



Business, Innovation and Skills Committee

Oral evidence: Government Support for Business

HC 770-iii

Tuesday 2 December 2014

Ordered by the House of Commons to be published on 2 December 2014.

Witnesses including written evidence where submitted:

At 9.30am

- Dr Gordon Edge, Director of Policy, RenewableUK
- Nick Molho, Executive Director, Aldersgate Group
- Ian Fitz-Harris, Marketing Director, URICA
- Stuart Garner, Chief Executive Officer, Norton Motorcycles

At 10:15am

- Irene Graham, Executive Director for Business Finance, [British Bankers' Association](#)
- Stephen Pegge, Group External Relations Director, [Lloyds Banking Group](#) & Chairman of the Small Firms Advisory Panel, British Bankers' Association
- Carl D'Ammassa, Managing Director of Asset Finance, [Aldermore Bank](#)

At 11:00am

- Keith Morgan, Chief Executive Officer, British Business Bank
- Patrick Magee, Chief Operating Officer, British Business Bank
- Shaun Kingsbury, Chief Executive, Green Investment Bank
- Oliver Griffiths, Head of Government Affairs and Policy, Green Investment Bank

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Members present: Mr Adrian Bailey (Chair), Mr Brian Binley, Mike Crockart, Rebecca Harris, Ann McKechin, Mr Robin Walker, Nadhim Zahawi

Questions 141-256

Witnesses: Dr Gordon Edge, Director of Policy, RenewableUK, Ian Fitz-Harris, Marketing Director, URICA, Stuart Garner, Chief Executive Officer, Norton Motorcycles, and Nick Molho, Executive Director, Aldersgate Group, gave evidence.

Q141 Chair: Welcome and thank you for agreeing to address the Committee. We have an awful lot of questions, but not that much time to ask them and to get answers to them, so I am going to crack on quickly. We know who you are, but please introduce yourselves for transcription purposes.

Nick Molho: Good morning. My name is Nick Molho, executive director of the Aldersgate Group.

Dr Edge: My name is Dr Gordon Edge. I am director of policy at RenewableUK, the trade association for the wind, wave and tidal stream industries in the UK.

Ian Fitz-Harris: My name is Ian Fitz-Harris. I am a founder and director of URICA.

Stuart Garner: Stuart Garner, chief exec and owner of Norton Motorcycles.

Q142 Chair: Thanks very much. Some of the questions will be person specific, while others will be to the whole panel. I stress that there is no need for every member of the panel to answer a question if they feel that it has been adequately covered by another speaker.

My first question is to all: what is your experience of trying to access finance in recent years? Is it easier or more difficult?

Nick Molho: I would say, looking at this from a green infrastructure perspective, that some important, positive initiatives have been put forward in the past five years, and the Green Investment Bank is a good example of that. In the space of just two years it has managed to leverage just over £5 billion of investment in more than 30 green infrastructure projects, so it has certainly had a very positive role in the sector.

Beyond the Green Investment Bank, however, there is still a wide range of issues, which means that there remains an important finance gap in infrastructure. That is marked, on the one hand, by high levels of private sector savings, which often sits in savings accounts with very low interest rates, and, on the other hand, insufficient investment flowing towards green infrastructure. For instance, the Green Investment Bank estimates that the investment that is going into green infrastructure in the UK is just below half of what it should be, if we are to meet our wide range of environmental obligations by 2020.

Q143 Chair: Thank you. Does anyone else have anything to add or subtract from that?

Stuart Garner: At Norton, as a trading business, we have found it incredibly difficult to access capital for manufacturing and export, particularly in the past four or five years. Recently, in the past year or so, with UK Business Bank coming forward and some of the Government policies supporting the banks, it has become a little easier. I have personally had 13 banks in my business and all of them not bank me.

Chair: Sorry—all of them what?

Stuart Garner: All of them refused to bank my business, bar Santander, which has now banked Norton, along with some Government policy of guarantees, etc., which we see coming through either from UK Business Bank or the EFG-style policy.

Q144 Chair: Just to clarify, you spoke about export finance and, of course, the Government have introduced measures to improve that. Has your backing arisen from the measures that the Government have taken?

Stuart Garner: Yes. We have some funding for supply chain and we also have some export finance funding for our exports. We have UKEF supporting us with our export finance.

Dr Edge: Across our technologies, it is very different depending on where you are technologically and in the policy sphere. Onshore wind, as a relatively mature technology, with many hundreds of megawatts—even hundreds of gigawatts—globally, is not seeing a particular issue with access to finance. There are institutional investors coming forward to invest and that is not an issue, as long as the policy environment remains stable. In some ways, it has been a success of this Government to keep the environment stable enough to allow that investment to come forward. For offshore wind, for which the technological risks are higher and the quantities of cash are bigger, it is more of a challenge. We have been welcoming the Green Investment Bank's activities in helping to do that, but there is still a way to go to bring those big institutional investors to the table. But then you look at wave and tidal, which are much further back in technological development. They really are struggling to find the people to invest at the VC kind of stage that they require to bring their technologies to market.

Q145 Chair: Is there any particular move that the Government should make that might rectify that particular problem, do you think?

Dr Edge: The major thing is the policy level. If, at the end of the day, there isn't the support for the generators, whatever the Government do will not help, so we need to have that policy clear and into the 2020s. At the moment, there is a real cliff edge at 2020 and it is really difficult to see where we will be going after that. Until we are clear, it is very difficult for people to invest their time and energy in bringing up their capability so that they can make those kinds of investment.

Q146 Chair: I hope this is a fair summary of what you are saying: one of the main obstacles is the absence of a consistent or confident green policy framework that will diminish the potential risk of such investment.

Dr Edge: If it is clear where we are going and how much we need, people can gear up to deliver that. Until that clarity is there, you cannot.

Q147 Chair: I was going to ask what difference the Green Investment and British Business Banks made, but I think that you probably covered that. Does anybody want to add to what they have already said?

Nick Molho: There are a couple of other important positive developments coming from the GIB that are worth highlighting. The first is that the Green Investment Bank has had positive impacts beyond just the project that it has invested in. Take, for instance, the investment it made in the DONG Energy Westernmost Rough offshore wind farm. That allows DONG Energy to use the latest, most efficient 6MW offshore wind turbines, which will generate much more power more effectively. Those turbines are going to be developed by Siemens at the Hull plant—here in the UK—so that investment has a knock-on impact on developing the supply chain in the UK. A very important point to bear in mind when we look at the future of the Green Investment Bank is what it can do beyond just the project that it lends money to.

The second positive development around the Green Investment Bank is the fact that it has maintained cross-party political support throughout the term of this Government. That is a really important point to highlight when, it is fair to say, there have been more political divisions on the environmental agenda more broadly. The Green Investment Bank has remained a very stable institution with a stable level of political backing, and that is an important achievement.

Q148 Chair: We are going to move on to the Green Investment Bank in a moment. Ian, you look as if you want to say something. Am I right?

Ian Fitz-Harris: My background is that I am an accountant. I was with the Bank of Scotland when it was a great bank. I left just before the tercentenary year, set up my own company, floated it on the AIM, built it up to £5 billion throughout Europe and sold it. I have worked in a number of different businesses and lived through some pretty tough recessions and so forth. I look at the UK market today and I think we have a great entrepreneurial culture and a broken banking system, and a structural fault in UK funding for small and medium-sized businesses, which is a major problem that needs to be addressed.

I will give you some basic numbers. We all know how important SMEs are to the UK: £1,600 billion turnover; 59% of employment; 14.4 million people employed; and 99.9% of all companies in the UK. They are suffering three things at the moment. One is a banking system that is broken. There is a fundamental lack of trust, so it is not only about making an application and getting turned down. That process can take three months and the documentation can be very onerous and very, very difficult.

There is a trust issue. We interviewed 5,000 SMEs in the UK and 67% said that they did not trust their bank to understand and support the loan application. I think the word “trust” kept coming out. You know, trust walks in the door and leaves like a Ferrari, and that is what we are seeing. Every week, there are new fines coming—one on top of the other—and so much so that it is such a reliable source of income that we could fund the NHS on it now. You have to say, “There is a breakdown in trust here,” and that is a major thing.

The other thing we are seeing is slower payments: a culture of late payments, despite late-payment legislation. We have seen it going out and going out. Here is the most worrying statistic: BACS, the UK payment agency, said that, as of this summer, £39 billion was outstanding in late payment to SMEs. On average, that was £38,000 each. Here is the really worrying statistic: one in four said that they would go bust when it got to £50,000—that is terrible. At the same time, we have big business building cash hoards—it is up 41% in the last year at £53.5 billion—and they have paid down £18.5 billion of debt. So what we are seeing is a threefold impact on SMEs. We are seeing a broken banking sector and late payment: essentially, large companies that can are taking their time and pushing the problem down and down. It is the SME at the very bottom, which is least able to borrow, that is having to go cap in hand to the bank. Add to that growth—3% growth in the economy can translate to 10% or 20% growth for small and medium-sized businesses—and the problem gets bigger and bigger and bigger. That is a structural fault in the UK economy. It has been there a long time and I am very worried about it, which is why I am doing what I am doing.

Chair: Okay. I think what you have said is very interesting, and obviously extremely relevant, but I need to move on to another question—

Mr Binley: May I ask a something about that?

Chair: Just a second, Brian. If you would like to submit any further evidence on that, we would be very happy to have it.

Q149 Mr Binley: Just to confirm, how many SMEs did you include in your survey? You said it, but I missed it. It was on the 67% Was it 5,000?

Ian Fitz-Harris: It was 5,000. We have done a subsequent one on export of 9,000 as well.

Mr Binley: Five thousand will do me—thank you.

Q150 Ann McKechin: May we come back to the Green Investment Bank and to Mr Molho and Dr Edge? The Aldersgate Group is quoted as saying that the Green Investment Bank needed borrowing powers “urgently”. Why do you believe that powers are needed and what could the bank do that it is unable to do so at present?

Nick Molho: Looking at the first two or three years, it was understandable why the Green Investment Bank was not given borrowing powers at the outset. It was a “first of a kind” institution, and we needed to see how it would develop and the level of diligence that it would apply in terms of the green projects that it was financing. To date, the Green Investment Bank has used around half of its initial capital. Going forward, the bank needs borrowing powers for three reasons. First, when you look at the scale of decarbonisation that we are expecting the UK economy to deliver over the next 15 to 20 years, we are broadly looking at a tenfold reduction in carbon intensity. That is going to require a Green Investment Bank with greater financial firepower if it is going to be able to play a meaningful role in this transition. This is all the more the case as the Green Investment Bank has five green purposes, so the climate agenda—the low-carbon agenda—isn’t the only thing that we expect

the Green Investment Bank to play a role in. It is also looking at resource-efficiency projects, energy-efficiency and, increasingly, the restoration of our natural capital.

The second reason why, going forward, borrowing power is so important is that interest rates are currently low. It is a good time to borrow and we are still in a period when the UK economy is not at full capacity, so there is less risk of crowding out alternative investment and alternative employment.

The final point, which I touched on when I mentioned the DONG example earlier on, is that the type of investments in energy-efficiency or low-carbon infrastructure that are sponsored by the Green Investment Bank can have very positive multiplier effects in terms of GDP growth, employment growth, and the average income of the average household.

I draw the Committee's attention to a report that was published two months ago by Cambridge Econometrics, which I can give to the Committee after the session. It was the first analysis of the macro-economic implications of the UK meeting its carbon budgets up to 2030. It found that the investments in low-carbon and energy-efficiency infrastructure required to meet our emission cuts over the next 20 years would have a net positive impact on our growth and employment levels, and on the average household income, compared with a scenario where little was done to reduce emissions.

Q151 Ann McKechin: The model the Government have used for the Green Investment Bank is different from that of the British investment bank, which we will discuss later this morning, in that it is closely linked to the overall level of public sector debt, which is the reason that they wanted the control on borrowing. Was it a mistake to link it to public sector debt, as the Government have done? Should they have used the model that they are now proposing for the British investment bank?

Nick Molho: Gordon might want to comment on that. Initially, I can understand the concerns and reservations; we were setting up a “first of a kind” institution. The economic case for giving the bank greater borrowing powers is strong, especially as the bank has proven its competence. The level of diligence that the bank applies to satisfy what it calls its double bottom line—projects need to be green and profitable—is very high.

Dr Edge: It makes no sense to link the requirement for green investment to the public finances. For example, just to finance offshore wind to 2020 we will be looking at an additional £15 billion or thereabouts. The bank only has a total of £3 billion in capitalisation. Clearly, more money needs to be sought from somewhere. As Nick said, when interest rates are at such an historic low, there is case that you can bring that money in and use it very well and profitably, backing up what is, after all, Government policy.

Q152 Ann McKechin: Some have argued that the bank should be able to issue green bonds or green ISAs. Do either of you have any particular views on those mechanisms?

