HOUSE OF LORDS

# Economic Affairs Committee

## Corrected oral evidence: UK energy supply and investment

Tuesday 17 May 2022

4 pm

Watch the meeting

Members present: Lord Bridges of Headley (The Chair); Viscount Chandos; Lord Fox; Lord Griffiths of Fforestfach; Lord King of Lothbury; Baroness Kramer; Lord Monks; Baroness Noakes; Lord Rooker; Lord Skidelsky; Lord Stern of Brentford.

Evidence Session No. 20 Heard in Public Questions 239 - 247

### Witnesses

I: John Flint, Chief Executive, UK Infrastructure Bank; Chris Grigg, Chair, UK Infrastructure Bank.

USE OF THE TRANSCRIPT

1. This is an uncorrected transcript of evidence taken in public and webcast on www.parliamentlive.tv.
2. Any public use of, or reference to, the contents should make clear that neither Members nor witnesses have had the opportunity to correct the record. If in doubt as to the propriety of using the transcript, please contact the Clerk of the Committee.
3. Members and witnesses are asked to send corrections to the Clerk of the Committee within 14 days of receipt.

# Examination of witnesses

John Flint and Chris Grigg.

Q239 **The Chair:** Good afternoon and welcome to our second session this afternoon of the Economic Affairs Committee. It is very good to welcome Chris Grigg and John Flint. I declare for the sake of completeness that many years ago Chris Grigg's and my professional paths crossed, so we know each other from then. It is very nice to see you again, Chris, and John. Would you like briefly to introduce yourselves?

***John Flint:*** Thank you. I am the chief executive of the UK Infrastructure Bank. I have a 30-plus-year career in banking.

***Chris Grigg:*** I am the chair. Scarily, I have a 40-year career that spans investment banking and commercial banking and, latterly, as chief executive of British Land, the UK property company.

**The Chair:** Thank you both. Let me start with a scene setter about what role the Infrastructure Bank should play in the UK's energy strategy. The reason for asking it is, first, whether you are needed at all. We have been told there is lots of capital out there for investment in renewables, in energy, et cetera. Where do you fit in?

The second question is about your focus. I know the Chancellor has written to you and wants you to focus on energy security. I am interested in what that means and where you think you will prioritise within that scope. Which of you would like to start?

***John Flint:*** I will start, if I may; thank you. What is our role and how are we needed? Our role is that we sit between government and government policy and the private markets. Our shareholder requires three things that give a good description or indication of the role that is expected.

The first is that we are a bank that is profitable. We are expected to generate a positive return. We are expected, secondly, to crowd in significant amounts of private sector capital, highlighting the expectation that the private markets on their own will not meet the needs of the transition. Thirdly, we measure and monitor our impact through our investment and lending activity. We measure, for example, the impact on carbon emissions, the impact on jobs, the impact on GVA, et cetera. There are three clear objectives.

We are positioning ourselves to be the fulcrum between government policy and the private markets. There is plenty of evidence to suggest today that the private markets are not mobilising quickly enough around the transition. There is lots of logical explanation as to why that might be the case. There is absolutely a role for public money to be deployed in pursuit of market gaps and problems that the private markets, on their own, cannot solve. That is what we explicitly intend to do.

We have a role to play and perhaps it would be helpful for the rest of the discussion to give a sense of our expected scale in the first five years of our development. The bank is nearly a year old. We have been given £22 billion of financial capacity for the first five years. There are many estimates as to how much financing is required, but £22 billion over five years is a modest sum in the context of the overall financing requirement. Are we needed? Yes, because the private markets are not designed to solve the risk-taking that is required for this transition.

The final part of your question was: where is our focus? The shareholder has asked us to focus on two strategic priorities: financing the infrastructure for net zero and levelling up, or regional local economic growth within five priority sectors—clean energy, waste, digital, water and transport. We anticipate that the clean energy sector will be, by far, the biggest sector that we spend our time investing in.

**The Chair:** Can you give us some examples of market failure, looking within the clean energy sector?

***John Flint:*** There are market failures and potential market failures. We are half way through a transaction that will see us commit equity risk capital to subsidy-free solar—an established renewable technology where there is no technology risk but the market is currently reliant on the CfD mechanisms. In time, there is scope for us to play a role helping wean the market off those support mechanisms to take pure market risk. We will do that by committing our capital and signalling to the market that we are comfortable with that risk. That is one example.

We have looked at a couple of interesting examples in OFTO, the requirement to separate offshore transmission from the wind farms. These are assets that have been built but they now require refinancing by the market. There is quite a heavy pipeline based on the existing offshore wind industry, but with the scale-up from 11 gigawatts to 50 gigawatts by 2030 there is an awful lot more of that to come. We have to help the markets find the right home for those assets, once they are refinanced. There is a debate at the moment as to whether there is a current market failure or one that is coming.

Our role is to resource the bank so that we can horizon scan and make sure that we deploy capital where those market failures occur. Do we have the final list today of what they are? No.

