the Green Investment Bank may need to address in such a strong way, because it was already popular and money was going into it. If you are addressing market failure, wouldn't you try to address some of those other areas that maybe required more of a push from the Green Investment Bank?

Shaun Kingsbury: I guess in 2012, when we started up, that was not the case—offshore wind was really a minority sport. There were very few people who were willing to put money into it, other than the utilities who had started up to do the development process. In fact, I think we completed nine transactions in total, and most of those were made over the first two or three years. We could not find others who were willing to take a financial investment in some of those projects.

On each occasion, because we have to stand by the state aid clearance and the objective not to crowd out private capital, we always had to check whether other people were willing to invest. In each of those projects, I am very confident that at the time they were up for investment, or given the state they were in, there actually were no other people willing to do so. However, as we showed that we could complete those transactions and then, over a period of a couple of years, build them out, pretty much on time and on budget, we found people who liked the risk-adjusted returns.

Today, I would not declare everything solved, but you are quite right that certainly a lot more capital is available. At the beginning, when we started, there really wasn't.

Q6 **Chair:** So why did you not invest in some of the emerging technologies, such as tidal power and carbon capture and storage?

Shaun Kingsbury: There was no carbon capture and storage project that came to a point of completion that had all the structure in place that would have made it investible. We certainly looked at some of the tidal projects. Again, none of them ever got to a point of financial close where we could have put money to work. We certainly engaged with all the developers. We understood the technologies, did the reviews and were prepared to engage, but they never quite got to that point. Either they did not get the support mechanisms to allow them to work, or there was not sufficient momentum behind them to bring them to financial close.

Chair: Fair enough. Thank you very much.

Q7 **Chris Evans:** Mr Chisholm, how confident are you that the Green Investment Bank is of clear public benefit?

Alex Chisholm: Was?

Chris Evans: Yes—wrong tense there.

Alex Chisholm: I feel very confident on that issue, because I think that what it was trying to do in terms of accelerating the development of the green economy was very clear when it was set up. That was not my work—it was long before I was in the Department—but I have looked back over the record of what was said to Parliament at the time in the debates that they had, as part of the process in 2010 to 2012.

What it was trying to do was quite novel, because it is not normal for the Government to establish an investment bank. I think the way they did that—setting it up as an independent organisation with appropriate expertise and governance, but within a policy and regulatory framework—was admirable. As we have been discussing, the particular market failures it was set up to address have very largely been addressed.

As I think the NAO rightly points out, you cannot say that was purely because of the GIB, because there were lots of other factors in place at the time. Obviously, we were working through the after-effects of the financial crisis. There was a competitive dynamic, with lots of other technologies improving, and lots of other things contributing to the development of the green economy, but again, I think the NAO is judicious in saying that the GIB made an important contribution.

Q8 **Chris Evans:** Why has it been so difficult to assess the impact of the Green Investment Bank?

Alex Chisholm: I don't think it is difficult to assess the impact. What is difficult to say with confidence is the causality, because there were so many other factors. You cannot say it is only because of the GIB. I feel very confident, as I think the NAO were, that the GIB made an important contribution, because you can see that it participated in about half of the transactions from 2013 to 2016 in the offshore wind, waste and bioenergy markets, so it is very likely that it made a strong contribution.

Also, when independent economic consultants were hired to do a market survey, they talked to a number of investors in the market and asked, "What has the contribution of the GIB been?" They said, "Actually, it has really helped with liquidity, and it has helped with a demonstration effect, showing that these are investible propositions." That is exactly what it set out to do.

Q9 **Chris Evans:** So why, then, did the NAO Report say in paragraph 2.15 that the mission "did not develop a fuller picture of the circumstances and criteria it would use to judge that the mission had been completed"? Why is that sentence in the Report if you are so confident? Are we looking at a problem in the beginning when the mission was set up?

Alex Chisholm: I understand that. I think when you look back at the formation time, it did say it wanted to accelerate the development of the green economy, and I think that was quite a broad-based objective. Again, I am impressed with what the GIB did then, because right from the get-go they began to report on the impact on the green economy, and there was no look-up guide for that; there was no pre-existing standard. They said, "If we're investing in green infrastructure, what's the impact on greenhouse gas emissions?" They have reported on that. And they said, "What's the impact on renewable energy? What's the impact on waste to landfill?" If you look at the complete record of that, you'll see that greenhouse gas emissions have been reduced by the GIB portfolio by 8 million tonnes of $CO_{2,}$ which is equivalent to about 3.4 million cars off the road, so it is a very weighty contribution; that renewable energy generated will be 21.5 TW an hour, which is equivalent to about 5.2 million homes, and that is an annual contribution; and that waste to landfill avoided will be about 3.2 million tonnes, which is the waste of about 3.3 million households. Those are very impressive records of achievement in terms of the impact of this green infrastructure on our green purposes, which are trying to allow the economy to function at a lower carbon cost.

Q10 **Chris Evans:** We are here to learn lessons. With the benefit of hindsight, if you could turn the clock back, how would you redesign the evaluation systems with more of an evidence base to ensure that the mission was completed? What have you learned and what would change if you were faced with a blank sheet today?

Alex Chisholm: I think that is a very comprehensive way of trying to measure green impact, and I am pleased that the new owners will continue with that for annual reporting. In terms of being able to say precisely how you have solved the market, I struggle to think what you could additionally do, because there are always going to be a certain amount of other market factors and technology things that mean you cannot say that it is exclusively because of the GIB. On the survey, I think they talked to 70 or 80 people, so you might say there should be a larger survey size, but these are specific markets, so there are not thousands of people who you can talk to. I think it is as comprehensive as it could be and I am really pleased that the efforts made by our—

Q11 **Chris Evans:** So you are happy with the present evidence-based appraisals of whether the GIB met its mission statement.

Alex Chisholm: Yes.

Q12 **Chris Evans:** There is nothing that you would change.

Alex Chisholm: There is nothing that occurs to me, no.

Q13 **Chris Evans:** Does the story of the GIB meet the commission's vision of a permanent institution working in the long-term national interest?

Alex Chisholm: Yes. Right from the outset it was recognised that it was desirable to have an enduring institution, but it was also recognised that over time that could transfer into the private sector. What was not known was how long it would achieve. It is clear that it is not a core function of government, generally speaking, to operate an investment bank, and it is also a requirement, for state aid and other reasons, for public sector investment not to crowd out private. There was always going to be a judgment in time about when you had solved the problems that we created GIB to address. As early as the autumn statement 2013, the Government said it was going to start work to develop plans to attract private capital, and it gave an update in 2014 and 2015. So it was quite deliberate about it. Most of the evidence it gathered was in 2015 and then it obviously announced the intention to sell, or initiated the sale, in March 2016. I think that process of trying to judge when to put it in to the private sector was a very deliberate one.

As I began to say previously to the Chair—I don't know if this is the right time or not—we have put in place some safeguards.

Chair: No, we are going to come on to the sale process.

Q14 **Chris Evans:** What I am struggling with, Mr Chisholm, so I wonder if you can help me, is: what did you mean by the term "enduring institution"?

Alex Chisholm: Looking back over it, I do not think it had any special meaning other than the ordinary sense of the words. It was recognised that you wanted to have something that was enduring, and not just throwaway or temporary—that is important—and secondly, that it had some institutional embodiment. So it was a group of people with a particular way of doing business, a particular capability, a brand, a presence and a location, and all those things have been safeguarded.

Q15 **Chris Evans:** Mr Kingsbury, what did the phrase "enduring institution" mean to you?

Shaun Kingsbury: I guess something that sticks around and is here year in, year out that can form part of the ecosystem of what is needed to build out the clean, green infrastructure that we need. Again, as Alex said, in the ordinary sense of the words, it is something that perpetuates and does not come to an end. But, as I thought about it, and it was clear as one of our missions from the beginning, at some point it would not be appropriate for public sector money to go in. That enduring institution must, at some point—the judgment is when the right point is—migrate over to having either a combination of public and private sector money, or fully private sector money. I thought about it as an ongoing institution that would transition from public to private ownership over time.

Q16 **Chris Evans:** So was it throwaway, too?

Shaun Kingsbury: No. Certainly when I came in, there wasn't a specific term thought about. Nobody said, "Let's look at it again in three years" or something. I think you have to assess each of the markets. Our role is kind of to be half a step ahead of the market and to try to find the transactions that were investable and bankable but that other people were not yet interested in—not because there is no money in the market, but because there is not the knowledge and expertise.

With the money we had from the Government, we could go and hire a team of 100 people. Very few other institutions could do that and build that cadre of people. Keeping that cadre of people together in an institution that would keep that knowledge, so that it forms part of the ecosystem to make all this stuff work going forward, is kind of the definition of how I think about it.

Q17 **Caroline Flint:** Can you give me an example of an enduring institution that is comparable? I can think of KfW, a Government-owned development bank in Germany that was set up after world war two and is thriving today. That is a very good example of public-private intervention. What institution comes to mind when you think of an enduring institution, Mr Chisholm and Mr Kingsbury?

Alex Chisholm: It's not really a question I can answer, because I wasn't there at the time. I just try to reinterpret it in terms of what seems the likely thing, which is that you wanted it to continue over time—that it had an institutional embodiment. Unlike in Germany, it was never said at the beginning that this would have to stay in the public sector for decades, as in the case of KfW. In fact, it was anticipated right from the get-go that it would at some point transfer in whole or in part to the private sector.

Shaun Kingsbury: I was actually going to say KfW—you used the one I thought of. It has a combination of public and private money in it.

Q18 **Chris Evans:** Mr Chisholm, how many of the market failures identified in 2011 still exist today, and what is the likelihood of their return without further intervention?