Nick Molho: Those were recommendations of the report that we published a month ago, which was based on contributions from a range of cross-party politicians and businesses. They are two different things that would serve different purposes. The point that they would

have in common is that they would increase the amount of private sector investment that the bank could leverage. However, they have two separate benefits. Bob Wigley, who used to chair the Green Investment Bank Commission and contributed to our report, estimates that through green bonds, the bank could leverage around £10 billion of investment a year from institutional investors, especially the insurance sector. One of our members, Bank of America Merrill Lynch, estimates that the green bond market, which was worth around \$11 billion in 2013, could grow to around \$200 billion in 2020. It is a good time for the Green Investment Bank to start tapping into these kinds of new products.

Green ISAs, beyond the additional financial leverage they would give the bank, have the effect of connecting the public with the low-carbon transition. It gives them a stake in the transition to a low-carbon economy by issuing green ISAs to retail investors. At a time at which there is some perceived disconnect between high-level political decisions and how communities feel about the transition to a low-carbon economy, giving people a direct financial stake in the transition to the low-carbon economy is a good idea, in the same way that giving people a stake in community-owned renewable energy project is a good idea because you get people engaged in the transition.

Q153 Mike Crockart: I will say up front that I think that the Green Investment Bank absolutely needs borrowing powers further down the track, but the argument at the moment is whether it needs them now. Your argument seems to be that it is cheap to borrow now, so it should take the opportunity while it is there. Is there a pipeline of projects there to invest this money in? There are lots of other ways of getting cash and some of the investments are now bringing in income. What is the urgent need for borrowing powers right now?

Dr Edge: If I can talk about offshore wind, we are seeing a pipeline of projects lining up and needing finance across the board. We are seeing a number of banks and some institutions that are kind of at the edge, but there are not enough of them really to bring forward the level of investment that we need. Having the bank there with extra firepower can give us the push now, and if we get that push now, we can start establishing an industry in the UK. If we hold back, we might lose the opportunity.

Q154 Mike Crockart: Is your argument that the billion-plus that it has right now is insufficient to be able to prime that?

Dr Edge: It is already going out and raising money for a refinancing fund for offshore wind, putting some of its own money in and getting institutional investors to put in. In that sense, it is already seeking outside funding to do this. It can do more only if it has more. It is important that we do it now because it takes a long time for the finance sector—the investors and the banks—really to feel comfortable about a new asset class, so in this instance, the earlier we start, the better it is. We have several billion pounds a year of investment that will be needed in the very near future, so I think it is highly necessary.

Nick Molho: You are hitting on an interesting point that goes back to not just looking at the Green Investment Bank, but the access to finance situation as a whole. The bank needs to be equipped to play a meaningful role in our transition to a low-carbon economy, but you are absolutely right that we also need to be in a position where the projects keep on coming

forward. Both are important sides of the equation. Again, that goes back to two things. If we want to have a stable pipeline of projects that comes forward—and, importantly, that comes forward with cost reductions in the years to come—we need greater clarity about what the picture looks like beyond 2020. If you look at carbon capture and storage or offshore wind, it takes eight to 10 years to develop these projects from start to finish. If you look at an offshore wind turbine factory, it takes three or four years to get planning permission and to build the factory, and then it takes eight to 10 years to make a return on the investment. You need to have the minimum idea of how the sector is going to evolve in the 2020s. That is an important part of how the pipeline will develop.

The other important part, which is often forgotten, is that there are some financial regulatory barriers that make it harder for particularly types of investors—especially, but not only, institutional investors—to invest in green infrastructure. If you take the example of pension funds, at the moment, according to a recent report from Bloomberg New Energy Finance, infrastructure represents around 1% of the asset class that is invested in by the average pension fund. Within that 1%, only 3% is invested in green infrastructure. When you think that institutional investors as a whole are estimated to be holding around €13.8 trillion of assets, there is clearly quite a big source of finance to be tapped into.

What has made the investment in green infrastructure difficult for pension funds is the fiduciary duties of pension fund trustees. Those fiduciary duties have been interpreted as requiring pension fund trustees and their asset managers to focus primarily on short-term returns and risks, and not so much on longer-term returns and longer-term environmental, social and governance considerations. An explicit requirement for them to think more long term would help to unlock that source of finance. You see the same things with how rating agencies operate.

Q155 Chair: May I just intervene at this point? What you are saying is incredibly important. Given the fact that the fiduciary responsibilities of trustees are currently, shall we say, under examination, would you be able to give us supplementary written evidence covering that point and any recommendations that you think are appropriate?

Nick Molho: That is absolutely fine; I would be delighted to do so. There is just one small point I wanted to add on the banking sector that might complement what we have said about banks. We should not underestimate the possible impact of the Basel III rules, which will be coming into effect in the years to come. Those rules will essentially require banks involved in project finance to take far more steps before they can invest in renewable energy projects, and that is for two reasons. First, they will be required to comply with a liquidity coverage ratio, which essentially requires banks to have enough liquidity to be able to withstand a crisis of up to a month. The problem is that renewable energy projects are not considered to be a liquid asset, despite the fact that they offer a guaranteed revenue stream in most cases. They are considered to be an asset-backed security, which will make it harder for banks to invest in renewable energy projects. Secondly, there is the net stable funding rule, which will essentially require banks, when borrowing to long-term illiquid projects, such as renewable energy projects, to take out longer-term sources of funding to complement that. That risks increasing the cost of finance, so there is something else to keep an eye on.

Q156 Mr Walker: Before I move back to the Business Bank, I want to pick up on your saying that this area couldn't attract the banks because they can't get the level of returns that would meet their fiduciary responsibilities yet, on the other hand, Dr Edge said that the Government could get very good returns from investing in this area. Surely the key is to make the investments attractive enough that the private sector can come in. With that in mind, what level of gearing to the private sector are you currently getting? You said that investment is already flowing out and the £1 billion of capital that the Green Investment Bank was given by the Government to start up is getting leveraged, presumably, with some private capital. What is the ratio overall on that?

Dr Edge: The Green Investment Bank is running at a 2:1 leverage, so bringing in £2 of private money for every £1 that it is putting on the table.

Q157 Mr Walker: And what would be the ideal in the long run in terms of leverage? Would it be higher?

Dr Edge: I think KfW gets 4:1. Yes, it could go higher, for sure.

Nick Molho: You might want to ask the Green Investment Bank that question, but from the early analysis I have seen, a level of borrowing powers might be able to increase the leverage of the Green Investment Bank up to £6—for every £1 it puts down, it can leverage up to £6—but, again, it depends on how you structure the borrowing powers.

Q158 Mr Walker: It comes back to the point that Mr Fitz-Harris was making about the banks being slow to lend in many cases and the enormous amounts of process. On that front, I have a question for Mr Fitz-Harris and Mr Garner. The British Business Bank aims to increase the supply of finance that is available to businesses where existing financial markets are failing—there is clearly a perception of failure. Why do you think the traditional banks have failed in that role?

Ian Fitz-Harris: Why have they failed? Gosh! That question requires a very long answer, unfortunately—

Chair: I am happy to have the long answer in written form.

Ian Fitz-Harris: I shall try to keep it brief.

In the tercentenary of Bank of Scotland, I was with Sir Bruce Pattullo, one of the last great governors of Bank of Scotland, on the Mound, a hill in Edinburgh, overlooking Fife. It was a clear day and I said, "What a fantastic view." He said, "Yeah, we get that instead of a salary." He said, "You know, Ian, in 300 years, somebody else will be putting another brick in the wall," and 13 years later, the bank was bust. What went wrong? You can watch so many TV programmes on it and so forth, but the banks, I think, stretched to become global banks and forgot what their core was, and now we have a structural problem in the UK. You used to be able to go to a bank and present a business case, and instead of looking backwards, they would look forward and you would have a deal done and a decision made inside a week.

Q159 Mr Walker: Do you think it is a people problem or a capital problem? The banks have been through this traumatic episode, we all accept that. Now we have a situation where you're seeing banks being broken up, competitor banks coming in, new names on the high street and so forth, and yet it still seems to be a problem. Why aren't they able to restructure in a way that meets the needs of business and returns them to traditional commercial banking?

Ian Fitz-Harris: One of the issues is that they have not innovated in their products for 50 years. They roll out the same old products year after year and they have not changed their technology in 50 years. They are running mainframes that cannot be turned off. I just do not think they have invested and innovated in core areas such as SME lending. What products have we got? Overdraft, which just doesn't work, or factoring, which serves about 10% of SMEs; 65% of SMEs said they would never touch it because they don't like it. That is it; those are the products on the table.

Supply chain finance was something that was pointed to, and the Government certainly got behind it. A supply chain finance working group committee was established by the Bank of England and the Association of Corporate Treasurers, and I think that it reported in 2010. It said that supply chain finance could be a jolly good thing to basically get this cash hoard downwards through to the SMEs, but it hasn't worked, and that is because the supply chain finance that the banks currently use is, "We approach Sainsbury's bank and organise a £500 million facility for the supply chain", but £500 million in a £26 billion supply chain is not going to reach any SMEs. They then push out the payment terms from 30 days to 75, and guess what? Sainsbury gets £300 million, and it gets funding for lending scheme backing as well, so it is subsidised.

That sort of supply chain solution will not work. Professor Michiel Steeman, at Windesheim university of applied sciences in the Netherlands, is probably one of the foremost thinkers in this area. He calls that chain the vertical supply chain, and what you have to do is try to look at the integral supply chain. How can you create a platform where everybody gets access to early payment when they need it, without giving them a pile of documentation that is six inches deep, and without asking them to go through a six-month process to get there? The answer is new technology, connectivity and networking. We see it every day in our personal lives. I go home and my young children are connected all over the world, talking to people and working in these social groups. That is what we have looked to do.

Three years ago, we went first of all to Government and said, "Here's a piece of technology and an idea", and we went with Euler Hermes, which is the world's largest trade credit insurer, with the most sophisticated rating database in the world. At any point in time, Euler Hermes underwrites €800 billion of trade around the world. We sat with the strategic director and he said, "I am ready to underwrite five billion for the UK economy. We just want the banks to monetise it." We talked to the banks for a year and they all came up with a separate excuse for not doing it, and they were very good excuses.

Chair: Again, that is a really important point. Brian wants to come in with a supplementary question, and then I will come back to Robin.

Q160 Mr Binley: The answer isn't technology; the answer is very much lower down, and it is about people.

Ian Fitz-Harris: It is that, too.

Mr Binley: I can tell you that as a customer of Lloyds who borrowed £60,000, now worth £250,000, from a sub-branch of Lloyds to start my business, which now employs 180 people. I dealt with the sub-branch manager; I went to see him and I came out with that money. He did not have to refer to region.

What happened is that the whole thing became technological; it became matrix-based. The guy on the shop floor who was the local business guy, and who knew local business, ceased to exist. They took it all to region and they charged an enormous amount of money to do so. That is the problem—banks did not want to service small businesses, so they took it away and made it much more difficult for SMEs to deal with them. If you want to get back to a real opportunity, where SMEs can play their role again, banks have to get decent people at branch level.

I went into Lloyds the other day to see a business manager. They did not know who I was; it wasn't my home town. Do you know that I had to make an appointment with somebody in Leicester? No advice instantly at all, and it would have taken two or three weeks to see them. And I was asking for a loan of about £7,000. That is the problem: it is about people right down on the factory floor, and they do not exist any more in any high street bank at all.

Chair: Okay, Brian. I think you have made the point eloquently. Ian, do you wish to respond to it? In a second, I'll bring Robin in.

Ian Fitz-Harris: You are right: losing the local bank manager was a big mistake. If you look at the German model with the Sparkasse, there is a town bank that you can go and talk to. You are absolutely right, but there is a new wave of technology that will dramatically change everything, such that companies can get cash when they need it, without security, without personal guarantees, without having to give their lives away or their left kidney. Technology is being used to bring everything together to create a holistic solution for business. That is available today.

Q161 Mr Walker: I want to come back to that. First of all, I want to talk to Mr Garner. You talked about having a large number of banks in. I think you said that 13 banks had looked at your business but did not lend, and then one did. What was the difference?

Stuart Garner: Santander is a challenger bank as opposed to a legacy bank. I completely take Brian's point that going through the credit application of legacy banks is absolutely horrendous. It's a people thing, but it is down to whether that is a change in people policy or the mindset of the individual. Put your mindset in Mr Smith's 2004 mindset. He works for the bank, has a pension with the bank and a mortgage with the bank. Everything about him is behind the bank. You might make a phone call to say, "Could we borrow £100,000?" His mindset in 2004 is, "Yes. How do we do it?" Phone the same man, who has

seen half his colleagues sacked, whose career is probably in tatters, whose salary has moved and whose pension has decreased and is barely there, and his opening gambit today will be, "Please, no." There is an absolute mindset change in these individuals. They are scared of their jobs, and they are scared to lend.