**Baroness Kramer:** I want to pick up the issue of market failures. You are not just replacing the Green Investment Bank, as was, but also, in effect, the EIB in a number of key areas. Because its mission was different, the EIB's great advantage was being able to put in, for example, very long-term subordinate debt on which it did not see a return for years or to put in equity on which it did not see a return for a very long period; in other words, it took the riskiest element out of a financing structure. It does not sound as though you are in the same position. Do I read that correctly or do I have it wrong?

***John Flint:*** No. Forgive me if I have created that impression. We are not restricted in that sense. The way in which we have been set up by the

Treasury is that we have £22 billion of notional financial capacity for the first five years.

**Baroness Kramer:** Of which half is guarantees.

***Chris Grigg:*** Pretty much.

***John Flint:*** Half of that is guarantees, that is correct. Within that, we have to operate to an economic capital budget of £4.5 billion. We have full discretion with the bank and the board in the way that capital is allocated. Therefore, we can choose to take equity risk, we can choose to take long-dated subordinated or mezzanine risk if we think that is the right solution for a problem. We are by no means precluded from any piece of the capital or risk spectrum.

**Baroness Kramer:** You are not then required to turn the equity in the way that, for example, Macquarie does, or GIG Group, as it is today. They are in and out of investments within five years as standard, which is part of the problem, but you do not have the same kind of pressure to achieve the return requirements that have been placed on you.

***John Flint:*** It is very early. I do not feel any pressure on the return side at this stage, partly because the return expectations that the Treasury has given us are modest in the context of the markets we are operating in. Our cost base will be low and our cost of capital and funding will be the cheapest in the market by virtue of our shareholder. I do not feel any pressure there.

With respect to recycling the balance sheet, our primary focus is to make sure that we are a catalyst so that the money flows and the infrastructure that is needed, in the context of this conversation, for energy gets built. If that means we have to hold on to the money for five years and then we can recycle it, we should be open to that. I do not think we should be committed to infinitely long-duration assets or balance sheets. Once we are comfortable the capital is there and the infrastructure is built, I would like to think we should be actively recycling.

**The Chair:** Very good. Sorry, I am going to move on. Lord Griffiths, did you have a quick question?

**Lord Griffiths of Fforestfach:** You mentioned that there were two areas you would invest in with the £22 billion: net zero and levelling up. How do you see the division?

***John Flint:*** To date, we do not see them as two separate objectives. We have not split our risk allocation across both. Helpfully, there will be very significant overlap between the two. I would not yet want to claim that we are in a steady state, but at the bank, as it is operating today, our primary lens is probably net zero, partly because there is greater clarity around the government policy as it relates to net zero and the transition, I think, than there is for levelling up.

We found it easier in this first year to organise ourselves around net zero. The industrial clusters and a lot of the industry that we will be looking to support, and a lot of the local authorities that we will be looking to support, will have a helpful overlap with the regional and local economic growth objectives. They are not in tension in any way at this stage in our development.

***Chris Grigg:*** The only other thing is that we have been clear that we would not invest in things that would do harm on one side, and that would be something of an own goal. We have been explicit about that.

**The Chair:** Very good. Thank you very much.

Q240 **Lord Stern of Brentford:** I have had long conversations particularly with John but also with Chris. I have been working for a very long time to set up, first, the Green Investment Bank and the UK IB and the principles under which they operate, if implicated in that sense—never as an employee or a contractor; it was all for free, I hasten to add.

The three objectives that you set, John—sound banking, additionality and impact in summary terms—are also operating principles against which the bank has to check itself and decide on projects. They shape the way it works with the private sector, which is absolutely key obviously to your effectiveness for the economy as a whole, because you are small and the multipliers had better be big. It is through the operating of those principles that you manage to do that. Can you tell us how you will explore and interact with the private sector to make sure that you are additional and that you are pursuing those impacts, particularly around additionality?

***John Flint:*** This is a question we have been exercising ourselves on over the last month. We are due to publish our strategy in the next few weeks. We have been having to sharpen our pencils for this.

With respect to the additionality piece, the primary lens for the first couple of years will be the amount of private finance that we can mobilise around this. We have a clear KPI that we will be public on. We expect to be challenged on the concept of whether we are crowding in or crowding out. It has already been raised. We have only written five transactions but that has already come up a few times.

We have an explicit objective to crowd in private sector capital. We do not wish to crowd anybody out. We are positioning ourselves in the market as having no competitors. If we walk into a room with other financiers who would like to close a transaction or get something financed, we will wish them well and move on to the next room. Our objective is absolutely to make sure that we only deploy capital where we can be confident that we are crowding in. The Treasury has set us a public expectation and public target for the first five years of crowding in £18 billion of private sector capital. We will be publicly accountable for that.

In addition, we cannot fulfil our mandate without working with the private sector. That relationship is absolutely key. We need to establish ourselves as the trusted interface between government policy and the transition pathway, and the private sector and the markets, so that we can give it confidence to deploy its capital either after us or alongside us. In the first year or so, or the next year or so, we will be focused on mobilising private sector finance around the transactions we are doing. To date, we have made a reasonably good start.

**Lord Stern of Brentford:** Thank you very much. As you know, I did this for six years at the EBRD. One of the tests for additionality is whether the private sector came because it could not go alone. You can go where the private sector cannot go alone because of a whole plethora of market imperfections that we could discuss.