Alex Chisholm: That was the issue that I began to touch on a bit earlier, which is to say that we are really confident that the offshore wind market is going well. There is lots of evidence of that. We are also pretty confident in the waste and bioenergy markets; a lot of the work that GIB has done has achieved its intended objectives there. There may still be ongoing opportunities, but that market is working in a much more broad-based way for investors; there is lots of private capital coming into that.

The one that doesn't yet seem to be working entirely satisfactorily is in business energy efficiency. That was the third area, and that was the topic that Mr Kingsbury addressed in his answer previously.

Q19 **Chris Evans:** Why was the GIB successful in the offshore wind, waste and bioenergy sectors, but not so successful in other sectors, such as business energy efficiency? What are the reasons for that?

Shaun Kingsbury: I can give you an answer on that. On waste and bioenergy and offshore wind, we had lots of project developers. People were out there finding the opportunities and putting together the structure. Where they were particularly struggling, especially back in 2012, was around finding the capital for that. That has to be knowledgeable capital that understands the risk and the risk-adjusted returns and is willing to invest in that.

When we came along with the capital behind us, we could hire a group of experts. We were then able to go in and assess those projects and ensure that the risk-adjusted return was right. Once we invested, it created a good housekeeping seal of approval, if you like, and other people were then willing to come in and invest alongside us. Those markets worked, and we helped fix the problems, because the developers were there but the issue was financing the projects. These are very big-ticket items—as I said, up to £250 million in an investment for us.

On energy efficiency, we actually made more bespoke investments in that sector, but they were all relatively small. We weren't able to deploy the capital at the scale we really wanted to, so we decided to start investing a little bit earlier in the scheme, to try to do some of the development work. I think that work continues. We went further upstream; we tried to generate and create an ecosystem of project developers because they existed in the other areas that would then generate the projects that we could deploy the capital in. I think Macquarie has continued that work, and you might want to speak about that in a few minutes, Mark. Does that explain why there were differences in what we did to try to solve that?

Q20 **Chair:** But Mr Kingsbury, the one area that you did not invest in was onshore wind, yet that has been outstandingly successful through the Government's feed-in tariff system. Why did you not invest in it?

Shaun Kingsbury: At the beginning, for the first two years, when we went to Brussels to get the state aid approval to establish the bank, we had to show that there was a market failure of available capital for each of the subsectors—onshore wind, waste, bioenergy, solar. At the beginning, what they accepted very quickly was, "Yes, we can see that in waste, bioenergy, offshore wind and energy efficiency, but we are not yet sure about onshore wind and solar." We continued that dialogue with them over the next two years while we invested in those other sectors. Eventually, they said, "Look, we can see that your application of the same sort of logic will work in those areas," but by the time we got approval, two and a half years in, we found few opportunities because the support mechanisms for onshore wind and solar had gone away. We did a couple of deals in onshore wind where there were some special circumstances that we could understand that others struggled with, but we never did anything in solar. That was because we did not have approval to do so at the beginning.

Q21 **Chris Evans:** Do you think the GIB were the best people to intervene in the non-domestic energy efficiency and small-scale renewables market?

Shaun Kingsbury: One of the things we did at the beginning was look right across the spectrum and ask where we could have the biggest impact in terms of the green metrics that you just heard from Mr Chisholm. Clearly, the bigger projects were where we could have more of an impact and deploy more capital. We realised that we needed to create an ecosystem of other people working on the smaller transactions, so we created a fund of funds business.

We tried to create other developers—people who would have smaller pots of money who would chase the smaller deals—so we established two or three players and we provided them with £50 million on the basis that they would match that with £50 million that they had to raise in the private market. That allowed them to establish their business and chase those deals. They were very successful. As I said, we did more transactions in that space than anywhere else, but a typical transaction might be to go to a big car parking organisation and replace all their lights with LEDs, or to go to a hospital and replace the coal-fired boilers with biomass boilers and put in energy efficiency heating systems.

I think that was the right way, because we tried to roll out the capital in smaller pieces and put it in the hands of people who would build that expertise and knowledge. It was successful when you look at what they were able to do, but when you add it all up, it is a much smaller amount.

Q22 **Chris Evans:** Can I give you a specific example? I want to talk about the Lincs wind farm off Skegness, which cost £300 million. It was operational in 2013 and GIB bought it in 2017. That does not feel like you are addressing market failure. It feels like you are just buying up other investments. Could you explain that specific example please, Mr Kingsbury?

Shaun Kingsbury: Sure. At the beginning of GIB, when we looked at offshore wind, one of the challenges we saw was that most of the projects were being developed by large utility companies. I think RWE or E.ON may have been involved in that particular one. Those companies were being successful in investing the capital in the development—the risky piece—but when it came to writing the really big cheques to build these things out, which can be £1 billion to £2 billion, they could not recycle their capital. To limit our risk, we agreed to invest in that project once it reached completion, so effectively we were buying into an operating asset.

You could say, "What use did that do? It was already built," but we got two recycles on that. The first commitment we got from the utility companies in all cases where we bought something that was coming into operation or that was operational was that they would recycle that money into the next round—we were giving them the free capital to fund their next investments. We then took that group of operating assets and the ones we invested in that we took to operation, put them in an offshore wind fund and raised private capital. So we recycled those again and put them in private hands. If you like, we warehoused them, caused them to recycle the capital, and then sold it to the private market. That is what was necessary. It does seem a bit funny—why were we investing in operating projects?—but hopefully that explains what we were trying to do. I think it was successful.

Q23 **Chris Evans:** Before I move on from this section, I have two final questions. Mr Chisholm, as funding for GIB was only certain up to 2015, what were the Department's plans for the bank beyond that point?

Alex Chisholm: The funding from the Treasury tends to come in cycles, so you get a period of funding, and it was funded up to 2015. Then, I think, in 2015 further funding was made available for the two years after that. The Treasury indicated at the time of the decision to have the sale that they would continue to fund it while it remained in the public sector, but that their preference, and indeed the Government's preference, was that the responsibility for meeting its financial commitments would in time pass to the private sector.

Q24 **Chris Evans:** I want to go back to the phrase "enduring institution", Mr Kingsbury. Given that you had funding guaranteed for only a short time, what was the likelihood that GIB would be an enduring institution?

Shaun Kingsbury: I think I knew that; there is no doubt I was very clear on that when I took the role to establish and build the bank. That was part of the challenge, to help to solve the problems in the market, the failure of capital—the market failure, if you like, of knowledge about capital. When you have done that, you kind of work yourself out of a job, so in one sense I knew that would be the outcome if we succeeded, and if we did succeed and worked ourselves out of a job, we would own a number of really interesting, profitable assets.

I was very clear at the beginning that we were trying to show that you could make great risk-adjusted returns and do lots of green work at the same time. If we succeeded, we would be a beacon for the wave of private capital needed to solve this problem. It will never be solved by public sector money. Equally, if we had messed it up, that would have been bad. I was very clear that I had to build the institution and make great investments, and then other private capital would follow. If we succeeded—as I think, in general, we did—we would be able to privatise and sell down those assets and move the bank into private hands. That was the expectation. I just did not know when I took the role whether it would be three years, five years or 10 years. I didn't know.

Q25 **Chair:** Given that answer, Mr Kingsbury, during the sale process you had to seek an instruction from the Department to ensure that the sale achieved GIB's green credentials. Having done so, and knowing the terms of the sale, are you confident that the sale to Macquarie will make GIB an enduring institution?

Shaun Kingsbury: I am confident, and I believe in their commitment. No doubt we will hear a little bit from Mark Dooley soon about what they have done. If we were to move it into the private sector, we wanted someone who had already demonstrated knowledge of the area, who understood how to invest in infrastructure and was willing to make a capital commitment to the forward plans of the bank. That is something that a lot of buyers do not typically do. I think we succeeded in that, along with the commitments from Macquarie on keeping it green, which are in the public domain.

Q26 **Chair:** I am not blaming Macquarie, but isn't it almost inevitable that, as you have moved it into the private sector, they will want to move into bigger-scale investments that will have a lower level of risk?

Shaun Kingsbury: I think they will do both. I am not saying they would not do that, but going back to the question, "If we succeed, will this work?", we succeeded in creating a business model that was half a step ahead of the market. By being half a step ahead of the market, you find opportunities where not everyone is competing with you. When we get up in the morning we do not think about anything else but renewable energy; this is as exciting as we get. That skill set and knowledge, and that cadre of people, are still there, still thinking about those things and still trying to find the kind of stuff that is half a step ahead of the market.

Q27 **Chris Evans:** I want to move on to the sections on the preparation for sale and then the sale itself, and then I will hand over to my colleague. Mr Kingsbury, what prevented the Green Investment Bank from borrowing while it was in public ownership, bearing in mind that declassification is not required to raise private capital, but every pound you spend adds to the public sector's net debt?

Shaun Kingsbury: My understanding at the time was that the bank would be funded with equity capital. Every time we invested £1, we issued a £1 share and funded it that way. There was no opportunity to fund it with debt, but perhaps my colleagues could—

Anthony Odgers: If I could add to that, if the GIB was to borrow independently, the debt would still score to the Government debt; it would just be more expensive than borrowing it through gilts and then investing it.

Q28 **Chris Evans:** Mr Chisholm, why did the Department only evaluate options that would meet the declassification objective?

Alex Chisholm: The Department identified a number of options, as you can see there. When deciding which ones to put most effort into, from the point of view of a full economic analysis, it only considered those options that met its policy objectives.

Q29 **Chair:** But given your absolutely glowing answer earlier about the environmental achievements—green achievements—of the Green Investment Bank, and having ruled out all those alternatives, as Mr Evans said, except those that involved declassification, it does rather look as though the Treasury were driving this whole thing. Was the whole objective to get this off the Government's public sector debt, rather than a green objective?