Chair: Okay. I think you've made the point.

Q162 Mr Walker: In terms of the type of lending that you were going after, one thing that banks often say to me when I ask about lending to businesses in my constituency is, "Businesses are asking for the wrong type of debt. They're asking for overdrafts, but we want to provide asset financing." Do you look at different things?

Stuart Garner: I am very sceptical and have been through the mill. It is interesting listening to the panel, because I am the only business that is trading and manufacturing at the coal face. I may be similar to Brian. Our first-hand experience of everything that these guys are talking about is that I am at the bottom of the food chain. I am incredibly sceptical about the banks, in particular the legacy banks.

In a trading business such as mine, I generally have supply chain finance, which I need to pay my supply chain and buy my parts, and export finance, which I can draw my income from, so that I can use 30 or 40 days of credit if I am sending motorcycles to Australia or Japan. I also probably have some funding for property, my overheads and my address, which is all long-term capital funding. The only way that I need a bank these days is possibly for a 10-year loan on a property, or for my traditional mechanical banking requirement of a clearing bank.

I no longer need supply chain credit from a bank, because people like Ian and URICA are very able to do that. The British Business Bank has done a brilliant job in focusing lending in these specific areas. Government have teamed up with some of the challenger banks on these export finance initiatives and have made export finance and drawing forward some of your invoice finance a focused business again. It is something that the legacy banks do not need to do. The only reason why I need a legacy bank in my business at Norton is for a long-term property or as a clearing house.

Q163 Mr Walker: That is very interesting. Thank you. Mr Fitz-Harris, coming back to your technological solution, there is a bit of praise there. What is your organisation's role in addressing the problems and responding to this? How does the technology make the difference and de-risk?

Ian Fitz-Harris: We looked at the UK and said, "There's a structural fault. It's upside down. The smallest companies are pushing credit up the system to the biggest company, which is perverse." So we said, "Every company should have access to early payment, and we're going to find a way to do it." We went along to Euler Hermes, which was set up between the first and second world wars by the UK Government as the trade indemnity company. It is the same in France, Germany and so on. Euler Hermes has data on 40 million companies worldwide. It doesn't just rate it like Standard & Poor's and Moody's; they rate

businesses looking forward on probability of default, and they have a very sophisticated system that produces proprietary information.

I have a piece of technology—I suppose it's a bit like Facebook—that sits on top of these data, which are really big. When we first spoke to Stuart, he said, “I need to get finance into my supply chain, because my suppliers need to be paid quickly.” I don't know how long it took it—I think it was perhaps 24 hours—to put half a million straight down the supply chain. As the suppliers linked up, we rated every single one of them instantly with this technology—we rated little precision engineering businesses in Derbyshire. With five or six of them, we rated them and said, “You could do the same. Here's £500,000; here's £300,000,” and they could go down their supply chain. They then say, “But we also supply into aerospace, defence and automotive,” and they can go up the supply chain as well.

It is not just like vertical supply chain finance, and it is not like invoice factoring; it networks up and down for anyone you do business with. You can do it across, literally in the cloud, and the answer on a rating can come back in two minutes. We are doing it for a little company in Yorkshire that wanted to export; we are financing it right throughout Europe, North America, Australia and New Zealand, and he is also hoping to open in Mexico. This is all done in minutes, without a personal guarantee and without a debenture, and with the only fee being a little discount that they pay when they accept early payment for cash.

Q164 Mr Walker: When you are talking about managing up the supply chain, it presumably requires your customer up the supply chain to engage with URICA.

Ian Fitz-Harris: It does. And they are delighted to do it. Many companies, when you discuss their banking facilities or factoring, say, “Right, let's keep that quiet.” I was in Sheffield last week with a company called Chesterfield Special Cylinders, a wonderful business that is what remains of a huge industry—

Chair: I am sorry, but we are less than halfway through our questions and we are due to finish in five minutes. If we could keep answers and questions pointed, that would be appreciated.

Q165 Mr Walker: A final question: you were helped to do this by the British Business Bank—what was its role in supporting the business, how did you find it to deal with, and how focused do you think it is on SMEs?

Ian Fitz-Harris: The British Business Bank was an excellent idea. I think that it is well run and the balance is about right. We were hugely disappointed with the legacy banks, so one of my colleagues turned around and said, “Let's roll up our sleeves and do it.” We have created a new asset class as well, and we are offering, to pension funds, life insurance businesses and so on, spread exposure to a spread of SMEs, which is actually the credit sweet spot in the UK. It is a sort of bond of bonds, helping little companies that build communities.

We needed to get it going. Although there is a wall of cash sitting there to do it, and it is pretty much underwritten—95% underwritten—we needed to get someone to be a first mover, but everyone wanted to be a second mover. The British Business Bank came in and

stood up to the plate, and then so did Royal Sun Alliance with matched funding, and we are off and that is great. What is slightly frustrating is that if I were a legacy bank I could go and get a billion from the funding for lending scheme, and not at the commercial rates that we are paying. That seems a little strange, but anyway.

Q166 Rebecca Harris: I have a couple of quick questions for Mr Fitz-Harris and Mr Garner on the funding for lending scheme and the enterprise finance guarantee. We heard from the Forum of Private Business that it thinks that the results of the funding for lending scheme have been disappointing. Do you have any ideas for how the scheme could be improved and made more effective?

Stuart Garner: Let me jump straight in on the EFG. Some of my other businesses were a victim of it, going back four or five years, with NatWest, an old legacy bank. If you remember, to get some lending going again in order to get out of 2007 and 2008, one of the knee-jerk reactions was to put EFG down and guarantee bank lending. I took out one of those loans in a firework business that I had. There was a 75% Government guarantee for that loan with NatWest, and as you go in to pay your up-front fee to draw the loan, a few months of interest and a little bit of capital back, there is a time where you have repaid 15% or more of that loan repayment. What happened then was that the infamous Global Restructuring Group got hold of my business and immediately liquidated me, because claiming back that Government loan at 75% plus what I had already paid made it a significant profit pot, and they could liquidise the loan. Re-lending that money then put that back into the economy and made their loan book good. It has been absolutely rife, and I have had a meeting with Vince Cable to talk about it.

One of my proposals was this: if it is a five-year loan with a 75% Government guarantee, why don't we step that loan guarantee down by 15% a year? So over five years, 75% would be reduced by 15% a year. The bank then has exposure to the loan. At the moment, the bank cannot lose. The Government have funded the bank with a guarantee to make sure that the bank cannot lose, and all it has done is use that to ensure that its balance sheet stays strong. The small guy at the bottom end gets bounced around as a tool of the bank's liquidity. By reducing that Government loan by a stepped amount every year, the bank is unable to liquidise that loan and step out, because it gets bought into a loss. That means that it has to stand there and support small businesses, as the small business is liable to the loss itself.

This bankrupted my business for about £1 million. We went through that GRG absolute car-crash and tangle, but because it had a Government guarantee, it could run. I was told by the bank that it would not have liquidated me if it did not have the Government guarantee. That is absolutely something that needs to be looked at.

Q167 Chair: So if I can sum up, this scheme includes a perverse incentive to close businesses, rather than develop them.

Stuart Garner: Absolutely, and all it does is promote the bank's balance sheet.

Q168 Rebecca Harris: A question for Mr Fitz-Harris: I gather you were allocated £10 million via the Enterprise Finance Guarantee. Can you explain how you used those funds?

Ian Fitz-Harris: It was within the BFP partnership and that is rolled into the British Business Bank now. We match-funded it with RSA. It is a small amount of money—£20 million to get going—but you get a core and a nucleus and you prove a model. That is where we are at now. It is our target to grow that to something like £3 billion within the next three to four years. That really was just something to get us going. The institutional market will fund all this if it needs to, but at the same time, we are very, very happy with the British Business Bank and how it helped.

As for the comment on GRG, I hear exactly what Stuart says, and there may be an incentive, but you have to be a pretty perverse banker to take that sort of advantage; it is sort of bayoneting a tender wound, isn't it?

Chair: It is not unknown.

Q169 Rebecca Harris: That £10 million, then, spectacularly helped to attract extra finance?

Ian Fitz-Harris: Yes, absolutely, and we have most of the £20 million either placed now or we know exactly where it is going. We are in the process of raising further funds at the moment. There is a lot of interest from some great blue-chip companies. We are not putting in any bank debt or leverage. It is simple: you invest in a bond of bonds, if you like, and you get a straight coupon—nothing too ambitious: sort of 5% or 6%, but nevertheless fairly secure; it is 95% underwritten by the world's largest credit insurer.

Q170 Rebecca Harris: Going back to Mr Garner, can you talk about how you used the funding from the UK Export Finance guarantee and what difference it made to the company?

Stuart Garner: Yes, that was back in the day, 2007-08, with Norton. We have export finance through UKEF. The way that works is that, if we have £100,000 worth of motorcycles going to Australia, we want to draw that fund forward so that we can help cash flow the business, rather than wait for two months for the motorcycles to get over there by sea. The banks are unwilling to lend against that, because they do not have the security of the motorcycles. The Government have enabled UKEF to underwrite that individual invoice, or the individual export contract, to give the bank the confidence to lend against the invoice when it does not have the asset of the invoice.

I do not know what the guarantee mechanism is between the Government and the bank, but I understand there is one. The reality in my business is that as we dispatch those motorcycles for export, and our paperwork is complete, the following day we will be paid for the export sale and then our customer will get 60 days' credit to repay UKEF. It completely transforms the front end of my business: from waiting 60 days for payment, I get immediate payment when we have shipped the goods. It helps to put a kind of liquidity into my business.

A few numbers: we are growing at 60% a year, we are exporting in to 20 countries, we have sold out for two years, we have 100 staff, and we were a start-up six years ago. Without the liquidity of URICA and some of the UK Export Finance, we would not be able to do that because the banks are not open. People need to take on board that the banks are not open. If we had got the banks open, the economy would be two or three years further down the line than it is today, because people like me are doers; we want to run our businesses and we were unable to.

Chair: Okay. Again, I think we have got the message.

Q171 Mike Crockart: I think stability in funding and the level of green investment have been pretty much gone through in the earlier discussion around the Green Investment Bank, but I have one supplementary to ask Dr Edge and Mr Molho on how the Green Investment Bank interacts with other green policies across Government, most particularly with the Green Deal Finance Company. How should that be working, because it does not appear to be at the moment?

Nick Molho: One of the reasons why we have not seen the Green Investment Bank particularly active in the energy efficiency sector is more a question of policy rather than a question that relates to the Green Investment Bank as such. There has been quite a short pipeline of energy efficiency projects and most of them have tended to be financed on balance sheet. The reasons for that, in my view, are twofold. First, for a long time now, if you look back at energy efficiency policy over the past 20 years or so, policy has not been sufficiently well co-ordinated between Government Departments and nor has it not been set at a sufficient scale to really drive forward a strong pipeline of energy efficiency projects. In the example of the green deal, we see a situation where both the financial incentives are not sufficiently well tailored to people's needs and the means of delivery could be improved. If you take the interest rate, when the green deal was originally set up we were looking at an interest rate in the region of 8% or so, which was two to three times more than some people were paying on their mortgage. It is difficult for people to take these kinds of incentive up if they are not financially appealing.

It has to be pointed out that one of my members has had to make part of its work force redundant in its home improvement team over the past few years, which is quite astonishing given that energy bills, energy security and the need to reduce emissions have been at the forefront of the political agenda. Focusing on the policy, getting it right and ensuring that, in a similar way to what we see when we look at the development of a low-carbon project where there is more joined-up Government thinking across different Government Departments, we do the same for energy efficiency and we set similar levels of ambition will be important to drive the agenda forward.

Dr Edge: I don't work on energy efficiency, but there is a wider point. Nick says it is more joined up for green energy projects—well, yes and no. For example, there is a project that we are involved with called GROW:Offshore Wind, alongside the UK Manufacturing Advisory Service, which is very good at bringing SMEs into the offshore wind supply chain. It runs out in June next year. Because DECC has been dithering with the policy, the market for offshore wind is growing a bit later and after this programme runs out. Joining up that advice, support and investment in the small-scale SMEs that want to get into this business

with the actual opportunities is really necessary, so we are looking to try to extend that scheme, but at the moment it is due to stop dead in June next year.

Q172 Nadhim Zahawi: We have heard previously that there is an alphabet soup of business support schemes. Do you think that is true in terms of access to finance? It was more around non-financial support that there was confusion in the market. Is this a field that is difficult to navigate? Stuart alluded to what Brian was getting at.