One test of the additionality is, first, they have to know of your existence; I guess most of them do now. Secondly, they have come to you. How far have you seen that actually happening—that they come to you because they cannot go alone?

***John Flint:*** It is a really interesting question. Lots of people come to us saying, "You are needed". What we are having to learn to do quickly is to distinguish whether we are needed in order to be able to support somebody else in the private markets and their expected return, or whether we are needed because the market is genuinely going to fail or a transaction that needs to get done is not going to get done.

In the very early stages, a lot of the—no, that would be a bit harsh. We are having to be careful about filtering out demands where I do not think we are needed for market purposes yet but where it would be helpful for others to be able to say they are alongside us. It is as much of an art as it is a science and it involves some fine judgments. It is a live issue that we are living and working through every day.

***Chris Grigg:*** We have to be realistic, Lord Stern. By walking along that line, some people will accuse us from time to time of falling one side or the other. We have to be realistic about that because people will be interested in having us involved in transactions for both reasons. Therefore, they will not necessarily be absolutely clear-cut; we will have to make judgments. Will we get it right 100% of the time? Probably not. Do we need to be very careful about it? Of course.

**Lord Stern of Brentford:** You will have to show—presumably this is a question—a willingness to take risks that you can take, but the market cannot take.

***Chris Grigg:*** Absolutely right, with all the consequences of risk return.

**The Chair:** Lord Skidelsky has caught my eye and so did Viscount Chandos.

**Lord Skidelsky:** Do you have enough resources to do what you have described as your role? It is borrower of last resort or lender of last resort in the area of climate change; I do not know which way to describe it. It seems to me that you need to be much bigger to fulfil that role.

***John Flint:*** At this stage, we are one year in to a five-year build for HMT. We have the resources to do what we need to do. We now have approval to begin hiring a permanent team. We have the financial resources available to us and that is a public commitment. We have delegated investment authorities as well, so that between the chairman and me and the rest of the board, we can make decisions without having to revert back to Ministers for approval.

We have the resources but we have an awful lot more work to do to build the team. We have a big programme of recruitment over the next 12 months and we are recruiting to build this organisation in Leeds, so that is an aspect.

**Lord Skidelsky:** In the short term you are all right, but over the period of the government targets for climate change you have to get bigger.

***John Flint:*** Possibly, but that is not what we are thinking at the moment. At the moment, we are still growing into our mandate; we are still having to resource to be able to do what we need to do. I would love to think that at some point in the future we will have demonstrated that we have created enough of a positive impact that others might want to see us larger. Our focus at the moment is to grow into the shoes we have been given.

**The Chair:** Excellent, thank you. Viscount Chandos, do you have a quick question?

**Viscount Chandos:** We have heard evidence that suggests that the problem of private capital is not one of liquidity but of appetite for risk; I think I am hearing you. Would you say that you providing finance pari passu with the private sector would be the exception rather than the rule? You will be likely to take a disproportionate share of risk to unlock that private capital.

***John Flint:*** It could be both, certainly in the early stages of the bank, where our capabilities and capacities are still limited because we are building them. Lending on a pari passu basis, there are opportunities for us to be additional in that regard as well; to be the cornerstone investor in a debt raise or an equity raise is something that we can usefully do. It is not necessarily the case that we will be subordinate in all our risk-taking.

**Lord King of Lothbury:** I am struggling a little with the very abstract nature of the discussion. I am struck by the fact that in the first session we had this afternoon the focus was on trying almost to penalise financial institutions because they were lending in ways that were thought to be too risky. In this session, we are thinking about ways in which we create an institution that is meant to take risks that no one else will take.

If the private sector will not finance it, what are the criteria that you can use that would justify taxpayers' money being used to finance risky projects? It will be immensely helpful if you can come up with an example of a project to make this more concrete.

***John Flint:*** The majority of my career in banking was on the subject of your previous session. I enjoyed listening to Sarah, and my reflection listening to that was that if you think about the restructuring of that sector post GFC, much of it led by yourself, Lord King, it was about de-risking the system and repositioning the risk appetite that this country has with respect to banking. We now probably should not be too surprised that that same banking system does not have the risk appetite or the animal spirits to solve the risk-taking requirements that will be needed now.

The transaction will only be successful through a combination of very clear and brave government policy, and the cost of the transition at some level being socialised. If that means deploying risk capital through a mechanism such as the Infrastructure Bank into the markets to facilitate and make it easier for the private markets, that is a good outcome, a logical outcome from where we are.

The private markets are entirely rational. Others tell them how much capital they have to hold; others prescribe on behalf of society what their risk appetite is. Then the market also almost impels them to go for a certain return. With those constraints, given the scale of the transition in front of us, there is plenty of evidence to suggest that that capital will not mobilise quickly enough to get there. The thing that will accelerate the transition is clarity around government policy. Sarah mentioned the decisions around the transition from carbon-based cars to electric vehicles, decisions around boilers and new houses, and the decisions and incentives on retrofit. They are all nice, clear examples. As that policy is developed, our role and opportunity is to amplify it and signal to the market that the financing opportunities, the risk-taking opportunities, are real. Because we can go first, we can give the market the confidence that the money is there.