Alex Chisholm: Declassification was certainly a consideration, and an important consideration, and the Government was very clear about that. Also, obviously there are multiple uses of Government funds, and an additional benefit of this sale is that the commitments already entered into—some £500 million—will now be funded by the new owners rather than by the taxpayer. There are constant demands on taxpayer resources, so that was undoubtedly important. But if we look at the impact, as you said, in terms of the green economy, one of the questions to ask is: as a consequence of this, is the future investment rate in green infrastructure going to be reduced or increased? One of the things that was important in the commitments that were given to the Secretary of State at the time of the transaction by the Macquarie consortium was that they would actually increase the level of investment and are expecting to invest some £3 billion over the next three years.

Chair: My colleagues are going to come on to questions to Macquarie.

Alex Chisholm: That is a higher rate of investment than previously.

Chair: I am sure they will want to bring Mr Dooley in on that.

Q30 **Chris Evans:** Mr Chisholm, could you explain to the Committee how the Government reached the decision—the rationale for reaching the decision—in June 2015 that further public funding for the GIB was not affordable?

Alex Chisholm: That would have been an assessment for the Treasury, as the Chair has said, with regard to alternative uses for those funds.

Q31 **Chris Evans:** Following on from the Chair's earlier question about the Treasury driving this, was this simply a case of not adding to the public debt and a drive to cut it down? Is that why the decision was taken to declassify?

Alex Chisholm: I have tried to be as clear as possible about the importance of it being an enduring institution and the evidence of its continuing ability and commitments to invest in green infrastructure. That, too, is important.

Q32 **Chris Evans:** How do you define the value for money in the sale, then?

Alex Chisholm: A number of considerations come into account. One important safeguard of value for money is to be sure that you've got the best achievable price. If you like, I can describe the process we went through to make sure that there was a fully competitive auction for this asset. That is one safeguard. A second measure, albeit a rather crude one, is to say: "When you look at the amount invested and the amount you've taken out of it, are you in the money?" Well, in fact, £1,567 million was invested and the proceeds were £1,753 million, so the taxpayer, on a pure basis, gained £186 million from this transaction.

We also needed to show from a state aid perspective that the money had been returned to the state with the set rate of interest that applies in these cases. All of those would have been considerations for value for money—plus, importantly, we needed to consider the inside option: "Now that we see what the outside bidders will pay, would it be better to hold on to it?" That option was very carefully preserved throughout the sale process before the final assessment, which was, "No, we'll be better off proceeding with the sale."

Q33 **Chris Evans:** Most of the assets are in construction, so why did you not evaluate the impact of these assets until after the sale was launched?

Alex Chisholm: At any point in time, for a business of this kind investing in green infrastructure, there are always going to be assets under construction unless you cease to invest, which would not have secured our objective of having an enduring institution. In terms of how that affects the valuation, perhaps I could bring in my colleague from UKGI to explain.

Anthony Odgers: Absolutely. The key question that you had was whether it was the right time to sell. There are really two aspects to that. First, had it substantially achieved its policy aims? Were we using Government money to do things that could now be done by the private sector? As we have discussed, for two and a half out of three the answer was yes.

Secondly, would we get value for money, particularly while a number of the projects were under construction? You are absolutely right on that, and it was one of the key questions that we were trying to ask ourselves at the time. The answer became clear through the work of the Green Investment Bank itself. I sat on the investment committee and we saw each of the deals going through the market at each time. While I was originally a little sceptical about whether we would get value for money during construction, in practice the information that the investment committee got when we saw each of the deals going through the market demonstrated that people were able to pay fair value for assets in construction. On that basis, and on the basis of the market testing we did, we felt that we could achieve fair value for that.

Q34 **Chris Evans:** So why did you only begin a fall-back option after the sale commenced?

Anthony Odgers: As a fall-back option, there was always the do-nothing option. That remained on the table from day one. It was only essential to look at a specific IPO at a specific time at the point at which we did so.

Q35 **Chris Evans:** Was there subdued investor interest in the GIB before the pre-sale?

Anthony Odgers: I think there was a wide range of interest in the market, but it was quite a complicated asset. It had been built up to deliver policy aims, so it was a different mix of assets from what the market would normally see. It therefore took a little more time and explanation to get the investors lined up to pay fair value.

Alex Chisholm: Over the course of the sale process, over 100 investors were initially contacted. I think some 39 parties signed a confidentiality agreement, showing a degree of interest, but only five initial bids actually came in. When we moved to the second stage of the sale, I think four parties were involved, and two made formal offers at the end. That funnel approach is quite characteristic in transactions of this kind.

Q36 **Chair:** Mr Chisholm, did you make it clear to all the parties considering bidding that you had to achieve a minimum state aid price? If so, why did some of them come in so significantly below that price?

Anthony Odgers: Do you want me to try answering that? It was clear to them. Whether they were doing it as a negotiating strategy or looking to see if there was some way round, I am not sure, but we were then extremely clear to them that their bid was unacceptable, not just from a state aid perspective but from a UK Government value perspective. To some extent, the state aid hurdle was a bit of a red herring, because our own view of value was ahead of that in any case. We were always clear that what they put on the table was just not good enough.

Q37 **Chair:** Let us come on to Mr Evans' really important point about whether this was the right time for sale. Paragraph 3.28 of the NAO Report says that "the range was that phased sale would raise £63 million more than sale to Macquarie, although the high end of its range was £197 million more, and the low end £75 million less". With hindsight, where in that range would a phased sale have been?

Anthony Odgers: It is very difficult to say with hindsight. We have not done an extra set of analysis. I can tell you what our thought process was at the time.

Chair: Yes, that would be really helpful.

Anthony Odgers: At the time, what we looked at was the alternative of continuing to run and fund the business ourselves as Government and do an IPO relatively shortly after a large number of the assets had moved into construction. That was our reference case, as our best alternative. The midpoint of that value at the time, as you say, was about £60 million ahead of the offer from Macquarie. However, that represents 2% to 3% of the total built-out value of the business, so it does not take much for that to disappear. The thing about construction risks is that they are asymmetric, in the sense that it is not unusual to hear about a project that is a year late and 30% over budget, but you never hear about a project that is a year early and 30% under budget. You have to weigh the risk of something going wrong more highly than the equivalent risk of it going right. The market does that by applying a higher discount rate during construction than during operation. If you replicate that, that difference—that £60 million, or 2% or 3%—disappeared completely, so we felt that it was a fair price.

Q38 **Chris Evans:** But, Mr Kingsbury, is it fair to say that the ongoing issues of the sale had a negative impact on the Green Investment Bank? The Report says that the uncertainty of the sale and the workload had an impact on your ability to invest, and your key staff departed. What was your experience of the sale process?

Shaun Kingsbury: First of all, there was a separation between the Government and the executive. We certainly didn't see those numbers as we went through the process—it is worthwhile underlining that. Any time you put a business up for sale—my background is buying and selling businesses—you invariably create uncertainty for people, and it is tough, because they are not sure who is going to buy the business, when it is going to go and what the future will look like. Some people are capable of dealing with that, and other people get nervous, vote with their feet and go take something that is secure in another business.

We always expected the sales process to have an impact, and certainly we lost some people. There was not a huge increase in staff turnover, but certainly a few left, as you would expect. Any time you lose key staff, it has an impact, but in our last year, even though we were going through the sales process, we still invested more than in any previous year. It had an impact, but not a catastrophic one.

Can I just go on the record to thank my team? They worked through a tremendously difficult period holding the bank together, making the investments and getting us to the finishing line. Without them, we wouldn't have the opportunity to be sitting here today. I would just like to go on the record and thank them for it.

Q39 **Chris Evans:** You told the Committee that you have got experience of buying and selling businesses. Do you think, given your years of experience, that the Government had a clear vision of what they wanted to achieve with the sale?

Shaun Kingsbury: I think what they wanted to achieve was very clear. We went through a standard process, which I fully supported, to get to the end point. You are never sure when you start these things how long they will take; you never know what interest you will get. That is the whole point of running those processes. We had a fall-back option in place at all times and could say, "If we don't get what we need or what we like, we can keep going another way." I think it was typical.

Q40 **Chair:** Mr Kingsbury, going back to my earlier point, how can it have been that the Government were so clear in the sale when you had to get a special resolution from the Department to ensure that the green objectives were being met?

Shaun Kingsbury: We got a special resolution from our shareholder so that the board would enact a number of things to make it happen. The board was not involved in the detail of it. That is the difference. That was run by the Government—the shareholder executive.

Q41 **Chair:** Can I just stop you there? Why was the board not involved in the detail? They were the people who really knew the detail of the whole of this organisation, so why were you not involved at an earlier stage?

Anthony Odgers: The transaction was run essentially by the shareholder. The way the transaction needed to be implemented required the board to do a whole series of different things, so the shareholder had to tell the board what it needed to do to effect the transactions.

Q42 **Chair:** I understand that. Mr Odgers, your organisation, UKGI, is used to selling things on behalf of the Government. It sells a wide range of investments. Surely the first criterion in selling any investment is to understand from the people involved the detail of exactly what the organisation is all about.

Anthony Odgers: Absolutely. Writing the information memorandum, setting up the data and making the presentations was all done by the GIB executive, management and staff, overseen by the board. When it came to the negotiations about price and terms, that was held by the shareholder. We had a board transaction committee that had full visibility of what the shareholder was doing, but the executive management did not. That follows the previous recommendation from the NAO. I am sure this would not have been the case with this management team—I am confident of that—but the trouble is that there is always the suspicion that if the management team are privy to all the details, they might be tempted to steer negotiations in a way that is better for them.

Q43 **Chair:** Having sought and got that special resolution, the negotiations with Macquarie then secured the five objectives that Macquarie has told this Committee it is going to adhere to. The board's intervention—rather late in the day—improved the offer considerably, did it not?

Anthony Odgers: Well, when the Macquarie offer came in—I remember very well sitting in the board meeting—we all agreed that the offer on the table then was deficient in terms of value and commitment. The board was going to lead on the commitment and the shareholder was going to lead on the value.