Stuart Garner: I think it is a mindset change from the SMEs and the entrepreneurs to say “The bank is no longer your first port of call for a solution.” It is not the solution. The institutions like URICA and creative things like the UKEF are the solutions. The British Business Bank, I understand, is supporting around 80 institutions and has taken the view not to support legacy banks, but to support the specialist funders around these hotspots of funding. There are specialist supply chain funders and specialist invoice financing funders. What the Government needs to do now is tell the world that that is available and stop the mindset that our first phone call is to a legacy bank. It shouldn’t be to a legacy bank. It should be to identify what the finance is required for and somewhere we need a menu to say, “Supply chain finance: these are the people to call. Invoice finance: these are the people to call.” We are not doing a very good job of communicating what is available. We could probably fund so much more business if businesses actually knew what was available to them.

Q173 Mr Binley: We have not talked about micro-businesses, where people want £5,000, £10,000 or £15,000. They don’t know about anybody else but the high street bank and they have always thought in their mind that the high street bank was the place to go to. I take the point that you make, but how do we get money to those people, because the banks don’t want to know?

Ian Fitz-Harris: I was talking to a company in Sheffield—a great business; doesn’t have any borrowing. I spoke to the finance director and he said, “Ian, the reason I am in this is that I don’t want my two sons to work in a call centre. They have signed up to the URICA platform.

Mr Binley: I run a call centre, by the way, so be careful, but carry on.

Ian Fitz-Harris: Okay. We have put £1 million into that business to start with and they are going to push it down the supply chain. It could be the window cleaner that gets it. I think that one of the issues is that companies don’t want debt. We have all seen the problems of debt. They want cash—they want paid cash; they don’t want to have to wait 60 days. Factoring is debt. Let me tell you, if something goes wrong and you factored an invoice, the banks will come back and bash you pretty hard. This is a cash solution. Here’s cash, here’s cash, here’s cash. That, to me, is critical. What we need is more companies like Chesterfield Special Cylinders to sign up to this. Matt Hancock is coming out with this early payment platform and shaming people and that is a great idea, but it is much easier to say, “Look, you can pay all your suppliers early, even the little guys, and you don’t have to dip into the cash hoard that you’ve been building up to safeguard your own business.” That is the message that

we are trying to get out in the UK. It is a tough message but we really put our heads above the parapet in April and we are through 100 users now and it is starting to go very, very quickly.

Q174 Nadhim Zahawi: We have heard suggestions that there should be a single organisation/administration to oversee and co-ordinate business support schemes—something like the US Small Business Administration. Do you agree that such a unit is required, or is it additional bureaucracy that creates another layer? Where is the panel on this?

Ian Fitz-Harris: It feels like bureaucracy to me. I think that the point that Stewart was making was that there needs to be better information and people need to know where to go to find it and to go there first, rather than second. How you do that, I'm not entirely sure.

Stuart Garner: I think the world's changed very quickly, and the mindset of, say, Brian or myself and small business owners is still legacy bank. When we put some awareness and marketing in to changing that mindset, you won't need one single organisation, because we will have the thought and the aptitude to go elsewhere. But at the moment I think we need to be telling everybody, "You need to look and go elsewhere." Whether that is a single organisation or a website or it is done through an existing Business Link or through UKTI, which is amazing at the moment—very well funded, there are brilliant people in there and it works really well. That is probably the organisation that is already there that could push this through. But it needs some awareness.

Nadhim Zahawi: That is good to hear.

Dr Edge: One of the problems we have is the postcode lottery that is the local economic partnerships. It is good that people can focus on the businesses in their localities, but it does mean that you have a patchwork that is not consistent across the country. Maybe some LEPs are very good, but some aren't so great, and at the moment it is a real lottery.

Q175 Nadhim Zahawi: That is a fair point. Should the British Business Bank play that role? A quick answer, panel.

Chair: Yes or no?

Stuart Garner: The Business Bank with UKTI. LEPs are dead. It is a very slow, archaic organisation that doesn't act as fast as businesses need to. RGF is just the same. They don't work. The UK Business Bank and UKTI should drive it.

Ian Fitz-Harris: I think that's a good answer.

Dr Edge: I don't know.

Nick Molho: I'm not best placed to answer that.

Stuart Garner: I have had experience with all them, so I'd say yes from what I've found.

Chair: Okay. Thanks very much. Unfortunately, I have had to hurry you on a number of issues to get through the business. Some of these questions probably merited a whole session or even a whole inquiry in themselves. We would be grateful if you could furnish us with any written supplementary evidence, which is given just as much weighting as any verbal evidence. Similarly, we may write to you if there is a question we should have asked but didn't, and we would, again, be grateful for your responses. May I thank you very much for your contributions? It is fair to say they have been quite illuminating in a number of areas.

Examination of Witnesses

Witnesses: **Carl D'Ammassa**, Managing Director of Asset Finance, Aldermore Bank, **Irene Graham**, Executive Director for Business Finance, British Bankers Association, and **Stephen Pegge**, Group External Relations Director, Lloyds Banking Group, and Chairman, Small Firms Advisory Panel, British Bankers Association, gave evidence.

Q176 Chair: Good morning, and thank you for agreeing to help us with our inquiry. I am going to bat on very quickly. Could you introduce yourselves, starting with you, Irene?

Irene Graham: Irene Graham, executive director for business finance at the BBA.

Stephen Pegge: Stephen Pegge, external relations director for Lloyds Banking Group.

Carl D'Ammassa: Carl D'Ammassa, managing director of asset finance at Aldermore bank.

Q177 Chair: Irene, you wrote to us stating that: "Businesses are finding it easier to access bank borrowing and costs are falling due to competition between lenders." How do you think banks have made it easier? You may have heard some of the comments from the previous participants, and you might like to respond to some of them.

Irene Graham: Sure. There are a range of players in the marketplace today in the banking industry, both traditional players and new players that have come into the marketplace, and that is making it very competitive. Funding for Lending has certainly played its role as well in increasing liquidity in the market and reducing price to businesses. That is reflected in a number of the Bank of England credit conditions.

You are seeing a lot of different types of products and services that the banks are offering today. The focus is very much on the right type of finance at the right time and the right mix. Overall in the last quarter, £13.7 billion of overdrafts and loans of new money have gone in from the banking system to small and medium-sized enterprises. That is 30% up year on year, and that quarterly figure has been growing month on month, so money is going out into the marketplace.

That is also reflected by businesses themselves. The SME Finance Monitor, which I think has been mentioned by other witnesses, has interviewed 72,000 businesses over the last couple of years, and it is consistently saying that seven out of 10 of those seeking finance are

achieving the finance they need. It is about the right mix and the right types of services, and there is a lot of competition in the marketplace, with new players and traditional players.

Q178 Chair: The FSB wrote to us, saying that “47% of small businesses believe credit is unaffordable and 24.8% of small businesses have found the availability of credit is very poor.” There would appear to be a discrepancy between their perspective and yours. How do you account for that?

Irene Graham: First, there is a range of businesses in the marketplace. Those figures are improvements from previous surveys by the Federation of Small Businesses. Certainly, the SME Finance Monitor is showing that seven out of 10 businesses are getting the finance that they need. Clearly, it is about making sure businesses know how to get the right type of finance from the right providers of finance. What you are also seeing in the overall small and medium-sized enterprise environment is that cash held at the bank is the highest ever recorded—about £149 billion is held in cash. Indeed, even overdrafts unutilised are about £13 billion. So there is finance in the marketplace, and if you have a good business with a good credit rating and risk profile, you are getting the finance you need.

Q179 Chair: Carl, as a competitor bank, which will no doubt have customers who have been turned away from the larger established banks and the legacy banks, what obstacles do you see them facing and how do you overcome them?

Carl D’Ammassa: We obviously see the survey result from the SME Finance Monitor, and for sure confidence and ambition among SMEs is on the increase. As a new bank, we do not have a current account, so customers are having to come to us for the products and services that we offer. Increasingly they are saying to us that their existing bank has not been able to help them; and that is where they have had to hunt out opportunity with the likes of Aldermore. We are now supporting SME customers to the tune of £2 billion and we have got around 30,000 SME customers in our portfolio, so clearly people are finding their way to us, but I think, on some of the points that were made a little bit earlier, it is knowing where to go.

Q180 Chair: What are you providing that the established banks will not?

Carl D’Ammassa: I think our approach is much more flexible. We do not have a branch network. Our distribution model is through thousands of professional financial advisers up and down the country who are tapped into the small businesses and what their requirements are. They will introduce them to a number of different funders depending on their credit profile and what sort of financing they are looking for. I think what makes us unique is the fact that we do not auto-no things. We are at a point where we will look at every transaction on its individual merit. We are trying to fill the role that the bank manager used to, and we do make our underwriters accessible to both the introducer and also to the end user, to talk about the product that we are offering and how we can help them. So I think it is that more flexible approach than everything being driven off a computer saying “You don’t fit our profile.”

Chair: So you are the institutionalised legacy of Captain Mainwaring, are you?

Q181 Mr Binley: Forgive me, I have been a customer of Lloyds for a very long time, since 1989, and I have a lot to be thankful for to the banks in those days; but the banks in those days are not the banks now. It is a different banking situation, and the complacency of the high street banks is appalling. We talk about the low interest rate, but we do not recognise the high charges that we levy on small and micro-businesses—and they are considerable. We talk about cash being available in the SME sector, but the companies that hold cash reserves—and we hold quite a lot, too, in my own business—are not the companies that need to have the money to start moving, developing, and, indeed, in micro-business terms, starting up a business; and you are not interested. So can we get away from the complacency and talk about the reality?

What are you doing, in banks, for new start-ups—very small new start-ups, micro-businesses? What are you doing when you say that 80% of your applications are accepted, when in fact you do not allow a lot of people to get to the application stage? There is a pre-application stage.

Stephen Pegge: The first thing to say, Mr Binley, is I absolutely accept there is a need to rebuild trust, confidence, and focus on what banks are really here for—that is supporting the real economy. I can speak for Lloyds and I think there are some differences in strategy between different banks.

Mr Binley: Not much.

Stephen Pegge: We are a UK-focused retail commercial bank and small businesses and SMEs in particular are a major priority for us. That has been reinforced by our new strategy again, and we have been growing our lending consistently over the last four years. The Bank of England's funding for lending figures are published now, I am pleased to say, broken down by category, and Aldermore, Lloyds, Santander are some of the banks that have been growing on a net basis. In the first nine months of this year, we have grown our lending net by £1.2 billion, so it is 5% up year on year. That does require us to support those small businesses too. We have helped and opened banking relations with 100,000 start-ups in the past year. Many of them are future growth businesses, but even if they are not growing, they are important to their local communities and local economies. I do accept your point that it should be possible to see people locally where you want to see people locally. I am very happy to look into why you could not see someone in Nottingham—

Mr Binley: Northampton. I was being naughty—I did not go to my own branch.

Stephen Pegge: So we have local lending discretion for our relationship managers, typically dealing with those customers who borrow over about £50,000. By and large, those people borrowing £5,000 or £10,000 will either apply online, deal with their manager over the phone or see a local manager with local discretion, but I am happy to look into those circumstances.

What is important is to rebuild that trust, and I can pick up on Mr Bailey's question on confidence. The other thing that the SME Finance Monitor showed is that businesses are more likely to get finance than they think they are. There is a certain perception here that funding is not available, and there is a duty on all of us—that extends to the banks, but also to the business groups—to reinforce that ambition and confidence and to make sure that people know that finance is available. Across the market there are 500 different providers, and there is an appeals process, so people do have a right to a fair hearing and that is properly overseen.

Q182 Mike Crockart: May we turn to the role of the British Business Bank? The thought is that it is to work with partner banks, such as the two on the panel, to change the structure of finance markets. What is it that we need to change? What was the structure that was wrong? What failings do we have at the moment?

Irene Graham: For a long time there have been interventions that the Government have made into the small and medium-sized enterprise sector. You have heard about the enterprise finance guarantee scheme, which was previously the SBL scheme, and it has helped where there is a lack of security for business. What you are really looking at is two things, the first being working with the private sector, where there are difficulties for a business to borrow directly either from a bank or an alternative finance provider without some level of support, and the enterprise finance guarantee scheme is a good example where there is a lack of security.

You need then to look at where other gaps in services might be. We have talked about micro-businesses and start-ups. Certainly, in many respects, that is more of an equity-type higher risk than is necessarily right for a bank to provide finance to initially, so the start-up loan scheme, which is managed by the British Business Bank, helps there. Many banks are partnering that scheme, both by referring businesses into it and in follow-on funding. That is working in a partnership way, providing finance to start-ups, along with the angel investment and co-investment scheme. The important thing is how the Government bring everything together with what the British business man does, working with the private sector where there are gaps or where there would be a lack of support for the business unless there was some sort of intervention that helps the private sector to come alongside the Government.

Q183 Mike Crockart: That is tinkering in particular areas of start-ups, exports or whatever. The evidence that you heard, although it might be anecdotal, was that of an entrepreneur sitting here saying that they went to 13 banks before finally getting the lending that they were asking for. The quote that I noted was, "The bank is no longer your first port of call" for funding. That cannot be a comfortable place to be.