As examples, I mentioned earlier a transaction that is not yet finished but one we have announced, which is an intention to complete around subsidy-free solar. It is renewable technology where there is not a great deal of technology risk; it will be part of renewable infrastructure in the country. It has been developed successfully on the back of government supporting the revenue streams from that. Over time, that needs to change; over time, the Government should not be standing behind that industry. We can come early into the market and say, "We are going to commit risk capital to this only on the basis that the private sector comes with us". Every pound we commit is conditional on a manager finding £1 of third-party capital to sit alongside it. That is one potential example.

**Lord King of Lothbury:** Thank you.

**The Chair:** I am going to press on.

Q241 **Lord Monks:** Could you give us an impression of how open for business you are at the moment, or when you expect to be open for business? Who are the people forming an orderly queue outside your front door with portfolios of infrastructure projects? It seems to me that people got used to the old regime of the EIB and did quite well out of it. There will be a lot of people looking at you with open mouths expecting to be fed like the chicks in the park at the moment, looking for you to make some quite big decisions quite quickly. How ready are you for that?

***John Flint:*** That is a really important question because we are 130 people large now as an organisation. That is a reasonably balanced mix of secondees from other government departments who are helping us to write the strategy and build out the policy and the impact functions, and people on short-term contracts. We recently received approval from the shareholder to start hiring, so we are starting that in earnest. We have a banking team of nine people, so we have nine people who have the ability to interface with the market and develop a transaction.

***Chris Grigg:*** And the experience.

***John Flint:*** And the experience to do so. At the moment, that is the scale of the banking team. We have processed about 450 different inquiries to the bank for finance. I have to qualify that by saying there is quite a long tail of rubbish, but there have been some transactions that we have been able to take through to conclusion. As we build the bank, we are being very thoughtful about the type of transaction and the pace at which we engage with the market. The ultimate capacity is the number of qualified people in the front of the bank who can deal with the market and then the risk function that sits behind it and their ability to provide second-line risk management. We are absolutely open for business but the front-office resource is probably 20% of what it needs to be.

With respect to the queue and who is out there, we have spent a lot of time engaging with the market, and a lot of energy doing meetings and workshops, speaking at various events, doing roundtables and increasing the awareness of the organisation. We are being shown opportunities to help asset managers and investors with their transactions, with their potential investments. We have had some international interest from some of the sovereign wealth managers who are interested in deploying capital to the country and would be keen to deploy alongside us when we are ready. The banking system, the banking market here, as well is keen to see us alongside some of their transactions for obvious reasons.

We have been very active in engaging early on. We have made a good start. The pipeline is settling down; people are getting a sense for what we are interested in. Every time we print another transaction, the market notices and the levels of engagement ratchet up.

That is a long answer. We are open for business but we are somewhat constrained in our capacity to engage. The market has responded very well to us so far and I think we are settling into a rhythm of being able to deal with the right types of people.

**Lord Monks:** I notice the need for public banks. The history of public banks in this country has not been very distinguished. I remember being involved in earlier days with the National Enterprise Board, for example; that was an interesting case. The Green Investment Group was similar. You get interference, political interference from government, about particular projects that they want to see carried through. The public bank is in a tricky position making judgments on that. Similarly, there are local authorities and other public bodies—the British Business Bank, UK Research and Innovation—all of which, if they are not knocking at your door now, will be dreaming up projects for which they can get support from you. I am interested in how you will handle the relationship, looking at the Chair particularly.

***Chris Grigg*:** I had a feeling you were looking at me.

**Lord Monks:** Interference might be too strong a word. It is about the way that people will see you as a public body, as a resource they are entitled to.

***Chris Grigg:*** The first thing is that we are an arm's-length body. That gives us a degree of protection. The fact that we now have a board and that we are in the process of appointing non-executive directors to that board will mean that there is a part of the organisation that has that responsibility. John, as the accounting officer, has his responsibility. As we know, that responsibility, as we have already talked about, is to produce a financial return.

When I put those things together, they give us the capacity to be careful and thoughtful about any pressure that might come upon us from time to time. Overall, we report to the Treasury, and when I put those things together, I think we are in a good position to fulfil the mission. Will there be times when we are put under pressure? I am sure there will be. The job of the board, and my job working with John, is to make sure that we take that pressure into consideration, and that we operate on the principles that we have already discussed.

**Lord Monks:** Good luck with that.

***Chris Grigg:*** Thank you very much.

Q242 **Lord Rooker:** Good afternoon. What are the main challenges, specifically in energy supply and storage, that the bank is hoping to address? Will it look at new technologies that are, by definition, unproven at the start? To add to that, yesterday, the chief executive of the International Energy Agency made a speech in this House where he made it clear that he saw 50% of the reduction to net zero being with existing technologies. The other 50% was definitely going to be with new technologies. The scope is enormous. Many of them will be, in detail, unproven at the start, particularly in storage, CCS. Where do you see you being involved in that aspect?