Q44 **Chris Evans:** This is my final question before I hand over to my colleague. This is a question first to Mr Chisholm and then to Mr Kingsbury. Do you think this transaction resulted in that fabled enduring institution?

Alex Chisholm: Yes, I do, and I am really pleased that we had the chance to come before the Committee to discuss this transaction, because I think it is a model of a well planned, well executed and disciplined intervention, which has achieved its objectives. Having, in a way, been able to withdraw from the public funding, we have been able to ensure that there is this enduring institution—now called Green Investment Group, rather than

Green Investment Bank. It has mostly the same staff; it still has a presence in Edinburgh and London; it has an almost identical brand and is investing in the same sorts of markets at a bigger scale; and it has these commitments in place and the special share arrangement, to make sure that that continues for the foreseeable future. So yes, in short.

Shaun Kingsbury: I would echo that. We will probably come on to Mr Dooley in a few minutes, who can talk to you about progress over the first few months since the transaction occurred. Maybe that is the best way of seeing where the rubber meets the road. Let us see what they have done.

Q45 **Gareth Snell:** Mr Chisholm, can I probe you on some of the figures you have just used? You said that £1.7 billion was the figure that you assumed. That is gross, isn't it, because there was an immediate buyback of £132 million of assets from Macquarie? You said that £186 million was the premium of the sale price over the total Government cash that was put in, but that does not necessarily include the NAO's estimate of £60 million worth of costs that were associated with financing. Are you still comfortable using those figures?

Alex Chisholm: Yes.

Q46 **Gareth Snell:** Okay. How would you respond to suggestions that your Department allowed Macquarie to cherry-pick assets as part of this sale, rather than simply offering them a portfolio of assets?

Alex Chisholm: That was one of the considerations for the Department and our advisors, UKGI, in this process, not just with Macquarie but with a number of other bidders. We had to consider whether we wanted to allow people to pick and choose between the different investments. We did not want to allow that cherry-picking to go on. All 100 infrastructure investments were put up for sale, with a view to bids up to 100% for that.

In the course of the sale process, as I described previously, we went from four bidders to two firm final, formal bids, and one of those was better than the other, so then we entered into an exclusivity period with, as it happens, the Macquarie-led consortium. At that point—very sensibly, if I may say—UKGI said, "Look, we would like to insist that as part of this exclusivity agreement we have a sum of the parts valuation." So we could see open books of how Macquarie was valuing those 100 different infrastructure investments. As part of that process, we found that just five of those investments were, in our view, significantly undervalued and, in fact, were valued at a discount to book value of some £38 million. From a value-for-money perspective we thought that if we think those are worth more than they do, we should retain those in the public ownership and hold them until we achieve the value that we think they deserve. That is the mechanism that was put in place.

Gareth Snell: But it was never the Government's intention to retain any stake in any parts of the Green Investment Bank, was it?

Alex Chisholm: We said actually that we would be up to 100%. There was always some inherent flexibility. That clarity and flexibility was something that followed NAO advice that was introduced I think after the Eurostar transactions. We did try to keep a little bit of flexibility in there. We used that to good effect to ensure that those assets that we thought were undervalued by the bidder were retained so that we could extract full value for the taxpayer.

Q47 **Chair:** So you had a final negotiation with Macquarie, and you got an extra £32 million out of them. Did you try saying to them, "Hang on a minute. If you buy the whole lot, how much more will you give us?" Was there any of that sort of—

Anthony Odgers: Yes. We had long and extensive negotiations with Macquarie, and those were the alternatives. Either they bought it at a material discount or we retained the assets where we had a different view of value to Macquarie. We did double-check with the Green Investment Bank and the teams. We had external advice to check that we were confident in the book values, which we were. On that basis, we developed a mechanism to retain 90% of those assets in public ownership so that they could be worked out at the best possible time.

Q48 **Gareth Snell:** What is the current timetable looking like for those five particular assets?

Anthony Odgers: There is a whole series of different answers to that. Some are already in early negotiations, and others will probably take a couple of years to go through.

Q49 **Chair:** Can you tell us how they will be sold?

Anthony Odgers: They are on an individual basis. There are different groups of assets, and there are different types of assets. Some are fund of funds and some are debt positions. There will be different best buyers and different optimal times to sell.

Q50 **Chair:** Are they almost inevitably likely to end up in the Green Investment Group, or will they be sold on the open market?

Anthony Odgers: No, I think they will be sold on the open market. As Shaun was saying earlier, those are assets that have funds that have been invested in building assets. While those assets are built or well into construction, there is no need to hold them in the Green Investment Group. They can be recycled to other investors.

Q51 **Chair:** Who will make that decision, and how?

Anthony Odgers: The Government will make that decision, helped and advised by the Green Investment Group, which sits with Macquarie and is incentivised to maximise their value, but the decision will remain with Government.

Alex Chisholm: It is contained within the UK Green Infrastructure Platform, which is a private limited company. It has five directors appointed by Government and one from Macquarie.

Q52 **Chair:** They will advise the Government.

Alex Chisholm: Absolutely, yes.

Q53 **Gareth Snell:** Mr Chisolm, we have seen the undertakings that have been given by Macquarie as to what its contractual obligations are, as opposed to its contractual commitments. Of all the things that are contractual commitments, did you or your Department at any point try to make those contractual obligations to ensure, as my colleague has pointed out, the longevity of the Green Investment Bank's objectives?

Alex Chisholm: Yes, there are almost three levels to the commitment. There is the commitment you have for making this big investment and wanting to make the most of it, as I said at the outset to the Chair, and then there are the commitments that were entered into at the time of the transaction, and I think they have been made available to the Committee.

Q54 **Gareth Snell:** So there are the obligations around future funding, and we are all aware of what they are. We know what Macquarie has agreed to do as an obligation to future funding. What I am trying to understand is the things that Macquarie has made a commitment on but does not have an obligation to do—at no point did your Department push it and say they should be considered to be an obligation, not a commitment.

Alex Chisholm: We pushed as far as we could on the commitments, but in addition we have the protection that comes from the Green Purposes Company. Would you like me to describe the way that works?

Gareth Snell: I am all right with it, but I don't know about the Committee.

Q55 **Chair:** Just deal with the question why we could not have had a sale contract that enshrined all the obligations. That would have made the whole job far easier, because you would not have had to have all this company restructuring, a special chair and everything else.

Alex Chisholm: Do you mean in the original investment prospectus could we have said, "Will you enter into the commitments?"?

Chair: Exactly.

Alex Chisholm: Going back again, I was not there at the time, but I am sure they will have thought that it would depend on who the buyer was. As it turned out, the particular buyer—the biggest infrastructure investor in the world and with a big stake in other green investments in the UK and Europe—was very willing to enter into the commitment to be able to increase the amount of investment. Also, because of other things they had, they were willing to agree to keep Edinburgh and London as their location, so there was a bunch of commitments, which, frankly, Macquarie specifically were prepared to enter into. We don't know if other investors would have been prepared to make those commitments. They had to be negotiated—

Q56 **Chair:** I might bring Mr Dooley in here. Given the sale process being so protracted, the special share arrangement and retention of everything, and the company restructuring at the end to have to do all that, it surely would have been much simpler if Macquarie would have accepted the same obligations in a sale contract rather than having to do all that.

Anthony Odgers: Are you talking about the special share obligation?

Q57 **Chair:** No, I am talking about the obligations that Macquarie are now legally obliged to carry out, but this has been achieved by the special share. Would it not have been much simpler—this is a new and novel arrangement—and have avoided all the company restructuring to have had that enshrined in the sale agreement?

Anthony Odgers: The reason it was in the special share rather than the sale and purchase agreement originally was that it was more effective enshrined in the articles. The other problem was, if the Government agreed the sale and purchase agreement, then it was in the Government's gift as to whether anything got changed, which in turn undermined the accounting treatment of the transaction.

Alex Chisholm: In particular, on the goal of declassification, if the Government had continued to be, as it were, directing and controlling the company and influencing its choices, that would have affected the declassification. Part of the beauty of the Green Purposes Company as a special share arrangement was that that is not actually Government; there are five independent trustees of that, and it is their duty to make sure the company does not deviate.

Q58 **Chair:** I am sure Mr Snell will come on to that. At the moment we have a question from the CAG.

Sir Amyas Morse: I just want to make sure I understood your testimony. Is it your testimony that you asked to have this included as a legally binding obligation as part of the contract of sale or not? Did you ask for that and then not have it proceeded with in the negotiations and you then came up with this other very excellent and wonderful formulation, or did you not ask for it? Which of those is it?

Anthony Odgers: The special share was already done before we started the transaction. It was a sine qua non for any buyer.

Sir Amyas Morse: So it wasn't very particular. Thank you.

Q59 **Chair:** I want to go further on that question and bring Mr Dooley in here. As a bank, would it have made any difference to you whether this whole transaction was done by means of the special share or had it simply been included in the conditions of sale?

Mark Dooley: First, we are very comfortable with the nature of the commitments that we have had. Given that, it was not a matter of sensitivity for us whether it was being passed to us by the Green Purposes Company and the trustees mechanism or another mechanism. But I do understand the reasons given by Mr Odgers as to why, to achieve the broader suite of objectives that the Government had, it needed to be via the Green Purposes Company mechanism.

Q60 **Gareth Snell:** That brings me nicely on to Mr Dooley. Of the assets that Macquarie bought at the point of sale, how many of them are still owned by Macquarie?

Mark Dooley: By the Macquarie consortium that we led, the vast majority of them.

Q61 **Gareth Snell:** Do you have a figure?

Mark Dooley: It is in the order of just under £2 billion: £1.9 billion to £2 billion. Of the investments that already existed in the hard commitments, the transaction talked about was about £2.3 billion. That £2.3 billion captures both the money already out the door and also the further commitments that have to be funded in the future.