Stephen Pegge: I would certainly hope that people feel—we would want people to feel—confident in coming to us, not just for what we can offer, but for signposting to other forms of support that might be appropriate, such as equity. We capitalised the business growth fund, which is now very active and has invested £300 million or more over the past couple of years, so referral opportunities should come there.

The British Business Bank serves an important purpose—in answer to one of your earlier questions, or to Mr Zahawi’s earlier question about the alphabet soup of schemes—in bringing things together and in helping people to navigate the Government’s different interventions. We can be much clearer and make sure that people get what they need. Relationship managers need to know that they can go to one point of call to find out exactly what is available and to support their customers. By having it together in one place, we should be able to signpost people. It is not quite all together yet; there is more opportunity for the British Business Bank to bring further schemes within their remit, such as the regional growth fund, which is still run separately. Equally, I think it should be possible for all ports of call, whether it is the accountant, a specialist provider, the bank or a Government support agency, to make businesses aware of the full range of options in front of them. I accept we have to do more to raise awareness.

Q184 Mr Binley: What is the ratio of relationship managers to businesses in Lloyds Bank?

Stephen Pegge: It depends on the size of the business.

Q185 Mr Binley: What is the average?

Stephen Pegge: The average is about 200 customers per relationship manager.

Q186 Mr Binley: You don’t think that’s too many, and that that is one of the problems?

Stephen Pegge: We are investing in putting more relationship managers into local markets.

Q187 Mr Binley: So you do think it’s too many?

Stephen Pegge: You can always do more, but you have to balance that with the cost of providing it and the ability, then, to offer competitive finance.

Q188 Mr Binley: Forgive me, this is a vital point because it is about your coalface presence. If you look at the amount of money you have earned from the two companies I have started, which now employ 300 people, your return has been massive. I had a local business manager who became almost a director, saw us every three months and so forth. You have forgotten the return you make from a successful business on the amount of money you bring in. Can you think a little more about that?

Stephen Pegge: You must constantly look at where you have relationship managers and whether you have the right ratios. Equally, you have to make sure that the customer and the relationship manager aren’t spending their time on long-winded processes. The more we

can do to streamline things and maximise the time that managers can go out and see businesses and meet people, the better.

Mr Binley: You can't get to them.

Chair: We have debated this point. Mike, do you want to come back?

Q189 Mike Crockart: Yes, I have a question for Carl. You are trying to enter the market to give a better, more trusted version of the legacy banks. Is that behind the curve; have things moved on?

Carl D'Ammassa: The Business Bank plays an important role for us. We're building our balance sheet. Capital and risk tolerance defines what would fall within the box of what we would like to take on, from a customer-profile perspective. The schemes that the Business Bank is proposing will help us widen that box and widen the number of entities that we can support. We're already in conversations, as far as my own business part of the bank is concerned, to look at how we can apply the Enterprise Finance Guarantee scheme in the asset finance environment. So we do want to lend more, but, clearly, as a challenger bank, we haven't got the balance sheet to do everything for everybody.

Q190 Mike Crockart: Finally, Mr Pegge has made it clear that he would support other Government business debt and equity finance schemes coming under the Business Bank umbrella. Is that something you would see as a forward step?

Carl D'Ammassa: We'd support the co-ordination of all initiatives, including the regional growth fund, falling under the British Business Bank. We've only got 800 people in the bank, which is phenomenal from where we've come from, but we can't co-ordinate participation in all these schemes with the different Government agencies. That is very difficult for us, so having one relationship with the BBB is hugely helpful so that we can configure things in order to widen that box of people that we're prepared to transact with.

Q191 Mike Crockart: There's a lot of confidence in the British Business Bank's ability to take on these extra powers, despite the fact that you're only a year old. Are you willing and able to take on those extra responsibilities?

Irene Graham: We're very supportive of the British Business Bank. The good thing is that it was built on infrastructure that existed and a known entity called Capital for Enterprise; so it has brought policy and operations together; it has been given its ability to be slightly separated out from day-to-day Government as a stand-alone entity. That will make it flexible and nimble to respond to market conditions, which is an incredibly important point. The regional growth fund is something that many of our members use and find very good, because they can deploy it relevant to their business and business model, and what is right for the business customers they are serving. But it is sometimes difficult to co-ordinate, so giving the British Business Bank the co-ordination function would be helpful.

Q192 Ann McKechin: The Green Investment Bank states that each investment it makes offers competitive returns against a “green and financial double bottom line”. If that is the case, why do you not make investments off your own bat?

Stephen Pegge: Thank you for that question. We certainly do and have done about £1 billion of green investment in our own right, but we also work closely with the Green Investment Bank. Although it is early days, they have a very good team and are making a bit of a difference. Obviously, as you know, they operate in three broad areas, of wind energy in energy efficiency, recycling and biomass and so on. We have done different investments in those fields.

With these major infrastructure investments you often have a period of initial construction and development—a build phase, if you like—that banks and capital markets are best geared to provide finance for. That tends to be short term and can be quite high risk. Where the Green Investment Bank has really helped is by providing a bit of equity that can draw in debt capital, which we have done on a number of transactions. Then there is a period of operation—of long-term finance—and often it is the institutional investors who are best placed to do that. They have been able to connect the two.

There is something, as well, about the fact that there are quite a lot of importance to tax in many of these green investment deals. When they are very long-term investments, you want to be confident that the tax regime is not going to change and undermine the profitability. Having the Green Investment Bank, an essentially Government-funded organisation, aligned with those interests can give people confidence to invest. In due course, you will see their demonstration effect, which is really important, leading to more and more private investment without the need for Government support.

Q193 Ann McKechin: So effectively they act as a catalyst.

Stephen Pegge: Yes, they are a catalyst. They are a source of expertise, as well. A lot of our experts in this area can talk to people who speak the same language and connect things. We are talking about big infrastructure, which often needs more than one institution to play.

Irene Graham: We would agree with that. There are other banks partnering with the Green Investment Bank in a number of ways. They act as a catalyst in a higher risk sector and bring in that investment alongside. The BBA is doing a broader survey into the UK infrastructure market at the moment and we would be happy to share the results of that research, which will be out in the new year. You may find that of interest when you touch on the Green Investment Bank.

Carl D'Ammassa: We do not participate in large projects. We have funded some smaller projects on our own basis, with straightforward loans.

Q194 Ann McKechin: This month, Gavin Templeton, the Green Investment Bank’s sustainable finance head, advocated bringing “green reporting into line with financial

reporting”. Do you give any consideration to the green credentials of your investments at the moment—do you weight them in any manner?

Stephen Pegge: We do. We also have our own commitments on environmental and sustainable development as part of our prosper plan. Clearly, many businesses that are supplying other organisations have to meet a whole range of criteria, which will include sustainable credentials. That makes it important for them to be able to bid for their contracts. There is clearly risk, if businesses are not complying with regulation or potential future regulation. That is very much a consideration. But more than that, I would say that there is opportunity. We look at the whole area of alternative energy and of greening the supply chain as a business opportunity that the UK is quite good at and we could get more of, globally, if we are able to support those businesses.

Q195 Ann McKechin: Do you think that reporting an environmental impact is, in turn, changing investor behaviour to some extent?

Stephen Pegge: Yes and no. We issued a bond not long ago, backed by a number of our business areas, investing in ethical community and environmental areas. We had fantastic demand for it, so I am sure we are going to do more with that. The money we raise we are putting specifically to those sorts of purposes. But you have to also be conscious that there is a broad range of businesses out there who need support as well. It is clear, however, that investors are increasingly interested.

Q196 Ann McKechin: Mr D’Ammassa, you said that you used your own criteria.

Carl D’Ammassa: Yes. We are supportive of investment in environmental projects on a smaller scale. We tend to do a lot with our agricultural clients who we want to invest in. We do not have particular targets because we look at every opportunity that comes our way on its own merits. We are happy to support environmental organisations.

Q197 Ann McKechin: Has the Green Investment Bank contacted any of you about the creation of this A-plus to F ranking of investments? Are any of you aware of that?

Irene Graham: I am not aware of that. Many of the banks that work with the Green Investment Bank are adhering to the equator principles, which are a sort of global standard, but I am not aware of that particular point.

Q198 Mr Binley: The British Bankers Association has recommended that the regional growth fund be moved to the British Business Bank. We have already had evidence that over the last 10 years local service from banks has been appalling. It is improving now but it has been appalling and the banks’ reputation in that respect has suffered massively, as has been admitted by Mr Pegge. Given that, why do you think what is a very local requirement—feed-in for the regional growth fund at a local level—can be handled by the banks? Your logic seems to be totally unacceptable.

Irene Graham: Let me unpick a number of those points. Obviously the industry realises that trust and confidence has to be rebuilt in the industry. We are doing a lot collectively under the Better Business Finance programme to support businesses through mentoring for micro-businesses and start-ups, and growth businesses through the Mentors Me scheme, through the appeals process that Stephen has referred to, and also in terms of improving access to finance overall.

Q199 Mr Binley: Let me stop you. We have heard evidence that the ratio of relationship managers to businesses is one to 200. That is almost impossible for anybody to handle at any real level at all. How can you say what you are saying when Mr Pegge said what he said?

Irene Graham: I am merely saying that there is investment going into front-line staff, but businesses also want online services, and that is a critical fact.

Mr Binley: That was not my question, but carry on.

Irene Graham: In terms of the regional growth fund and movement into the British Business Bank, as I referenced, Lloyds and Aldemore and others are using the regional growth fund. They are working with Government in that regard as are many other finance providers. We are absolutely not saying about changing the bidding process, which should be open to everyone and be open for local entities to bid for monies under the regional growth fund. We are not suggesting that that should be different at all. All we are saying is that the administration of it should be with the British Business Bank. At the moment that is in different pockets of Government. The administration of the regional growth fund should be centrally co-ordinated to make it simple and easy to access for those that wish to seek monies from it. That should continue absolutely in the bid process as it is today.

Q200 Mr Binley: When at this moment it is being operated at a local level through LEPs to a large extent.

Irene Graham: There is a mix—

Mr Binley: How can you hit that local input when you are already admitting that banks aren't able to do it?

Irene Graham: Every bank is investing in local resources.

Q201 Mr Binley: Look, I am a customer.

Irene Graham: I understand.

Mr Binley: Believe me, it is nonsense to make that statement.

Irene Graham: All I can talk about is what I know banks are doing and investing in and continuing to invest in—relationship managers, education of relationship managers and

giving them local authority. I acknowledge the fact that after the crisis, some of that local decision making may have been pulled back centrally, but it is going back to local managers and local relationship managers now. That is a very important factor for the way in which the banking industry operates.

We also have to recognise that businesses themselves are changing in the way they wish to seek to engage at times. The recent Business Banking Insight survey by the British Chambers of Commerce and the Federation of Small Businesses lists 137 different banks offering business services to small and medium-sized enterprises. In that, they have reflected the question that was asked, and found that 69% of businesses really want to also have online and electronic services, combined with branch and local services. We are investigating that.

Q202 Mr Binley: We have already made the point again and again this morning that the banks do not have the local presence they once did. They do not have the local understanding they had. What you are suggesting needs local understanding. It seems to me that what you are suggesting is actually dangerous, and you should be very careful.

Carl D'Ammassa: We are indeed. We are fortunate that we have a national distribution model.

Mr Binley: That is different. I accept that.

Carl D'Ammassa: That is through professional finance brokers who are well versed in dealing with the local needs of SMEs, and in working with other funders that provide RGF support. We are not dependent on the branch network or—

Q203 Mr Binley: I totally accept that, which is why I did not direct the question to you. But you are involved in LEPs, and you do know which LEPs are working well and which are not. The banks do not. They haven't got a clue, frankly. I am a director of an LEP board, and you haven't got a clue. Can I ask you to go back and look at that statement again?

Irene Graham: A number of the banks are part of the access to finance LEP local environment and do work very closely with them, but perhaps Stephen wants to add something.

Stephen Pegge: I was really just going to add one comment on the point about RGF, because we also supported the thought, not that—

Q204 Chair: I believe that your next question is on the RGF again.

Stephen Pegge: In that case I will stick to the LEP question. A number of our local managers are on the boards of LEPs.

Mr Binley: Some.

Stephen Pegge: Yes, absolutely. Clearly, you would not want every board to be dominated by bankers, but I think it is appropriate that we are involved in supporting them where it is most appropriate.

Q205 Mr Binley: A final point, Mr Pegge. You said that you had some. That is not dominating. You ought to encourage your people to get involved with the LEP—

Stephen Pegge: Indeed.

Mr Binley: And help them do the job more effectively, not make statements like this.

Irene Graham: I just want to—

Chair: We must get on. There was an issue around the number of applications that were withdrawn.