***John Flint:*** As I indicated a little earlier, the energy sector will be far and away our biggest consumer of capital. It will be our busiest sector. The range of opportunities for us is very broad, and they all exist on a different piece of the time continuum. Today, we see the expansion of offshore wind from 11 gigawatts to 50 gigawatts by 2030 as a financing challenge ahead, and in particular including the floating aspect of offshore wind, which the markets might find a novel technology. I already mentioned OFTOs. There will be a pipeline of financing required for OFTOs.

As financing opportunities, hydrogen and CCS are probably a little further down the track. It will probably be two or three years before the business models for those become investable to the point where we are able to begin to play a role and to amplify. With energy storage, there are opportunities now for existing technologies and for some new technologies.

The first part of the answer is that it is a massive range. The way we look at it is that, at various points in time, we may be required to plug market gaps and failures, and that is what we will be disciplined and focused around. Over the entire continuum of the transition, I expect us to play a role.

On the second part of your question—whether we should expect over the life of the bank to be involved in nascent technologies—yes, I think it is inevitable. I did not listen to the speech yesterday, but it would seem implausible that current technologies are going to get us to net zero. There are other things that will be required. It might be the case that, as those nascent technologies emerge and need to be scaled, that is where we will be most active—scaling them from their incubator status.

There is an argument in due course for us to play a role at the earlier VC stage, where you are backing engineers and scientists with capital and time, so that they can go off and develop the new technologies that will fill the 50% gap. The bank will need to be involved in that. We are not ready yet to play a role in that because we do not have the resources convened, but we should have that ambition.

**Lord Rooker:** With CCS, hydrogen and SMR, it will be three years before you clock on.

***John Flint:*** We will be engaged now, but there has to be a project that you can invest in. For aspects of the hydrogen economy, we need to be clear about some of the revenue models that will sit behind the various versions of the hydrogen economy and the various colours of it. It is the same with carbon capture and storage; the technology is proven, but when the business models that will underpin that are clear—inevitably including government involvement in those revenue models—we can begin to provide the financial capacity to amplify that policy and crowd in the private sector. We are not sitting on our hands waiting, but, realistically, I do not think we will be deploying money any time soon. SMR is similar. That probably has an even longer time horizon. We have an open mind with respect to nuclear in its broader sense, but we do not have anything that is nuclear related in the pipeline for the next 12 months.

**The Chair:** Picking up on Lord King's point, can I play devil's advocate? If the business models are clear to you and the market mechanisms are clear to the investor community, does that not mean that there should be sufficient private investment, so you will be superfluous to requirements? Therefore, you should be further back down the chain, in the really nascent part of the technology where you are incubating and picking technologies. Is that not a credible argument to make?

***John Flint:*** There is a possibility that that is the case. To take something like a large-scale nuclear reactor as an example, it is entirely possible that under a RAB model with a good equity base, the market will not require us to be involved. If that is the case, there is no ego in it for us. We will move on to the next transaction.

I would like to think there will be opportunities where government departments, central government, can come to rely on the Infrastructure Bank for very high-quality feedback on where the market is, what its risk appetite is, what it has the capacity for and what it does not have the capacity for. That feedback mechanism, I hope, in time will become useful for those making policy, so that when a policy decision to commit public sector capital to a revenue mechanism is made, we can quickly and almost simultaneously provide a signal of our capacity to the market as well and accelerate market adoption. Hopefully, we can shorten the gap between the policy and private sector being comfortable.

**Baroness Kramer:** I want to go back to the issue of funding nascent technologies. Very often, those are not housed in great big institutions, so you are talking about small amounts of money to small organisations. You do not sound set up for that, with your nine bankers and target of 40. If you are going to try to be the EIF as well as the EIB, are we looking at an evolution of your structure?

***John Flint:*** The structure will evolve to be able to make direct equity investments. In the first version of the structure, when we get to a steady-state headcount of 300 people in total at the bank, we would not be in a position ourselves to run the investment teams to do the early-stage VC investing, but you can invest through third-party managers.

**Baroness Kramer:** Okay.

***John Flint:*** There is a growing ecosystem of that in the UK that we are also close to—Northern Gritstone is a nice example—that is arranging the funding of the academic research and the scale-up of those ideas. There are other ways in which we can play a role indirectly, pending our achieving the scale to do it ourselves.

**Lord King of Lothbury:** I want to pick up on the Chair's example, if I may. Let us suppose there was a clear revenue mechanism and that you decided, "There is private money, so we will go on to something else". Is there not a risk that the Government would say, “We can’t be bothered to work out the revenue mechanism yet. We’ll just tell the Infrastructure Bank that we’ve got to go down this road”? The private sector will not come in because the Government have not specified a revenue mechanism, and you are then expected to pick up the pieces. There, the market failure is not the private sector’s unwillingness to take risk; it is the failure of the Government to specify a revenue mechanism.

***Chris Grigg:*** That comes back to my comment about the arm’s-length nature of the bank and John’s comment with respect to providing feedback to Government. If you put those two things together, and we do it well, we are in a situation to say, “Wait a minute, we’re not going to take this risk. I know you want us to because it’s not bankable today, and we can give you the experience of our track record to back this up and the experience of the team”, on the one hand, and, on the other hand, feedback from the market that the market will not lend in this situation.