Q62 **Gareth Snell:** One of the commitments you have undertaken—we now understand that it is not necessarily binding upon you, but it is a commitment you have made—is that the Macquarie Group will invest £3 billion. How much of that £3 billion commitment you have made is contingent upon decisions made by Government?

Mark Dooley: We are in transition in renewable energy from a Government intervention-based economic model to a more economically independent model. I think that over time, the reliance upon Government intervention will drop away. We have an immediate pipeline of projects that result from policy up to and including this point in time. We can see where that £3 billion is coming from over those three years. Certainly for us, capital is not a constraint. Our constraint is the fact that, as Mr Kingsbury has observed, there is now a well-populated investor community out there trying to get at these assets, and we have to compete to secure them.

Q63 **Gareth Snell:** Given that the Green Investment Group is now a small part of your consortium's much larger operations, what are you doing that you would not necessarily have been doing had you not purchased the Green Investment Group? One of the things we have talked about is that the Green Investment Bank's value was not necessarily just its assets but the fact that it was a platform to allow for future investment. My concern is that things your consortium is already doing could simply be rebadged as Green Investment Bank investment—so the additional £3 billion investment that has been promised is not actually new investment; it is just rebadged existing investment under the new Green Investment Group logo, for want of a better word.

Mark Dooley: It is certainly the case that we have consolidated our existing European renewables business into the Green Investment Group, and those 25 to 30 people are now led, along with the rest of the people from GIB, by Ed Northam, who is a leader of the GIB investment banking business. There has been that consolidation, and we have made what we believe to be a bigger and better business. What we have gained is that, whereas we had a smaller group of people who were renewable energy generalists, we have now inherited the up-and-running, more niche sector specialised structure that the GIB brought us. We have people whose lives are all about offshore wind, all about waste and bioenergy or all about energy efficiency. We are developing the onshore renewables—the solar and onshore wind story.

Already, one of the single achievements of that is that, following on from the energy efficiency story that Mr Kingsbury was talking about, we have just launched an energy solutions product. That levers off some funding structures and products that we have within Macquarie to give us a new offering to those commercial and industrial customers who we want to reach with energy efficiency products, to try to get people's attention on energy efficiency and to make it easy for them to commit to it. Already there are outcomes. Four months in, there is something new there that did not exist for the GIB and did not exist for Macquarie.

Q64 **Gareth Snell:** Mr Chisholm, how confident are you that, under the various special share arrangements and other levers that you still hold, should the Green Investment Group fail to meet the non-binding commitment of £3 billion, you have the necessary leverage to impose upon them or work with them to ensure that that commitment is met?

Alex Chisholm: I think it is a very genuine commitment. Both my Department and GIB published a statement at the time of the transaction in April saying that they also were comfortable with Macquarie as the owner of these assets and with their commitments going forward. The precise level of investment is bound to vary from one year to the next. We just heard from Mr Dooley that they have the funds to do it, and they have the aspiration. They expect to live up to that. I suppose that the reason they have not 100% said, "We will definitely do £3 billion", is that they might do more and they might do less, according to market conditions. That would be the nature of any investment type of proposition. That would have been true for us as well.

Q65 **Gareth Snell:** So are you confident that Macquarie can deliver on that non-binding commitment of £3 billion and, if it does not, you are in a position to apply the necessary pressure to ensure that investment is delivered?

Alex Chisholm: I am confident that between the original motivation, the commitment that they have entered into and the green purpose of the share, we have as much assurance as could possibly be obtained that this will be a successful and enduring institution continuing to invest in green infrastructure.

Q66 **Chair:** Before we let Mr Dooley entirely off the hook on this £3 billion, I want to test your investment intentions and combine two of my previous questions. Surely, there must be a temptation that, as a large investor, you will want to invest in larger, less risky projects, yet point 2 of those five commitments that you have agreed to be bound to, as paragraph 3.32 of the NAO Report states, is to "continue to invest across sectors such as energy efficiency, biomass, energy from waste, onshore wind, offshore wind, solar, tidal and energy storage." These are things that, as we heard from Mr Kingsbury earlier, the GIB had never invested in before. Is it your intention to invest in them now?

Mark Dooley: I am ticking the list off in my head, and I think that we are working in each one of those investment categories right now. Certainly across the world we are, and I think that in the European business we are as well. In tidal, hopefully we have had a prominent role in trying to make the Swansea Bay project happen. Energy storage is part of this energy solutions product that we have just launched, as is energy efficiency. We are at work on solar projects in three European countries and have done quite a bit of solar in the UK as well. On onshore wind, we did Europe's biggest ever single-site onshore wind project last month.

Q67 **Gareth Snell:** But, Mr Dooley, one thing that could possibly be the case, and I am hoping you can dispel my concern, is that the renewables market is constantly changing. As you say, offshore wind is an area where there is lots of potential investment and you are competing against alternative providers. How can we be confident that Macquarie, now that it has the franchise of the Green Investment Bank under its remit, is not going to simply chase the "stack them high, sell them cheap" easy options that do not give an enduring legacy, as was intended from the agreement, and that instead it will go after those slightly more costly, more risky investments that will deliver that long-term longevity that was intended when the Green Investment Bank was set up?

Mark Dooley: Both the Green Investment Bank and Macquarie are, by nature, pioneers. Macquarie has been regarded as one of the pioneers of the global infrastructure investment market since the early '90s. Clearly, the story that Mr Kingsbury told shows GIB as a pioneer. We stick with that philosophy and focus because we find that unless we are pioneering new territory, the opportunity for us to do distinctive things and create strong outcomes for ourselves economically gets competed away. That explains why GIB under Government hands did not work in onshore wind, because there was no additionality—there was too much money chasing it. It is becoming interesting to us again, hence the deal that we did a few weeks ago, because the degree of Government subsidy is dropping away and then becoming difficult to do again. What is happening? We have an opportunity to go in there and do difficult things. We have just done that and we will do more.

Q68 **Gareth Snell:** You mentioned in passing Swansea Bay and the potential for the tidal lagoon there. Going back to my previous point about how much of your future investment is dependent or contingent on Government decision, if the Government decide that they no longer wish to continue with that project, how much of the work that you may wish to continue with there is no longer viable?

Mark Dooley: Clearly, that is one of the elements in our portfolio of opportunity. That is very dependent on policy.

Q69 **Gareth Snell:** So in that portfolio of opportunity, how much of your opportunity is dependent on policy?

Mark Dooley: I can't give you a number, but I would say that, as of today, the significant majority of projects that we look at have some kind of Government support, but we expect that to transition away through the next decade.

Q70 **Gareth Snell:** Can I move away slightly from the renewable energy market and talk about the broader points about the statutory green purposes of the Green Investment Bank? There were five key areas that the Green Investment Bank was to look at. They range from investment in green infrastructure to promotion of environmental sustainability, protection or enhancement of the natural environment, reduction of greenhouse gas emissions—that is the renewable one that we have talked about—and enhancement of biodiversity. If I can start with Mr Chisholm, how confident are you that having now sold the bulk of the Green Investment Bank to a private company, you can ensure that that new entity is looking at all those aspects of the Green Investment Bank, as opposed to simply investment in green infrastructure?

Alex Chisholm: Those are embedded in the green purposes, and the Green Purposes Company has a special share. In order for the Green Investment Group to change its focus and move away from those green purposes, it would have to have the permission and agreement of the Green Purposes Company.

Q71 **Gareth Snell:** Yes, but there would be nothing to stop Macquarie and its consortium simply rerouting investment away from four of them and focusing predominantly on one of the five, rather than showing that all five are being looked at equally. The special share agreement doesn't give that level of protection.

Alex Chisholm: It doesn't fix proportions between those different sectors; that's true. Indeed, nor did we when it was in public ownership. The balance was not even between them; about 50% went into offshore wind, about 30% into waste and bioenergy and about 20% or a bit less into non-domestic energy. I am sure that the portfolio mix will continue to change according to what the opportunity set is and what you are trying to achieve.

I don't think that is a weakness, but I am confident that the independent trustees of the Green Purposes Company, which includes Lord Teverson—who, you may remember, was very active in the debates at the time of the Enterprise Act, which had the effect of establishing this special share—will continue to uphold that. They are active; they have met formally twice, their minutes are published and my understanding is that they continue to deal closely and regularly with the Green Investment Group and with Macquarie.

Q72 **Gareth Snell:** So, Mr Dooley, in terms of your plans for the Green Investment Group, now going forward under Macquarie, what will you be doing to ensure that all those five areas are looked at and that investments meet all five objectives, rather than just reducing greenhouse gas emissions through green infrastructure?

Mark Dooley: If we look at the Green Investment Bank during its period in Government hands, we'll see that, while a diversity of different forms of energy were supported, there was a strong bias, if not an exclusive bias, towards energy projects; indeed, I think that that was the primary intention. Certainly, every project that we look at is evaluated by our green ratings team against all five of those objectives. It is not good enough to get a great score on reduction of greenhouse gases and get unsatisfactory numbers across the other ones. We evaluate everything we do systematically across all five of those objectives.

As a guide, the vast majority of the volume of what we will see in terms of the project opportunities we have in the near future will be about energy. We are just starting to see interesting projects come through to do with agricultural efficiency and water. I can envisage that at some point in the future, there may be deliverable projects that have those attributes, but that is very much in its infancy relative to where the green energy market has got to.

Q73 **Chair:** Mr Chisholm, I want to just test how this special share would work. The trustees, of course, can only block any changes in the articles of association. They cannot change or block any of the investment decisions that Mr Dooley might make. So supposing the Government decided that they wanted—on the second of those five objectives—to increase investments in tidal power, which is an emerging technology that is beginning to become commercial, but Mr Dooley said, "No, no, no; that is far too risky. We don't want to invest in that." How would the special share actually enforce our environmental objectives?

Alex Chisholm: It does not give the trustees the basis to compel the management to make unprofitable decisions. I would also like to say that that would not have been the case either when it remained in public ownership. The Green Investment Bank would take the same criteria, of things that were not only green but also profitable. So there is no change there.