Q206 Mr Binley: I don't think that question is very important to what we are discussing, frankly, which is why I decided not to ask it, but I will if the Chair wishes. The Government confirmed that more than 22% of the successful RGF bids were withdrawn, many because they were unable to secure the match funding required to proceed. What unacceptable risks had private financiers seen that the Government have missed? I don't think there were any; I just think that some of the allocations were silly, but that is by the bye.

Stephen Pegge: There is a tender process for regional growth fund bids. You would want to see a competitive element, which means that some will get supported and others will not. At the same time, you want to make sure that that is well spread, and that it is available and distributed locally. We certainly do that with our RGF money. We use it to leverage grants to help businesses invest and create jobs, that are then added to by three or four times that amount in lending, so that they can have a bigger investment overall.

One thing I think is helpful is having the British Business Bank—at the level of the top administration, not local distribution—take a bit of a hand in it. They are very experienced in negotiating on state aid. Often, one of the difficulties with whether or not things qualify is the rules and regimes which apply in Europe. If the British Business Bank were a bit more involved in that, I think we would have less confusion about that particular one.

Q207 Mr Binley: So you want a much more specialist involvement, rather than this rather bland statement that the British Bankers Association has made. Is that what you are telling me? You can disagree with the BBA.

Stephen Pegge: My interpretation of what the BBA had suggested, which I agree with, is that at the top level there is some specialist administrative control. I completely agree with you that the distribution needs to be very diverse.

Q208 Mr Walker: I want to touch on funding for lending. Mr D’Ammassa, you wrote to us to say that you were concerned that more lenders had not drawn more funding from the funding for lending scheme. Why is that the case?

Carl D’Ammassa: I think that, certainly for challenger banks such as ourselves, there is only so much you can do with drawing on funding for lending. I am sure you will have seen the stats which support our having drawn about £0.5 billion from the funding for lending scheme. We have actually lent £4 billion, so it is a smaller part of our funding model.

It is very important for challenger banks to demonstrate that they can stand on their own two feet without lots of Government support. We have not drawn anything further during this year at all, despite our net lending stats increasing.

Q209 Mr Walker: So in a sense it is not really contributing to competition in the sector if the challenger banks can do without it; it is just propping up legacy banks.

Carl D’Ammassa: Yes, we are at a fortunate point now where we can transact without it, hence why we are not making any further drawings. If you go back to when FLS kicked off, clearly we threw ourselves into that at that point in time. Liquidity has moved significantly during the intervening period as well: it is a lot easier for banks like us to get the funds to be able to lend out. We think it has probably had its run.

Stephen Pegge: Could I add something on that?

Q210 Mr Walker: I wanted to ask you about that, because you specifically said that funding for lending was enabling you to offer a 1% discount to SMEs. Do you feel that it is adding to the offer?

Stephen Pegge: Yes. I think it was particularly important at the time it was launched: funding costs were high in the marketplace, many smaller entrants were liquidity constrained and I think it really helped to change the whole funding environment. Certainly, we have carried on offering discounts.

The second thing that I think it did was to introduce transparency, since the Bank of England started reporting who is lending what in the marketplace. The third thing is, it has added a bit of confidence. We have actively marketed it, because it is a great way to showcase and say, “Look, money is available. It will be at affordable rates and you can access it here.” We have used it and drawn on it and I don’t think there should be any stigma to it. I can understand Carl’s point and concern about that, but this is a source of funding that is entirely legitimate, going back into the economy and is available on the basis of lending and increasing your net lending to SMEs. Equally, it is one of a range of funding sources.

What you will see in January—the expectation is that it will not continue after that—is that the markets will have moved on sufficiently for other alternative funding mechanisms to be there to be used. But I do hope that the Bank of England or other agencies will carry on with the reporting of lending. We will certainly continue to report our lending and be transparent about where the lending is going to SMEs.

Q211 Mr Walker: It is certainly useful to see the comparative figures month on month, but that does not necessarily require money to be pumped into the system. You heard from the previous panel—I think you were all in the room—some worrying evidence about some of the perverse outcomes that can be driven by funding for lending. Do you have any comments on Norton Motorcycles?

Stephen Pegge: In the early days, I think it was limited as to which institutions and what type of finance could be drawn against it. That was expanded and improved in the latter part of the scheme and that has been a helpful part of the process.

I am not sure that I see perverse outcomes. If there is good, low-cost finance and competition in the market, with the benefits being passed on in lower cost funding for the economy, and businesses are confident to invest and come forward with lending, that is a good thing, but maybe it has served its purpose and done its time. Interestingly, in Europe now—the Eurozone is in a very different state—there is an equivalent, the TLTRO, which is a very similar thing, based on funding for lending.

One thing that I did want to mention: there was a report out last week comparing all the European countries, including those outside the Eurozone, on access to finance and the UK scored very well. It was up there with Germany and substantially better than many others. That is in part because policy on a consensus basis has been to deal with things quickly, focus on SMEs and provide the kind of support that we have seen.

Carl D'Ammassa: I think, for sure, the publicity around the scheme has raised awareness that the UK economy is there and we can invest for the future, and the banks are there to support it through the FLS. We do get lots of inquiries off the back of our participation in the scheme, so it certainly has raised awareness and it is encouraging SMEs to come forward to say they would like to borrow money, even though we are not drawing on it now.

Q212 Mr Walker: Moving on to the complexity of a range of issues. We have evidence that the BBA has said that business is often confused about where to look for support, and that Lloyds and the Government need to streamline the current schemes and improve their co-ordination. What practical recommendations would you make to streamline and target that support to businesses that need it most?

Irene Graham: As we said in our evidence, we think the British Business Bank has a key role to play in bringing the finance schemes together at the top level of the administration as well as the education part of that. The business finance guide, which we among others supported, is a step towards that—and working with us on better business finance, which has got a finance finder.

We work with the BBB in relation to that to educate businesses on the different types of finance available. It is about continuing to consolidate schemes such as the regional growth fund into the business bank for a top level administration, as well as looking at some of the support for finance, such as the growth voucher, the growth accelerator being

administered by the BBB. And then working with the private sector as it is today—accountants, ourselves—on that education part for businesses.

Q213 Mr Walker: I suppose this is a point that Brian touched on earlier, but does that not actually involve considerable centralisation of the processes? Surely we need to see these things being visible locally in communities where the small businesses are.

Irene Graham: No, I think that is then about the distribution side of it. You have the banks, the business groups and the LEPs all working together to get that information out there. I think that is the success of funding for lending. It has been distributed nationally but there is a recognition of it. It is about us working together to get the information to businesses in an effective and simple way.

Q214 Mr Walker: In terms of reaching the SMEs, the Federation of Small Businesses suggested setting up a small business administration like the one in the States. Do you think that is necessary, or would make a useful contribution?

Irene Graham: The important thing at the moment is to focus on what is in place today and give that longevity. As successive Governments come in, giving the brand you have now of the BBB and other strong brands, keeping that and keeping consistency, and keeping those in place, will give confidence and consistency. It is building on the existing infrastructure and making sure that it works effectively and is simple to access.

Stephen Pegge: May I add to that? I think there is an important role for LEPs to play. Building on that and some continuity after the next election—and I know Opposition parties are supportive—is important. There needs to be a build-up, probably, of their resource and ability. That includes support from banks and other local private sector organisations in being more involved in doing that.

They are adopting a role in co-ordinating the appropriate local and regional differences to the national schemes. Clearly, in the midlands manufacturing is very important and you would expect to have a depth of expertise and resource focused on those sectors. We have 200 managers now trained as manufacturing specialists. They want to work with local advisers, whether it is from UK Export Finance or MAS, who can be engaged with their manufacturing clients. I think the LEPs have a very important role in pulling all that together and helping to co-ordinate.

Carl D'Amassa: The important thing is the signposting. We don't want SMEs to feel that when they have been rejected by their clearing bank, there is nowhere else to go. There are lots of alternative funders out there, and they just need some direction. There are a number of initiatives that industry bodies across a number of sectors that Aldermore deal with are trying to raise the profile of. We need to allow those to bed down and continue to push them to keep the signposting there for those small businesses, so they know where to go to get the support when their bank cannot help them.

Irene Graham: The industry itself and the large banks within that have very much taken that on board. They signpost many alternatives already, both through relationships with

broker-dealers and with other finance providers, and we are supporting the small business Bill that is going through Parliament at the moment. We are actively supporting that with the referral mechanism that will go into play.

Q215 Mr Walker: With all these initiatives, the Government are inevitably trying to do a lot of different things through different mechanisms. We have talked about trying to bring them together and co-ordinate them. Are there any initiatives that you feel are not delivering value for money for the public?

Stephen Pegge: I would say that there are bound to be.

Q216 Chair: Could you be specific?

Stephen Pegge: No, because I think—this is a serious point—there is some value in a thoroughgoing review of schemes to see whether they are making a material contribution. I do not have the information to do that.

Chair: You may not want to give an off-the-cuff answer, but the fact that you said that there are bound to be implies that you must know that some are not. Perhaps on further consideration you would like, in a suitably diplomatic and coded way, to provide us with written evidence that would point out the deficiencies of some of the schemes to which you are alluding. Okay?

Stephen Pegge: I am happy to do that, Chair.

Chair: That concludes our questions. Thank you very much for your contribution. I am sorry I had to hurry you on one or two occasions, but I think you were there when the previous panel were informed that they could submit further written evidence. Obviously, we have asked you for that on some specific points, but feel free to do so on any other point. Thank you.

Examination of Witnesses

Witnesses: **Oliver Griffiths**, Head of Government Affairs and Policy, Green Investment Bank, **Shaun Kingsbury**, Chief Executive, Green Investment Bank, **Patrick Magee**, Chief Operating Officer, British Business Bank, and **Keith Morgan**, Chief Executive Officer, British Business Bank, gave evidence.

Chair: Good morning. Welcome. I will get on very quickly, but before I do so, Robin wants to declare an interest.

Mr Walker: In the interests of transparency, I declare that my brother works with Patrick Magee at the Shareholder Executive.

Q217 Chair: We know who you are, but could you introduce yourselves quickly, starting with you, Oliver?

Oliver Griffiths: My name is Oliver Griffiths, and I am head of Government affairs and policy at the Green Investment Bank.

Shaun Kingsbury: I am Shaun Kingsbury. I am chief executive of the Green Investment Bank.

Keith Morgan: I am Keith Morgan, CEO of the British Business Bank.

Patrick Magee: I am Patrick Magee, chief operating officer of the British Business Bank. I recently moved from the Shareholder Executive. Jonathan does work at the Shareholder Executive, but not directly in the British Business Bank.

Q218 Chair: I seem to remember an illuminating and enlightening session that we had with the Shareholder Executive over Royal Mail, but we will not go down that route today. I emphasise that some questions will be person-specific and others will be general. Please do not feel with a general question that you all need to answer every point if you feel that it has already been covered adequately.

My first question is on the Green Investment Bank and is for Mr Kingsbury and Mr Griffiths, although it may be unnecessary for both of you to answer. Where do you see yourself fitting within the Government's overall offer for business? That is a pretty general question.

Shaun Kingsbury: We have a clear and specific role to play, which is to move the UK towards a greener economy and to invest in the infrastructure side of that. We build projects, and that was clear when the bank was set up. That mandate was agreed within Government and then agreed with Europe. We focus entirely on projects; we look at offshore wind, waste-to-energy, biomass-to-power and energy efficiency, and we could do some stuff around carbon capture and storage and wave and tidal, when there are infrastructure projects there to invest in.

Q219 Chair: What do you see as your biggest challenge?

Shaun Kingsbury: I think it is finding good projects that allow us to invest at about the right level. We invested £635 million in the first year and £670 million last year, and we are on track to do around £700 million this year. I would like to get that up a little bit—I would like to be at a run-rate of £800 million to £1 billion of new investments per annum, but we have to be very disciplined. We need some good projects, because without good projects we will not make good investments.

Q220 Chair: Turning to Mr Morgan and Mr Magee of the British Business Bank, what is your priority for the first year of independent operation?

Keith Morgan: Our priorities are focused on where we think there are issues in the marketplace. In fact, in our June strategic plan we laid out what our strategic priorities are. We are focusing on three areas. One is that we believe that there are areas of the marketplace that do not work properly or well and we want to put finance through the marketplace in the right structures to get more finance to smaller businesses.

The second is specific to the structure of the market in this country, which is very concentrated. If you are a small business and you are looking for finance, there are what appear to be a small number of offers in the marketplace. Our priority is to increase the diversity of offers in the marketplace and to increase the choice and options for small businesses.

The third is all about smaller companies knowing what is on offer. We have done plenty of surveying and speaking with small businesses, and it is very clear that there is a job to do to increase the awareness and understanding of offers in the marketplace. One area that we are particularly focused on—I think it was referenced by the BBA—is that we think there is a role to bring together much more consistency in the marketplace.