Certainly, some of my early discussion with civil servants was that it is hard for civil servants to know whether they are being spun a line from the private sector or whether it is genuine feedback. Part of the role that John talked about is to be able to say, “No, on this occasion, this just won’t work. On the other hand, no, you’ll be okay”. That sort of feedback over time is where the combination of a lending capacity and a feedback loop to government is one of those things that is difficult to define, but over time it can work well, as long as we build credibility of transactions and also saying no.

**Lord King of Lothbury:** Thank you, that is helpful.

Q243 **Baroness Noakes:** Can I explore a bit further your assertion that you will not be crowding out private investment? You talked earlier about treading fine lines and all that, which is all good stuff, but how in practical terms will you ensure that you do not end up crowding out? You said you were going to be able to do, through your capital structure, the cheapest offer in the market, but how can you ensure that the propositions that are brought to you need you? It will not always be the case that you go into a room and there is a competitive situation. It is not always as clear as that—that you are doing something that the private sector would not do because you will be attractive as a source of finance. How do you stop crowding out?

***John Flint:*** It is a matter of judgment. I wish I could tell you that there is a simple test that we apply to everything. It is not simple. With every deal that we look at, we have a deal-specific debate around the nature of our additionality and the nature of the other capital that might be there. In some cases, we get ourselves comfortable that we are truly additional, and in a couple of cases we have said that we were not convinced.

One of the most useful thought experiments, which I hope in due course will be a real experiment, is to deal with that question by making our balance sheet available for sale, for want of a better phrase, to the market so that, if the market ever gets to the point of saying, “We really did want to be in that particular transaction", we allow them to take it off our balance sheet. Our primary mission is to make sure that the money gets to the infrastructure that needs to be built. Whether it ultimately stays on our balance sheet or somebody else's is not a concern.

There is no particularly easy test that I can describe. We are accountable for getting to the right answer. We do that with every transaction case by case. Ultimately, if people are not satisfied and they wish that we had done the transaction, our challenge is, "Well, you can have it". If their concern is that we have done it at a subsidised rate, that is just part of the deal assessment process as we assess each transaction.

**Baroness Noakes:** You say you are going to be providing information to the Government on the state of the market and what the market will do, but you are not actually in the market because you are an especially privileged financial institution. By definition, you are not the market, so how can you do that?

***John Flint:*** By transacting. The only way you can do it is to be in the market, in the deal flow, assessing deals and deciding whether or not you will do them. That is why I talk about scaling up the number of bankers from nine to 50. The benefit of doing that is that you go from nine data points a day to 50 data points a day. We have to be in the deal flow. We have done a lot of very good policy work on the strategy and thinking around where we ought to be, and that has taken us to a point. From there, we need skilled people in the market talking to project sponsors, asset managers, engineers and other government departments about what needs to happen. There is no shortcut to that. For us to fulfil our potential, that is the big missing piece right now.

**Baroness Noakes:** Would the private sector have any mechanism to complain or raise concerns about your actions?

***Chris Grigg:*** I am sure they would make their feelings clear.

**Baroness Noakes:** Not necessarily, especially if they want to be in the deal flow, if they want to be in the same deal rooms.

***Chris Grigg:*** My experience is that loan officers find a way of telling you why they did not get a deal, to your point about the market. If you take the example of the EIB, the complaints about the EIB crowding out were pretty broad. Whether they are right, we can debate, but they were certainly pretty broad. The evidence is to the contrary; there was plenty of complaining going on. It is more likely that one will have to judge the quality of the complaint as opposed to there being a complete absence of complaints. It will probably be a mix.

***John Flint:*** I was thinking about whether there is a formal mechanism as there is in the regulated banking space. I am not sure there is. We already get plenty of feedback. Some of it is the kind of feedback you want to get. Some of it is not. My experience of the markets is that they are not shy. They are full of confident people. If they have a view, they will tell you. To your comment, Chris, one of our challenges is to filter what is real.

**The Chair:** Lord Stern has a quick question.

**Lord Stern of Brentford:** It is about Lord King's very reasonable request for an example. You are young, so it is not so easy to come up with examples. There are pretty clear examples from elsewhere, including the Green Investment Bank.

Do you think that these are good examples of what you want to do? One of them is offshore wind, which many would argue, and, indeed, the Green Investment Bank certainly did argue, that that went much faster because it was behind it and would then flow. Is that the kind of way you are going to treat new technologies? Once that is established, you have the floating wind. You could be first over the parapet on that, but never go alone because if other financial institutions want to go with you that is the best signal that you are additional. Is that a good example both on additionality and on moving with the technology you have in mind?

***John Flint:*** I think it is, Lord Stern. It is a nice example. The only hesitation is that people have already suggested that we need to find our equivalent answer to the GIB and offshore wind. Our context is different. The scale of the problem and the scale of the menu of opportunities in front of us is so much broader than it was back then. It was successful and it made a difference. Do we want to be looking back at similar examples five or 10 years from now? Absolutely right.