Q74 **Gareth Snell:** Going back to my earlier point—and the Chair's—what specific commitment did the Department receive at the time that Macquarie would not simply chase the quick wins that would deliver very small levels of return over a quick period of time rather than, as I think we are all trying to point to, those slightly longer-term investments that may be riskier and may not necessarily fit with the business model, but do work with the green purposes, particularly if the special share trust deeds do not have the ability to direct investment, which I entirely understand? How can we be confident, then, going forward, that we are not going to see low levels of investment, with quick returns at low levels, still satiating the demands for green purposes but not really delivering in the spirit of the green purposes, or really delivering that enduring institution, which was one of the main aspirations of the Green Investment Bank?

Alex Chisholm: The GIG will continue to make investments which are profitable. The risk of those, as with the GIB before, is not at the superrisky area. It is not kind of, "Have a go and see what happens". It is things which are meant to be investable infrastructure propositions. That was always the case for the GIB and will continue, I am confident, within GIG. On the term of those investments, they typically involve building new infrastructure, so sometimes they apply over a number of years; at other times, only a short period. Sometimes they are done directly; sometimes indirectly. I am sure that, too, will also continue. On the green investment purposes, I think that is built into both the commitments that Macquarie have entered into and the Green Purposes Company.

Q75 **Gareth Snell:** Okay, but again the purpose of the Green Investment Bank in its initial existence was to intervene where there had been market collapse or where there was market distortion that needed to be redressed; so there was an element of risk with that. Given that the Green Investment Bank is now in private hands, what commitments can you give us today that future investments by Macquarie under the green investment group heading will not simply be chasing technology where you know there is always a guaranteed return on investment, because of the way the market is going, and instead will look towards slightly riskier—but not to the point of detrimental risk—longer-term investments that may not give you the level of return that those quick wins will do? Because otherwise you are just going to be pumping into an already hot market for wind power, and the tidal lagoon, the solar panel, which are still very expensive to produce, may not get the attention that they necessarily deserve but might have done under the Green Investment Bank.

Mark Dooley: I think the Green Investment Bank has always been quite disciplined about its perspective on risk, and I will ask Mr Kingsbury to comment on that, if it is useful for the Committee. The thing that I can offer to give you a sense of a distinctive risk appetite on our part, and something that is additional to the mandate that I understood the Green Investment Bank to have, is our capacity to do development expenditure—to fund material development expenditure. So before a project becomes a project ready for construction, before the final decision is made to actually execute the project, in most of these projects, very significant risk, time and cost need to be incurred—years—and we have taken that development expenditure role in the Teesside bioenergy project deal that closed in August last year, where Macquarie led all of the devex for the last nearly two years. Going into construction, we are developing a very large offshore wind opportunity in Asia. I should say that the Green Investment Group branding has been adopted by our very significant Asian renewable energy business, so evidencing our commitment to get behind this brand and make it significant for us. Again, we are doing development expenditure at an early stage on projects in onshore wind in Europe at the moment. So we are very sensible about risk, but we I think push to the edge of the safe risk-taking zone for financial institutions like ourselves.

Alex Chisholm: If I may add one other point to help the Committee, it is important to understand that the Green Investment Bank was always addressing one particular part of the market in the sense that it was always looking to support infrastructure projects and to demonstrate that they could be done profitably. So from the beginning there was a target rate of return—in fact, the portfolio return was about 10%—and also it was intended to crowd in private sector investment, about two and a half to three times for every £1 invested. That is slightly different from some other things that we do, so riskier, early-stage energy investments, for example, do get other support from the Government—other schemes operated by my Department such as the Heat Networks Investment Project, which would be an example, or the work done by Innovate UK, again often for early-stage risky ventures. There is a whole gamut of support that is available for the things that are much earlier on. This is for these big infrastructure projects, which at the time were suffering from this liquidity problem, and we wanted to show that they could be made investable, so we moved from a situation where there was an annual investment of about £10 billion a year in the UK to one of nearly £30 billion in 2016. So that job has largely been done.

Q76 **Caroline Flint:** May I ask whether carbon capture and storage features in your forecast future investments potential?

Mark Dooley: I cannot say that there is such a project in our immediate pipeline, but we have investigated it in the past. I guess I would say that we are an uncharacteristically well technically resourced financial institution, something greatly augmented by the arrival of the Green Investment Group—we have always had engineers in our team—but we are not generally the player who will develop a project from scratch. It is for some of the utilities perhaps to develop carbon capture projects, or other developers, and then we will come along.

Q77 **Caroline Flint:** I suppose I thought—maybe I have this wrong, Chair—that part of the job, having taken on the mantle of the GIB, is that you help to fund investment for others who are developing projects operationally. We have a list here, each of us on the Committee, of the nearest Green Investment Bank investments to our constituency. I am sure that in taking over these you are not operationally running any of them, but it is about the funding to support these initiatives. Again, carbon capture and storage, as we have heard in Committee before, has been let down in terms of policy support but is clearly an area where we have a huge amount to gain if we can tackle the fact that we will continue to use gas and we need to find a way of capturing it so it does not end up in the air and therefore undermine our targets. Is there any discussion among you about supporting and investing in such projects?

Mark Dooley: We will be very happy to support well-structured projects within carbon capture and storage when they are brought to us, but we—here I am talking about Macquarie, because that's my personal history—need to have projects and a policy environment supporting those projects for us to support.

Q78 **Nigel Mills:** To what extent did you regard these various obligations as a burden that therefore reduced what value you were prepared to pay? Were these just things you were happy to do, and therefore they did not affect the commercial consideration?

Mark Dooley: They were not at all a burden.

Q79 **Nigel Mills:** So you didn't reduce the amount you were prepared to pay? Even for keeping the Edinburgh and London offices open?

Mark Dooley: No. The London team was closed on Thursday 17 August, and on Monday 21 August they moved into a purpose-built area in our offices in Ropemaker Street in London. We very much kept the people but not the office. We are very committed to the Edinburgh office and are recruiting new functions for that office right now.

Q80 **Nigel Mills:** When you chose to buy the Green Investment Bank, were you mainly trying to buy the investments they made? Were you after the brand? Was it the people you were buying? Was it the chance to be a dominant player in the market? What were you after?

Mark Dooley: Over the past 10 or 15 years, we have developed a very good renewable energy business, but we wanted it to be better. We wanted the business definition of the Green Investment Bank, the human composition of it and the mix of skills, including investment banking skills, technical skills—there are a lot of engineers in there—and asset management skills, plus the brand. There are some very seasoned players with real niche expertise gained over decades.

We expect all of those things and are already building in confidence, through demonstration, that they are going to be a positive point of departure for us in our business in green energy, which is why we adopted the brand across Europe, and now in Asia. We also liked the assets, and the mix of assets. We felt that we would be good at analysing the variety of different assets that there were in the portfolio, and that that would be a distinctly competitive advantage for us.

Q81 **Nigel Mills:** Mr Chisholm, can I put the same question to you on the value of the golden share and the obligations? Did you assess whether they would reduce the sale value, or was that always such a given that it wasn't something you felt the need to consider?

Alex Chisholm: I think that it is implied, if I look back, at the way in which the sale objectives were said to be value for money and declassification, with the green purposes subsidiary to that. That was the way the Government described the terms. The implication of that is that it really needed to achieve the first two and it kind of wanted to achieve the third. Happily, I think it was able to satisfy all those objects.

Anthony Odgers: Absolutely. We concluded at the beginning that anybody who wanted to buy the Green Investment Bank would actually want to continue to invest in green. That was part of what we were selling, and therefore we felt that the imposition of a requirement to remain green was not something that any motivated buyer who wanted to invest in this would consider a burden.

Q82 **Gareth Snell:** Can I ask Mr Dooley, on the difference in the book value and what you were willing to pay for those five assets: what prompted that discrepancy? Did you read that they were overvalued? Did you believe that they wouldn't give you a sufficient return on investment? What made you offer a lower value?

Mark Dooley: First, it is not unusual for there to be a discrepancy in the way one player values an asset versus another; that is why markets exist and how transactions happen. In relation to those assets, they might be characterised as requiring a measure of patience to see the right answer play through. The Government and ourselves have come together in a sensible structure to patiently manage those assets to an outcome that should probably deliver the valuation that the Government had in mind.

Q83 **Gareth Snell:** Okay. I have two more questions. Ms Flint's point about carbon capture and storage kind of underlines the point I was trying to make. Maybe I didn't explain myself eloquently enough. That is obviously a new emerging technology where the investment will be significant and the risk is high. You have talked about your portfolio of opportunity going forward. That all seems to me very small c conservative projects involving wind development and existing technology where you are pretty much guaranteed a return on your investment, albeit not necessarily a large one. Are you able to give us a flavour of any of the riskier or emerging technologies or other areas where, over the next three years, as part of the £3 billion, you have committed to investing, although you are not obliged or bound to invest, and which would suggest to me or give me some comfort that you are not simply going to chase the quick wins with the guaranteed small returns?

Mark Dooley: I will just mention again the development expenditure exposures we take on, because that is a situation where we are taking a binary risk: if the key development thresholds are not passed, every penny you have spent is likely to be lost. We selectively do that, but we do do it. And again I will offer the tidal lagoons as a project that we, along with others in the investment community here, have been very keen to get behind. The Swansea project is the first of its type. An extra degree of vigilance and diligence is required to satisfy yourselves that the project has been constructed of understood elements and that there is the necessary degree of assuredness that it will work, but there is still a willingness to do something that is new.

Another sphere where that kind of question is regularly asked is waste and bioenergy, where there is a plethora of new technologies. We are routinely challenged on that. There is a mix of experience on whether you can, with sufficient confidence, march into a brand-new technology. So we will kick the tyres and be very methodical in understanding new technologies, but the willingness to do that and get behind ones that stand up is there. The GIB has a track record of supporting technologies.