When it comes to companies knowing what is on offer, we brought together the ICAEW, the CBI, the IoD, the BBA, the FSB and a clutch of other people to put out one shorthand document—one reference in layman’s terms—about what is available in terms of options in the marketplace. That is something we have been pushing very strongly since we launched it in July and it is one of our priorities for the year.

Q221 Mr Walker: In terms of promoting the options in the marketplace and the diversity of those options, you have “bank” in your title, but to what extent do you feel the remit is within banking or reaching out beyond that into alternative lending models?

Keith Morgan: It has to reach beyond banking and into alternative lending models. We see this as a very important area of diversity. If you think about the options on offer, there are many small, regionally based asset finance companies. It is very important for smaller companies if they want to increase their fixed investment and build their capacity. There are an interesting and growing number of non-bank lenders—debt funds—that go out and originate their business, and look for growth and finance opportunities. They are also interesting to sponsor in an accelerated marketplace. There are some promising signs that there are alternative models: for example, there is significant growth in the technology platforms—so-called thin tech—peer-to-peer lenders, invoice discounting and supply chain finance, which occur not through the banks but on technology platform-dedicated businesses.

In the area we have focused on we have allocated £400 million of investment that will go into alternative lenders. We see our role as catalysing, accelerating and giving additional funding weight to those alternatives and delivering supply that is not there now, and alongside that increasing awareness of those alternative options. We see that as being central to our objective.

Q222 Chair: On restrictions as a result of state aid rulings, do you feel that limits your effectiveness?

Keith Morgan: We have state aid approval now, which means that as of 1 November we are operationally independent of the Government. The structure that we have negotiated and settled with Europe gives us quite a lot of flexibility, so there is one segment of our business where we can make investments on a *pari passu* or commercial basis, meaning that we will fulfil our strategic objectives but do it on a commercial basis; Europe has no reference to that business. We have other areas where we agree that we will work within the existing European mandates. There are various measures—things called the global block exemptions—which we can operate within; that is quite a wide spectrum of operation. The third area of our business is that we have said we will continue to work as an agent for Government, which also allows us to use some of the benefits of Government operating in the marketplace. So we have secured, in our view, a reasonably flexible settlement in Europe.

Q223 Chair: In its evidence or certainly in some evidence, I read that the Green Investment Bank can actually finance only about a third of the potential projects. Could you comment on that?

Oliver Griffiths: Certainly. Our state aid remit is set up slightly differently from the Business Bank's, in that we had to pre-clear particular sectors. As you say, Chair, that is overall about a third of the green economy. Much of that is for very good reasons, because public money is not needed, so if we look at areas like ground mounted solar or large onshore wind farms, they are being financed by the market fine. There is no need for public finance there.

Overall, it was a fairly good approximation in terms of the sectors that we are allowed to invest into, but the one thing I would say is that it is a fairly cumbersome process if you want to then add in additional sectors. We went through a process last year where the Co-op had withdrawn from the market for small-scale renewables. This was part of their general problems and it was a very clear case of market failure. We went and made that case to the Commission and they accepted it, but the whole process took over six months from beginning to end. I do not think that it is a bad set-up that we have from the European Commission, but it is a relatively unwieldy one.

Q224 Nadhim Zahawi: We have heard different views about how difficult it is for business to access finance in the current environment. The British Bankers Association has a fairly positive outlook, while the smaller business trade associations tell us that things are still quite difficult. What is your sense?

Keith Morgan: It is quite hard to see through the data. I do not think that any small business would say that it feels easy to raise finance, but if you look at the trends and at the survey data, there is a growing sense of confidence. There is some evidence that smaller businesses are saying that it is easier than it was to raise finance. I will give you some examples. If you look at bank lending, which is often a main focus for people, there has been some growth in gross lending—albeit the stock position has been fairly stubborn—and we have seen growth in asset finance as well. I mentioned that as a topic before because I think that it is quite important. Our surveys and contacts show that whereas two years ago the major demand for finance was for working capital, the major demand for finance is now for

investing in new fixed assets. That, of course, is very consistent with a sense that there are growth intentions among small businesses.

We can see that the demand is shifting towards growth finance and finance to build tangible capacity. What we have also seen versus 2012 is a 10 percentage point increase in small businesses saying that they were successful in gaining finance. Overall, the trend looks like it is improving, but we still think that there are some significant gaps in the marketplace, which is what has been driving us in terms of where we are focusing our activities for the first year.

Patrick Magee: We will be publishing a report in early December with our views on the small business finance projects.

Q225 Nadhim Zahawi: Without pre-empting the report, what is your sense?

Patrick Magee: The themes that Keith has just brought out are—

Q226 Nadhim Zahawi: So it is getting better but is not yet good enough?

Keith Morgan: That's right, and there is a clear need for more diversity in the marketplace.

Shaun Kingsbury: In our case, when we look at green finance, we have seen the market improve on the debt side. We can do debt or equity in these large projects. I think that it is fair to say that there are more people in the debt market, but the tenor of those loans tends to be quite short—seven or eight-year mini-perm loans, where you have to refinance and repay people after a short period. We invest in 20 to 25-year long assets, which really need 15-year capital. We see more debt coming back but not quite the right debt, and on the equity side there is still a big gap. The majority of our transactions are probably more equity-based than debt-based.

Q227 Mike Crockart: This question is really for the Green Investment Bank witnesses. You may have been in the room when I asked representatives on the previous panel, from Renewable UK and Aldersgate Group, about borrowing powers. There was a clear preference that borrowing powers are needed right now and it is the right time to borrow because the costs are so low. Is that the feeling of the Green Investment Bank as well?

Shaun Kingsbury: This has been a question right from the beginning of the Green Investment Bank when people said that we need borrowing powers. My answer has always been that at the moment we have capital; we have invested about £1.8 billion of our £3.8 billion so we are about halfway through that capital. We will need borrowing powers in the next Parliament, for sure, but it has not held us back to date because we have not invested all the money.

The other thing that I always like to point out is that at the beginning we had not built a track record or done anything with all that capital. It was the wrong time to make an

argument for borrowing powers when we had not done anything. Two years after we started, we have demonstrated that we have been successful in the investments that we have made. People would now lend us money, whereas they would not before, but borrowing is only one source of capital for successful businesses. About five months ago, we announced that we were going to go to the market and raise an offshore wind fund—an asset management business, which is a different way of raising capital. I hope that in the next month or two we will have some good news on the first close. The size of that was £1 billion. We will need to borrow in the next Parliament. To date, it has not held us up and it is just one of the sources of capital that is available once you build a track record and a successful business.

Q228 Mike Crockart: My follow-up question to them was very much that it seems as though you still have money available. Is there the pipeline of projects to invest in? Certainly, the response I seemed to get from that panel was, “Absolutely, there is a bursting pipeline of renewables projects just waiting for the money, if only you could go out and borrow cash.” That does not seem to be the situation that you describe.

Shaun Kingsbury: It is not quite that simple. There is a big pipeline. We see about £4 billion to £5 billion of opportunity for us to invest. If we are providing about 25% of the capital—the size of that pipeline in total—there is circa £15 billion to £20 billion there. Not all those projects will come to fruition; they are development projects over the next two, three and four years. The development time on these things is very long, so it takes a while for them to reach the point of financial close. Not all of them will make it, of course, and certainly not all of them have done the front-end engineering work or the other pieces of work that they need to do to present themselves today for capital.

We would like to find more projects, if I am honest, because £670 million to £700 million is our current run rate. I would like to get that up to between £800 million and £1 billion. The restriction is not the availability of our capital, but finding bankable projects ready for final investment decisions. We work with people to get them there. We do not just send them away and say, “Come back when you’re ready.” We tell them where the gaps are and how to fix them. We would like to see more of those so that we could do more.

Q229 Mike Crockart: So the priority for you is finding the projects rather than immediately getting the borrowing powers.

Shaun Kingsbury: Rather than immediately, but we will need borrowing powers in the next Parliament.

Q230 Mike Crockart: With the knowledge that it needs to come in the very short term.

Shaun Kingsbury: Correct.

Q231 Mike Crockart: You talked about finding areas and we have already talked a little bit about the state aid approval and the limits that are placed on you. You have gone to get the small-scale community renewables added in. Hopefully, we can get good results from that. Are there other areas that need investment that you could put in where there is a market failure where state aid is holding you back? I am particularly thinking about interconnectors.

Shaun Kingsbury: Yes. There are certainly a number of areas. On a community scale, we announced our first transaction a couple of weeks ago, which was non-bank lending—to follow up on the question asked by the Chair earlier on—where we put £100 million alongside KKR, which is not a bank, to finance the debt side of small-scale renewables. If we had more state aid clearance, we would be looking at transportation and potentially at interconnectors. Some interconnectors we could do today; the question is whether we are additional. If it is a National Grid kind of interconnector, that can form part of the regulated set of interconnectors and therefore they can borrow money against that type of background all day long. The area where we would play on interconnectors is that there are a couple of merchant interconnectors that are under consideration, which are not formed into the regulatory base, but people would invest in those as much as they would in a generating asset.

We can also invest in the supply chain. I do not mean taking early stage venture capital and vast amounts in speculative technologies. That is not what we do: we do infrastructure. I think one of the other panellists mentioned earlier that we financed the first Siemens 6 MW turbines. That helped Siemens commit to the factory in Hull. As we think about it, if they had asked us to lend money to help construct that factory, we could not have done it today; yet, of course, we know more about that business than most other banks would do. So investing in the supply chain, investing in transportation; merchant interconnectors would fall within that. There are a couple of other areas.

Q232 Mike Crockart: Is it working under way to make a case?

Shaun Kingsbury: It is. Oliver, you might want to cover where we are with that.

Oliver Griffiths: Sure. We are in a fairly constant dialogue with the European Commission. We have just started another round of discussions with them, where potentially we could open up our definition of green and our sector remit rather more broadly than we have it at the moment. We are relatively optimistic.

Q233 Mike Crockart: You talked about there being other ways of raising funds. One of the areas that has been raised, particularly by Aldersgate Group, is that you might want to look at green bonds or green ISAs. I realise that that is a bit of a change from the way that the bank is constituted at the moment, but is it something you would be interested in moving into?

Shaun Kingsbury: Green bonds have been a tremendous area of growth. A lot of companies have gone out there and issued a green bond to do work that would be more sustainable. Not all green bonds are created equal. One of the things we are working on is how green is your green bond, and to try to set some principles around that, so maybe we can play a role in measuring how green these green bonds are.

Mike Crockart: So a rating service?

Shaun Kingsbury: Exactly—which are really green and which are green-washed bonds. So that is one of the areas—clearly, to issue bonds, but it is issuing debt, so we will need clearance on debt.

When we think about ISAs, it is about going out to the man in the street and giving him an opportunity to invest alongside us and our Government shareholder in good projects. It is really important to spread the opportunity to invest. Renewable energy is a great investment, but it is very hard for someone in the street to say, “Well, I’d like to invest in that. How would I do it?” We have started with our offshore wind fund to look at pension funds, so pension funds are also saying, “We have lots of capital to deploy.” We have given them a product now where they can invest in the fund. We could create some green ISAs: imagine that we were investing at a rate of £800 million to £1 billion a year; we could package up some of those assets every year, securitise them and then issue some sort of ISA against that. It would be a great way for everyone to get a chance to participate in this great investment that will go on over the next 10 to 20 years as we decarbonise the economy.

Q234 Mike Crockart: You would have to employ more people in your headquarters in Edinburgh as well.

Shaun Kingsbury: We might have to do that, which would be a very positive thing.

Mike Crockart: Excellent.

Q235 Chair: Can we just look at short and long-termism? Obviously, when a company invests it needs certainty and needs to be confident that the regulatory regime or government policies are not going to change in the future in a way that would damage its investment. We have heard from the FSB and some of our previous panellists that, in effect, a piecemeal approach to business support without a clear, long-term strategy can be a problem. Is this over now, or do you think it is still there as an inhibitory factor to investment?

Oliver Griffiths: You are absolutely right in terms of the long-term certainty. That is what the Government have been trying to do through the electricity market reform process, which has gone on for a long time, but we are now getting to the stage where we are moving from one support mechanism to the other. We are about to reach the moment of truth where these investments are going through investment committees. We will see at that point, but we are optimistic. It has been very positive that we have all political parties saying that they want to stick with this new system that is coming in. That will really find its feet over the next months and years.

Chair: Do you broadly agree with that?

Keith Morgan: From my point of view, stability and long-termism are very important. When we did the work around designing the Business Bank, the very clear message from business was that chopping and changing and new-to-Government programmes were unhelpful and difficult to find your way around. The Business Bank is being set up as a long-

term organisation, so that we can follow through on our programmes and adjust in line with cumulative experience to makes things better. What I see is a kind of evolutionary approach where we have put down our strategy, we have put down our resources, and as the marketplace reveals itself and we see how well our programmes are doing, we can develop them or withdraw funding from them. It is an evolutionary approach as oppose to a revolutionary approach. That long-termism is something that many small businesses have been calling for.