***Chris Grigg:*** Some form of continuous play that starts with having some form of subsidy through a period when you are probably able to use offtake contracts or something analogous, dependent on the segment, through to the bank, hopefully, as you say, Lord Stern, with partners, through to a fully commercial model is a good picture to have in our mind, but it is probably only one picture. As John said, the scale of the problem, the number of different ways, and the different technologies we are going to need are sufficient that we must not be too sure that we have one model in our mind that is always going to be the one that works.

**Lord Stern of Brentford:** Thank you.

Q244 **Lord Skidelsky:** We talked a bit about nascent technologies, which I always think of as rather ambiguous. What are the risks in supporting nascent technologies? Would it be supporting technologies that may not work or supporting technologies that may not sell? I do not know which risk the bank wants to back. The first suggests that you support technologies nearer the research stage, which has normally been done by the Government through grants to research institutes, universities and so on. The second is that you support them as they come to be marketable but do not give you a revenue stream that people want. Which of the two?

***John Flint:*** The distinction, and the way you describe it, is perfectly consistent with how we think about it. The lower-risk aspect is where you are scaling up a proven technology. We have an example at the moment where we are looking at CRYOBattery, a technology that has been proven to work at small scale and looks as though it can have a really interesting role to play in the energy grid going forward, given the storage requirements as we transition to more renewables. There is no obviously available debt market for that type of technology and that type of company at this stage. We are doing some early-stage thinking to see whether we can help. If you contrast that with early-stage VC where you are backing academics and engineers, it is a different ecosystem and a different skill set.

The UK is catching up a little bit in the way capital is convened around those opportunities. It is in our discretion to allocate capital to that, but for the foreseeable future we probably would not be the manager picking the project. We would probably be outsourcing it to a third-party manager. That is likely to be the case for a small number of years until we have built the skills to do it. You are absolutely right to distinguish the two. When we take a step back and look at the problem in its entirety, we need a bigger technology menu than we have. It has to come from somewhere. If we can play a role, we should.

**Lord Skidelsky:** Thank you.

**The Chair:** Can I quickly clarify a point for the record? We are consistently hearing that more needs to be done on demand reduction, especially energy efficiency. I take it that that is completely out of scope for what you are doing and there is nothing you can touch with regard to social housing, retrofitting and all those kinds of things.

***John Flint:*** We will not get involved in housing. We will not tread on the toes of any of the other ALBs. If it can be shown that we can provide some risk capacity or some capital as part of a solution for social housing retrofit, or even unlocking private market retrofit, we would be very happy to do that. We can see that it is a very difficult problem that we are not making enough progress on. If very finely priced risk capital is the thing that will unlock it, we are available to do that. Candidly, I do not think that is the unlock. There are different things required for different parts of the retrofit problem, and we are developing views on some of the ways in which we might be able to help. We would love to find an opportunity. I do not think money and finance is the biggest problem in that regard.

**The Chair:** It would be great, when you do your strategy at some point, if you can provide us with a note on that point about retrofit and the unlocking of finance. I do not want to go into too much detail now, but that would be very helpful.

Q245 **Viscount Chandos:** I am trying to understand where you fit relative to British Patient Capital in British Business Bank, which I had seen as replacing the EIF as cornerstone investors in venture capital funds. I can hear you answer that you have a particular energy climate change mandate, but that then prompts me to think of something that a very wise venture capital investor said to me, which is that if you looked at the first clean tech boom in Silicon Valley in the 2000s, there was almost perfect correlation between the venture capitalists who got on that bandwagon and those who had failed in the first dotcom bubble. How do you steer through those particular rocky waters?

***John Flint:*** With respect to British Patient Capital, I do not know it intimately, but my understanding is that it is more focused on providing equity finance to SMEs, and we are focused on infrastructure and the technologies to support the build of infrastructure. There might be an occasion when we overlap, but I would not expect it to be significant. If we get to a point where we are developing our own resources to do the same kind of investing that it does, we will be looking to learn the lessons that it has learnt and not repeat them, but I do not anticipate an overlap.

The first wave of Silicon Valley-led, VC-based investing in the green revolution was a flop. It came too early. We are in a different situation now. There is a different set of waters to navigate.

**Viscount Chandos:** Can I go on and try to understand where your core activity is and how it relates to other forms of government initiatives? The Chair asked if there was a business model that was established and whether you were really providing any additionality. If the Government provide support for the rollout of technology—long-term storage, hydrogen and so on—where are you really achieving additionality if there are going to be those initiatives to stimulate private sector private capital anyway?

***John Flint:*** We do not make grants. We do not set out to provide subsidies. We are trying to generate positive returns on the investments we make. As the Government provide grants, we have the opportunity to sit alongside and amplify that in the market, possibly by financing some of the grantees. We have done a couple of transactions. This is not in the context of energy; it is more in the context of levelling up. Financing companies have benefited from BDUK grants for digital expansion, for the rollout of fibre networks across the UK.