Q84 **Gareth Snell:** On the £3 billion that you have committed over the next three years, the transaction was completed in August, so it's obviously early days. How much of that £3 billion committed investment have you actually been able to invest in new or emerging projects since your acquisition of the Green Investment Bank?

Mark Dooley: In the last four months?

Gareth Snell: Yes.

Mark Dooley: I will mention the project that we did on onshore wind, which has very, very little Government support, but is supported by private power purchase agreements; we are selling power to one large company for a portion of their power and otherwise taking merchant risk. I would offer that to you as a new venture, certainly for us, in terms of the risk that we are willing to take on in supporting green energy projects.

We announced a project and a partnership on waste to energy on Monday this week. That will cover a mix of different waste-to-energy technologies in Ireland and the UK. There may not be a lot of new technology there, but there could be. And we supported a 560,000 tonne per annum waste-to-energy project in Ferrybridge in September.

So there has been quite a bit of activity in a short time. I would say the new risk threshold or new risk frontier for us has been the merchant risk in the onshore wind project I described.

Alex Chisholm: And the first green climate finance investment.

Mark Dooley: And the first green climate finance investment for the UKCI fund in Maharashtra in India. That is a 50 MW—

Q85 **Gareth Snell:** My final question for Mr Dooley—I have one more for Mr Chisholm—is: what are you going to be doing differently from what the Green Investment Bank did previously to ensure that what you have purchased is an enduring institution for the purposes of delivering on the objectives of the Green Investment Bank?

Mark Dooley: I would answer that in two ways. First, the nature and extent of activity and secondly the green quality of that commitment. At Macquarie Capital we have developed a very strong renewables business over the last few years. We have committed that and merged that entirely with the Green Investment Group. So anybody from that business going into a meeting in Europe, looking to do a green energy project, is totally committed to the Green Investment Group branding and is projecting our mission to make the Green Investment Group a successful and enduring business, because that is the only renewable energy business we have got and it is operating under that branding, and it is very important to us. We believe, with a great deal of confidence, that the fusion of these two businesses is going to create a very effective and powerful green energy investment business across Europe and Asia. That is my first proposition to you: we are totally committed to it. There is nothing we have held in reserve; it is all Green Investment Group.

The second point, in relation to the quality of our engagement in that business, is that we have totally onboarded the green culture of the Green Investment Group and zoned right into the nature and the systems of the

GIB as it was. Driven largely by Mr Kingsbury, here was a culture of ensuring meticulously through every step that proper green analysis was done of each project that was brought for analysis by the investment committee and that a robust discussion was had in relation to whether we are really consistent with our green objectives here. It is perhaps a more robust discussion than you would have expected. Clearly, a green energy project might create a challenge in relation to biodiversity, sustainability or environment that would not obviously have occurred to you, and we encounter challenges on that. So that is totally on board, and it is part of how the Green Investment Group works.

Alex Chisholm: And you will continue to report, as GIG, on the green impacts. So those things I spoke of before in terms of the greenhouse gas emissions, renewable energy generated and waste and—

Q86 **Gareth Snell:** You have pre-empted my next question. Obviously, the Green Investment Bank was a large contributor to the UK's climate change obligations. What will the impact be on those obligations as a result of the sale?

Alex Chisholm: It should be positive, because the rate of annual investment in green infrastructure is set to increase. You will be able to measure that yourself, because GIG have committed to continuing to publish those same green impact assessments that I referred to earlier every year.

Q87 **Chair:** I have a few quick-fire questions. First, before we let you off the hook, Mr Dooley, I would be interested if you would comment on expected returns of these types of investments. In paragraph 1.13 on page 19 of the Report, under financial reporting, it says, "The Department set a minimum nominal portfolio return of 3.5%. However, this minimum rate is low compared with the return on investment of between 7.3% and 16.3% achieved by other infrastructure investors." Are you able or prepared to tell us what sort of return you would expect on these types of investments? It is a cheeky question, so do not answer it if you do not feel comfortable.

Mark Dooley: The first point I would make is that the portfolio was far from homogenous. There were debt positions in there, assets that had gone into operation, assets still in construction, and assets towards the more novel end on the technology side. There is a diversity of return expectations that go with each of those risk sets. There is also a dynamic in the market, where returns are generally under pressure, so they are reducing, but probably at a slowing speed. It is very hard for me to put across—

Chair: I appreciate the cautious answers. Mr Odgers wants to say something on this.

Anthony Odgers: Yes. As Mr Dooley said, it is not really comparing like with like, because the asset mix in the Green Investment Bank was very different from that of the comparators. On the 3.5%, first, the actual result was much better than that, and secondly, that was after taking account of the costs of operation and development. You take the gross amount and you have to deduct the cost of operation and the cost of developing new things, and that get to a net amount, which is a lower amount.

Q88 **Chair:** I know when I'm beaten. I think we won't get very far on this.

I have some questions for you, Mr Odgers. I would like to take you to page 36 and figure 15, and talk about the actual sale. First, with the benefit of hindsight, is there anything more you could have done to preserve the creative tension in the whole bidding process better? After all, that table shows that you started with 120 institutions. I accept that this was not everybody's cup of tea, but you received four bids and only two final bids. At the end, it was getting pretty touch and go whether you were going to get this thing away or not, wasn't it?

Anthony Odgers: To get a deal done, you need at least one credible bidder and a mechanism to persuade them to pay fair price. We felt we had that. The mechanism we had to ensure fair price was not necessarily 10 bidders all trying to bid. It was a combination of transparency and a very credible alternative, which was an IPO down the track. That was the mechanism that allowed us to do that.

Q89 **Chair:** I understand that you only had two in the end, but with hindsight was there anything you could have done better to maintain the creative tension so you ended up with more than two?

Anthony Odgers: Not for the Green Investment Bank as a whole. The only thing you could possibly have done was to sell it off in pieces and dismember the bank completely, but even then, because our analysis was on a sum-of-the-parts basis, we think we got fair value against that sort of dismemberment. Of course, that wouldn't have had any sort of enduring institutional benefit.

Q90 **Chair:** That wasn't necessarily a criticism of you. This sort of investment is not everybody's cup of tea—I understand that. Another aspect of that table is the length of time it took. If you add up that timeline, it comes to about 79 weeks, whereas the normal time for a transaction of this type might be considered to be seven or eight weeks. Why did it take so long?

Anthony Odgers: We originally hoped that it might take seven to eight months to complete.

Chair: Sorry—seven to eight months, rather than weeks.

Anthony Odgers: Our objective, first and foremost, was not to sell the bank within a set period of time; it was to maximise value for money. The reason it took longer than expected was a combination of things. There was the relative complexity of the bank—the number of different assets and the asset mix—which the market could not easily digest, so that took a long time. There were a couple of external interventions, which took extra time. There was a judicial review following the Brexit vote and a hiatus when we needed to establish that that the investment markets were still there. There were a few external events that extended the programme. The critical thing was to make sure that, throughout, we had a flexible process and a credible alternative. That is what allowed us to continue.

Chair: Just to clarify, just in case I got any of those figures wrong, the estimated time was 30 weeks and the actual time was 72 weeks.

Anthony Odgers: Yes.

Simon Reason: Can I jump in there, Chair?

Chair: Of course.

Simon Reason: It was an application for a judicial review, not a judicial review.

Anthony Odgers: Thank you.

Q91 **Chair:** Why was it only at the end of the process that you considered a phased sale? It was only when it was looking pretty thin whether you were going to get this thing away or not that you had to look at alternatives, but why didn’t you look at all those alternatives at the beginning of the process?

Anthony Odgers: Right from the start, we always had the "do nothing" option. That remained a reference point throughout, from day one. By the time we got to the final offer, we could see how an IPO would work, when it would work, and how you would get there. It was sufficiently close that at that time we could develop a credible alternative that we could properly analyse, rather than it being something that was over the horizon. It became incredibly important to do it at the end, and it also became doable at the end.

Q92 **Chair:** So why did you reject that option?

Anthony Odgers: We advised Ministers, as we discussed a little earlier, that although the Macquarie offer was slightly below the mid-point of that valuation range, it avoided some material market risks—financial market risks, and construction market risks. It was perfectly reasonable for Ministers to decide that in order to avoid those risks, it was a fair price to pay.

Q93 **Chair:** Okay, fine. Going to a previous figure, figure 14, and talking about the costs of the actual sale, the Government’s costs were nearly £5 million in professional fees. Were those subject to any form of competitive tender?

Anthony Odgers: Yes. We had a tender for all those fees right at the beginning. In the context of a large sale such as this—particularly in the context of the time that it eventually took—if you compared those fees with what the private sector would pay, it would be a fraction.

Q94 **Chair:** Why was it that the GIB was able to recover £5 million of its costs, and yet the Government paid all of theirs?

Anthony Odgers: That was just a matter of negotiation. In a sense, we can either get a £5 million higher purchase price, or they could absorb the fees and we would get a lower purchase price.

Q95 **Nigel Mills:** Mr Odgers, for previous disposals we have looked at why it always seems to be the same pretty small group of advisers who get paid these nice high fees. In those competitive tenders, did you look to see whether there was any scope to expand the market, perhaps to some slightly less well-renowned and expensive advisers, or was that just not possible?

Anthony Odgers: The skills required for a transaction of this scale and nature, dealing with some very complicated financial instruments, mean that in practice the range of firms that have all the capabilities for something this complicated is necessarily restricted. The cost of bad advice is a huge multiple of any cost saving, so the most important thing is to make sure that you get the best advice.

Q96 **Nigel Mills:** Is that something you tried and you just didn't think that any other firms that bid were suitable? Did you just assume from the start that it had to be Bank of America Merrill Lynch and Herbert Smith?