We have done a couple of transactions where companies have qualified for government grants, and they need debt financing to finish their capex build, and we play a very meaningful role in that. It is a question of being aligned and not duplicating what the Government are doing elsewhere because we do not have the authority or the capacity, but being clever about then amplifying being in the market in the right way at the right time, so that the rest of the market wants to come with us. On the two digital transactions that we have done, that has worked effectively. We ended up being an important cornerstone in significant debt raises that will get fibre broadband built out.

***Chris Grigg:*** Going back to the example we were talking about before, when there is a shift from one form of government involvement to another, from subsidy to non-subsidy, those are the sorts of times when private sector organisations and banks may struggle to make the first of the next generation. That is an ideal example of where we can help to lead people to the next stage. It is not a perfect example because who knows what the next one will be, but those are the sorts of models and pictures we have in our mind as we debate exactly where we are likely to add most value.

**Viscount Chandos:** A transition to the transition.

***Chris Grigg:*** Correct. We are going to use that line, for the record, at some stage.

**Viscount Chandos:** Thank you.

**The Chair:** Picking up on both Lord King's and Viscount Chandos's points, how much of a barrier is it for you and the market as a whole that we do not have more clarity on business models for issues such as long-duration energy storage and other things like that?

***John Flint:*** I am not entirely sure how to answer that. The market absolutely likes clarity. The sooner the Government are ready to be clear about those issues, the sooner the market will be able to mobilise the finance around them.

Q246 **Lord King of Lothbury:** This is an extension of my previous question about the lack of clarity on a revenue mechanism. You rightly said, Chris, that you would be able to go to the Government and say, "Look, nobody in the private sector, nor we, is going to finance this unless you, the Government, spell out what the revenue mechanism is". This is an extension of the area where the business model for something like hydrogen is not yet clear. Do you have a role to play in trying to encourage faster development of a business model so that either the private sector or indeed you could finance it?

You have talked a lot about technologies. I can see that the risk in certain technologies is either so great or such a long way down the road that you feel you have a role to play in providing capital, but if there is no business model, that makes it hard for both you and the private sector. In relation to the revenue mechanism, your answer was, "Well, we are going to go to the Government and tell them, 'You've got to do it'". With this, it may be more difficult to tell the Government. It may be that the business model needs to be developed in part by the private sector itself.

***Chris Grigg:*** I do not think we will have a green card to somehow magic policy. You know far more about it than I do, Lord King. I think that is a hard thing to achieve. Can we add our views, particularly as we build more credibility in time? Hopefully, we can be helpful. I am always reminded of the fact that at the end of the day it is the Government having to commit the public's funds. I understand why they would be cautious about doing that. We should not believe that we can suddenly make it easy for the Government. A lot of these technologies are going to be risky at the outset, and not all of them will work or be economic.

Therefore, we too have to be careful that we do not suddenly believe that we have the all-seeing capacity to be clear when clarity does not exist, or when it is very risky. That, to echo Sarah's words earlier, has to be for the Government to decide.

Q247 **Lord Griffiths of Fforestfach:** Our attention has been drawn to the Canadian Infrastructure Bank, which was set up in 2017 with 35 billion Canadian dollars of capital. After three years, it had managed to spend 1.3 billion Canadian dollars of capital. The auditor-general, Karen Hogan, said of it: "The absence of clear and complete reporting on the Investing in Canada plan makes it difficult for parliamentarians and Canadians to know whether progress is being made against the intended objectives". What can we learn from that? Are there good examples of infrastructure banks with a non-green element that have been successful?

***Chris Grigg:*** We did quite an intense period of consultation in the process leading up to the formation of the bank last May. The Canadian example that you give was one that we consulted on, among a bunch of others further and nearer afield. We drew a bunch of conclusions, some directly from individuals, some more generally. Interestingly, one was pace; that it was important to get going and do transactions as soon as we felt we had the capacity because, as John said, you learn quicker once you are actually doing things, as long as you feel that you are not taking undue risks because of the lack of capacity. That, certainly, was one conclusion we drew from the Canadians.

The second thing was that they had set a negative return; in other words, they were prepared to lose money. It was pretty clear to us, including from the conversations we had with the Canadians, that that had not worked well for them. As John said, we got a positive return.

Finally, you will be unsurprised to know that the reporting that we give over time will be quite clear, and therefore people will be able to form their own judgment as to how we are doing.

**Lord Griffiths of Fforestfach:** And successful examples?

***Chris Grigg:*** There will be good disclosure of what we are doing from a lending perspective.

**Lord Griffiths of Fforestfach:** Are there examples from other countries?

***Chris Grigg:*** The example has already been given. The EIB and the EBRD may have eventually crowded out, but some of the work that they both did was very high quality. They are obviously much more mature. Looking in particular at the early stages of the way they set themselves out, there is a lot to learn. Over time, we continue to see quite a lot of interest in how we are doing. You will get a continuous benefit from banks talking to one another and exchanging best practice, and slightly from the "That didn't work so well, maybe we shouldn't do it" school of learning.

**The Chair:** Very good. Thank you very much. We have exhausted everyone's questions and covered a lot of ground. Thank you both very much indeed for coming in. We look forward to the debate about all this, which starts next Tuesday. Thank you again. With that, we end the session.