Anthony Odgers: No. There was a range of credible firms, and there are a number of very strong financial advisers and law firms that we talk to, so absolutely not. There is a good market in people capable of doing this transaction, and we had a tender.

Q97 **Chair:** I have two final questions, Mr Odgers, about why the process may have taken so long. The first is on the judicial review by the other bidder. Was that unexpected?

Anthony Odgers: Yes, it was unexpected. That is not something that we have seen normally, and of course it is not something that ever happens in a private process, so it was not something that we had factored into our timeframe.

Q98 **Chair:** The other question is about the fact that you needed legislative change, or thought that you did. Was that envisaged at the beginning of the process, or did it just emerge during the process?

Anthony Odgers: Before we kicked off the process we knew that we had to put in place the legislative change. We did not want to have the process disrupted by that, so that was part of the preparation, rather than part of—

Q99 **Chair:** I think I have some wording somewhere—I cannot find it at the moment—that says you had to delay the process until you were assured that Parliament was going to pass the relevant legislation.

Anthony Odgers: That was at the beginning, rather than mid-way through.

Chair: Fine. *[Interruption.]* I have bids from all over the place now—that has sparked more questions. Mr Snell.

Q100 **Gareth Snell:** Mine is an incredibly quick follow-up to Mr Chisholm. Going back to your point about the impact on our climate change obligations because investment would increase, is that all going to be in the UK? Mr Dooley, you have been talking a lot about the Green Investment Group brand now investing in Europe and south Asia.

Alex Chisholm: The commitment of £3 billion is about the total investment, I think. It isn't geographically defined, as far as I know.

Mark Dooley: Correct.

Q101 **Gareth Snell:** So if that £3 billion is outside the UK, what is the impact on our climate change obligations?

Alex Chisholm: We meet our climate change obligations in more than one way. One is—

Q102 **Gareth Snell:** I am asking what the impact is on our climate change obligations if that £3 billion is invested outside the UK.

Alex Chisholm: We have a whole range of tools to make sure that we achieve our objectives on climate change in the UK, but in addition, under our obligations, we support climate change mitigation activity outside the UK. I think Mr Dooley mentioned an investment that we are making within the green climate financing in India with a major solar project.

Q103 **Caroline Flint:** So now we are hearing that in the future the investment may go out of the UK to help other countries with their climate change adaptation; therefore, the loss to us is the innovation, the jobs and the skills that come into the UK. Mr Chisholm, you are not only head of this area but in charge of the industrial strategy for the United Kingdom, and we are hearing that we have no commitments or obligations that will secure the continuing investment that we expected from the Green Investment Bank into the UK exclusively—it could be going elsewhere.

Alex Chisholm: We are investing very considerably. At the beginning of this hearing you heard the amount of—

Q104 **Caroline Flint:** I am saying that there are no obligations on Macquarie not to take the ability of what was the Green Investment Bank to invest and add to investment—it has no obligations to secure that within the UK, and the investment could go anywhere.

Alex Chisholm: I do not think that there are any geographical limitations.

Q105 **Caroline Flint:** There are no geographical limitations.

Mark Dooley: The UK is our headquarters in Europe, so overwhelmingly all of Macquarie's staff in Europe are located here in the UK, and it has also been overwhelmingly our most significant country for investment over the 25 years or so that we have been here. In three transactions in the first six months after the Brexit referendum we led just over £10 billion of investment into this country, and there have been more transactions through 2017 that further demonstrate our commitment to this market.

Q106 **Gareth Snell:** Can I stop you there, Mr Dooley? That is all lovely, except that it is not necessarily related to your purchase of the Green Investment Group. The point that Ms Flint was rightly making is that, of the £3 billion that you intend, or are committed but not obligated, to invest over the next three years under the sale, are you able to give us a figure or a minimum for how much of that will be invested in UK projects that will support our own climate change obligations or, as it is now part of the industrial strategy, the UK workforce, UK R and D and UK development of technology?

Mark Dooley: The £3 billion is not a finite pool of capital that, if it is invested in this project here, cannot be committed to that other project there. It is a guide for how much we would like to get done over that period of time, and frankly we would hope to surpass it, but the commitment of funds to one project does not preclude or in any relevant way diminish the likelihood that we could commit to another one.

Q107 **Gareth Snell:** Okay, let's take the £3 billion cap away. Over the next three years how much does Macquarie plan, or would it like, to invest in UK green emerging technologies that support our climate change obligations, our own R and D, our own development of technologies and the British workforce?

Mark Dooley: Sorry, could you just clarify—

Gareth Snell: If we move away from the idea that the £3 billion is a finite pool—you said it could surpass that, and that is brilliant—over the next three years, how much would Macquarie expect to invest in the UK in green technologies, emerging technologies, our own R and D and the things that will help jobs and manufacturing industries in the UK, as part of the Green Investment Group that you have purchased?

Mark Dooley: It is very difficult for me to put a number on that. Even in the four months that we have owned the Green Investment Group, and in the years before we owned the Green Investment Group, where good investable projects have been there for us to support in the UK we have enthusiastically supported them with our capital. We would expect that to happen in the future, and we certainly hope it will happen in the future.

Q108 **Gareth Snell:** So you can't give even a ballpark figure. Is it £100 million? Is it £1 billion? Is it nothing? There has to be a range somewhere, surely.

Mark Dooley: I would be giving you a figure that I could attach only limited meaning to. In the post-Brexit referendum period we did two deals in the green investment space that added up to £2.4 billion to £2.5 billion. That was a very strong period. Maybe in the next six months we did not very much.

Q109 **Chair:** The NAO Report, at paragraph 3.32, says two important things. It says: "The government intends GIB to continue contributing to green financing to help the UK meet its climate change obligations and commitments." It goes on to say: "Macquarie intends GIB to become its platform for investments in green infrastructure projects in the UK and internationally." How will you judge whether Macquarie is living up to those intentions if it does not invest enough money in the UK?

Alex Chisholm: In the UK and internationally—that is exactly right. Also, because climate change by definition is a global problem, the UK, through the Paris agreement, has been very committed to the most efficient form of carbon mitigation not only in the UK but in other countries.

To pick up Mr Snell's industrial strategy-type questions a moment ago, in the clean growth strategy, which was published in October, we itemised 430,000 jobs in low-carbon businesses and supply chains in the UK, and estimated that the UK's low-carbon economy would grow four times faster than the rest of the economy out to 2030. We definitely do see a lot of opportunity in jobs and growth and exports in the clean growth area.

Q110 **Gareth Snell:** But it is not unfeasible that the Green Investment Bank having been sold to Macquarie, Macquarie then reaps the rewards and the dividends from the assets as they come on line to receive a revenue stream, and then the £3 billion investment—Mr Dooley has just said that is an aspirational commitment, so it may exceed it but it also may not meet it, but whatever it is—is wholly or in the main outside the UK, supporting an international effort in Europe or south Asia, which are the examples that Mr Dooley has given.

Alex Chisholm: We do not expect that, as the Government.

Q111 **Gareth Snell:** I know you do not expect it, but it is a scenario that is possible.

Alex Chisholm: And that is not what Macquarie expects either. We expect that the UK will continue to provide a lot of attractive investment opportunities in these areas of technology.

Q112 **Caroline Flint:** Mr Kingsbury, when you were in charge of the Green Investment Bank and £12 billion was the value of projects you financed before March 2017, were they exclusively in the UK, or were you looking to fund and invest in projects elsewhere, outside the UK?

Shaun Kingsbury: All of our capital came from the Government for investment within the UK, with one exception, which was a £200 million fund that we pulled together with the Department of Energy and Climate Change, as it was, to invest in India. That was the only focus—India, South Africa and east Africa—that we had outside the UK.

Sir Amyas Morse: I will just supplement what has already been said. This is not a criticism of Macquarie at all, by the way, but it is just a fact that this body was originally known as the UK Green Investment Bank when it started out, and nearly all the investments had to be in the UK, with a small exception. It is a change, gentlemen, isn't it? It is a change. That is not to say it is bad, but you cannot pretend that nothing has changed.

Alex Chisholm: I think the statement that was read out earlier said that the UK and internationally was the—

Caroline Flint: It is a change.

Sir Amyas Morse: But it is a fair conclusion to say it is a significant change.

Q113 **Chair:** It either is a change or it isn't, Mr Chisholm. Which is it? Is it a change or not?

Alex Chisholm: It is a change, or an evolution, because of its success. It has grown bigger.

Chair: It is a change. Okay.

Q114 **Nigel Mills:** On that theme, the structure of the deal was to create the golden share and create some obligations, but I think, Mr Dooley, you have blended the UK Green Investment Bank with your existing renewables activities and presumably with your investment structure. How confident are we that that golden share is still in something that contains all the people, assets and whatever else you need to try to keep control of, or at least influence? Has that structuring so dissipated it that, even if the five independent supervisors—or whatever they are—wanted to say, "Actually, you are not doing what you are supposed to be doing," there would now be no way of enforcing it?

Mark Dooley: We committed to consolidating our European renewable energy business into the UK GIB ownership and leadership.

Q115 **Nigel Mills:** So it has all come that way?

Mark Dooley: It is through that entity that the GPC, the Green Purposes Company, and its trustees supervise on an annual basis, in accordance with its constituent documents, what our activities have been. I think that the commitment to consolidate our business into the UK GIB is a pretty simple one, and that it has been honoured and continues to be honoured. The GPC remains in place to watch over compliance with the special share.

Q116 **Nigel Mills:** Do those trustees now have power or oversight over far more than they used to? Do they now effectively have an interest in looking at your whole renewables business, rather than just what was in the UK Green Investment Bank?

Mark Dooley: Anything that we look to invest in through that ownership structure is subject to the Green Purposes Company regime.

Chair: Thank you all very much for appearing before us this afternoon. I think we have probably delved into this matter as much as we are going to be able to at present. Thank you all very much, and I wish everyone in the room a very happy Christmas and a successful new year.