Q236 Chair: Are your staff rewarded for short-term or even long-term performance?

Keith Morgan: We have a senior management team whose reward in performance-related pay—obviously they get a salary—is entirely long term. There is a long-term incentive plan, there is no annual or short-term—

Q237 Chair: How long is long term?

Keith Morgan: Three years.

Shaun Kingsbury: Very similar to that, the leadership team of the Green Investment Bank has a three-year long-term programme where awards are tied to the investments you make in that year, then two years later you look at those investments and say, “Were they built on time? Are they performing?” If they are performing, then and only then is there a payout, and anything awarded based on the investments you made where the projects or investments did not work out can be removed.

Q238 Chair: You spoke earlier about opportunities to access the market, Mr Kingsbury. Your current funding settlement goes to 2016. Do you anticipate a similar one after 2016?

Shaun Kingsbury: It would be very helpful, when we get to that point in the political cycle where people are ready to make the next commitment to the bank, that we would see a further Government commitment. As I said, we hope to be on a run-rate of somewhere between £800 million and £1 billion a year of investments.

Q239 Chair: I would have thought it helpful to have that information now rather than in 2016.

Shaun Kingsbury: Sooner is always better, but we are only halfway through and we are about to top up the capital we have, hopefully with a successful close on our £1 billion offshore wind fund, which will be 80% private capital compared to 20% from our existing funding. We hope that, over time, we will have more private capital—today, it is about one part of Government capital to about three parts from the private sector. We have invested in 41 transactions and we have more than 70 co-investors who sit alongside us. When we move to the offshore wind fund, that is the first time; now we have built a bit of track record, people will give us their money to invest and other people’s capital to invest. Imagine that we

were then able to borrow, as we just discussed in the previous question, we were able to raise equity and we were able to raise more funds. We would need, relatively speaking, less and less capital and more and more private capital. That is the plan.

Q240 Mr Walker: You mentioned the impact of the British Business Bank operating independently in terms of EU state aid rules, but does it have a broader impact in terms of your relationship with businesses and with other finance organisations?

Keith Morgan: The independence is a key thing because the marketplace wants an institution that can work with it. There is a perception that if you are operationally independent from Government then you can play your role in the marketplace without there being any short-term variations in activity. Some examples have worked really well. We have put funding through something called the Angel CoFund, which is a group of people from the industry who are venture capital or angel entrepreneurs, who themselves put their time into judging investment decisions to invest Government money. That model whereby you are harnessing the expertise and knowledge in the marketplace is easier to do when you are an operationally independent organisation.

Q241 Mr Walker: Why is that? Why could you not put funding through exactly the same fund as a branch of the Government?

Keith Morgan: You could, but it comes back to the short-term and long-term point again, as before. The horizon that we have got is a horizon that stretches with a commitment to a long-term institution, and there is no perception that the priorities will change in the short term. That is very helpful to developing a situation where people feel that, if an investment is made, that will be a long-term investment, and there could be follow-on investments of the same type. Equally, I think it helps people feel more certain that they can understand the landscape. If the landscape keeps changing, some people give up. Smaller businesses in particular have got very little time to work out what their finance options are. I think that certainty is much better for them.

Q242 Mr Walker: In terms of the landscape, one of the things likely to change at some point in the future is the funding for lending scheme. You came into the room while we were discussing that with the previous panel. Do you see the business bank as having a role in determining what follows that, or is it something that you are engaged with as a process?

Keith Morgan: We looked really closely at what we think the issues are in the lending marketplace and in the availability of funding. There are two things that we have drawn from the experience of funding for lending and what we think the environment is going forward. One is that we think there is still a funding issue for asset finance companies, and these are asset finance companies that have never been able to directly benefit from funding for lending. That has driven our recent announcement of what we call enable funding, which is getting funding to asset finance companies. Once we build up the group of asset finance

companies, we will then organise the issuing of bonds in the marketplace to finance them, so that is one area where we think it is a focused area of funding that is required.

We believe that the environment has changed. Whereas funding was an issue—clearly—coming out of and during the financial crisis, our view is that capital issues are quite important in determining what the decisions are in bank lending. That has led us to introduce another programme, which is called enable guarantees. These are guarantees that we will offer to banks, and the idea behind them is that by transferring and sharing some of the risk with us, it reduces the amount of regulatory capital that the bank has to hold. If you have got lower levels of regulatory capital, you can do more with the same amount of capital.

So our focus has been to say: where is the singular piece of funding required?—asset finance—but then to turn our attention to the capital issues in lending.

Q243 Mr Walker: It is more of a comment than a question, but one of the challenges that the banks have with capital is that every time they stock up on their capital, at the moment they are paying it out in fines to Governments in the US, the EU and over here. It has been a drain.

Keith Morgan: Yes. We have found that some of the smaller and challenger banks are particularly attracted to this, because perhaps they are less concerned about the legacy issues and more concerned about growth. In growing and being successful and winning their place in the market, they want to make the most of their capital.

Q244 Mr Walker: Turning to another scheme, the enterprise finance guarantee is something that I think the business bank is involved in. How would you measure the success of that? How would you see it?

Keith Morgan: As a tiny bit of background, without departing too much, the enterprise finance guarantee pre-dates the formation of the business bank, but we have taken responsibility for it. It started in January 2009. In total, over 20,000 businesses have got a loan, which is made possible by an enterprise finance guarantee. The background is that the bank looks at a client, says whether it can service the loan, then asks for security—the big question is, “Do you have the security?” Of course, so many businesses these days do not have tangible security; they may have intangible assets, such as people doing analytical work, brands or digital assets. The programme allows a bank that would not otherwise give the loan to do so because we share the risk with it. So that is what it is. More than 20,000 people have taken advantage of it and there has been more than £2.3 billion of lending over the period.

We look very closely at whether or not the programme is delivering an impact at the economy level. When you come to the bottom-line finances, the bottom line is that it costs us and the Government money to deliver that, but that is not the sole focus of our attention; we want to see what is happening in terms of the companies that receive the loans and what they go on to do. The most recent evaluation was conducted by Durham business school. We ask independents to perform these evaluations. They look at, obviously, how much it has cost to deliver it—the cost of the funding—but also at whether the company went on to grow, whether it invested, and what happened to its position in the marketplace. They measure the

overall benefits versus the costs. The result that they derived was that it was very favourable: in fact, for every £1 that we put in, there is a £33 benefit in the economy.

It just goes to show that we can push banks into positions by sharing risks with them that take them into territory that they would not go into themselves—that would not be commercial for them—and that we can deliver a benefit to the small business sector and the economy as a whole.

Q245 Mr Walker: You mentioned 20,000 loans under the EFG scheme; do you know how many applications were not accepted?

Keith Morgan: Yes; the acceptance rate is about 90%—it is very high.

Q246 Chair: Could you send us a written figure?

Keith Morgan: Sure.

Q247 Mr Walker: What is the default rate? Is it higher than the secured loan default rate?

Keith Morgan: It is, and you would expect it to be because of the lack of security. Together with the banks, we are taking on more risk. The running default rate is currently about 11.6%. That is clearly higher than you would expect from a normal SME loan.

Q248 Chair: Again, it would helpful if you could amplify that in some written evidence.

Keith Morgan: Sure.

Q249 Ann McKechin: Mr Morgan, you have spoken about the need for funding consistency, but we have heard from many businesses that they find it difficult to navigate because of the sheer volume of different Government support schemes that are available. Is that because there are too many schemes, not enough awareness among SMEs, or a combination of factors?

Keith Morgan: It is right to look at both of those factors. We are rationalising the schemes and ensuring that there are ones for the right stage of development, so that there is only one scheme that focuses on very early-stage start-ups, one on angel finance, one on venture capital, and one on bank lending where there is a collateral problem. We are trying to make it much more straightforward so that there is one scheme for each piece.

I think that the issue of awareness or knowledge of what is on offer is perhaps a complicating factor. It may be that that is not only true of finance schemes; it happens with other business support schemes as well. You will find that there are business support schemes

that operate out of the Design Council, and there are manufacturing advisory services and the Technology Strategy Board. In my mind, it is that landscape that is quite difficult to navigate.

Q250 Ann McKechin: Moving on from that, we have just heard that the British Bankers Association has recommended that the consolidation of all Government business debt and equity finance schemes, including the regional growth fund, should be placed under your control. Is that a role that you see the bank fulfilling in future, or do you see it going out on a different trajectory?

Keith Morgan: We are very keen that we are the consolidated position for finance schemes, but I would draw a distinction between grants and finance. When you have a grant-based scheme such as the regional growth fund you are not asking for the money back. It is not a financial institution in the same way as our work entails. Very often—take as an example the grants that are administered by what was the Technology Strategy Board and is now called Innovate UK—you have to have the absolute sector-specific knowledge to know whether a project deserves the grant.

Ann McKechin: With that kind of financing, yes.

Keith Morgan: So it makes a lot of sense to locate the grant-giving piece with the experts who know the technology or know the sector. That is the distinction I would make.

Q251 Chair: Following on the same theme, we have heard that the British Business Bank should have a greater role in administering funding for LEPs and that the regional growth fund should be better aligned with green policy objectives. Would you just comment on those positions?

Keith Morgan: One thing that we have taken on is working closely with the LEPs. We have a dedicated team devoted to working with the LEPs, and we have held meetings and seminars to discuss their access to finance strategies with them. In particular, the area where we are giving them the most support at the moment is that they can use some of their structural funding to go into access to finance. They wish to come together into groups, because one LEP by itself is a small organisation. We are working with them to come together to form a joint approach to lending funds and equity funds in the regions. We are doing that in the north-west and the north-east and are talking about it in Yorkshire and the midlands as well. We are bringing in the expertise around forming the funds. We are also helping them understand the source of matched funding, which in many cases comes from the European Investment Bank. We have quite an active role in working with the LEPs.

When it comes to the regional growth fund, we are, equally, quite close to the activities that they perform. For example, they were the original source of the grant for the Angel CoFund and we are now working very closely with them to see how we can complement that grant to bring additional funding to the Angel network. In the same vein, we are looking at their activities in asset finance and at the work we are doing in our investment programme and our enable programme, to see how we are complementing their work in asset finance.

The final point to make is that we also see the devolved Administrations as very important players and we keep up a regular dialogue on that. They obviously have their independence and can create their own strategies, but in the middle of October we held a roundtable with Scotland, Wales and Northern Ireland to discuss our strategy versus their strategies and how we could learn and complement each other. It is a time-consuming exercise because of the diversity that has been created, but it is something that we are active on.

Q252 Chair: Just a quick supplementary to Mr Kingsbury and Mr Griffiths. The Energy and Climate Change Committee recently commented on finance as one of the barriers to updating the green deal. What further interaction have you had with that scheme?

Shaun Kingsbury: We provided the original loan to support the Green Deal Finance Company, the entity that was going to back the folks who would go and install energy efficiency measures in your home. As I am sure you know, the take-up of green deal finance programmes has been much less than originally projected. I guess when the scheme was set up people believed there would be a big pent-up demand for this and so the company was set up not as a marketing company to go out and push the programmes but just as a finance company. That pent-up demand did not materialise, and as such the company could not actively chase customers and try to offer those things—it was dependent on local installers and some of the utilities to do so. We have worked with them, but the draw-down period on the loan we provided comes to an end at the end of the year. It is unlikely that it will be drawn before the end of this month, so that facility is now at an end. What we are waiting for now is them working very hard on a new programme, a new marketing campaign and a new set-up for the Green Deal Finance Company. We have offered to sit down with them when they have a new business plan, to look at that and to see how we can be helpful.

Q253 Mike Crockart: The original facility was for £125 million, I believe.

Shaun Kingsbury: That is right.

Mike Crockart: How much of that was actually drawn?

Shaun Kingsbury: None. It runs out of the end of this month, so none will be drawn and it will come to an end, so it will cease to be available to them.

Q254 Mike Crockart: It was reported that you had turned down an approach from the Green Deal Finance Company for an additional £50 million. What was that for, if the £125 million was not drawn on?

Shaun Kingsbury: They wanted to restructure the £125 million facility, because they realised that they would not need all of that capital. In fact, we ceased—

Mike Crockart: So they sought to replace it into the future.

Shaun Kingsbury: Exactly. We ceased to charge fees to them some time ago, because we did not want to add additional problems to the company as it was trying to sort its marketing plan out. They asked us to extend that, but we have not yet seen a business plan, because they are in the process of writing it so that it is bankable. We are waiting on that, and when it is available—probably in the second half of next year—we will sit down, have a look at it and see what we can get comfortable with in terms of lending. But no, the facility has not been drawn and it will come to an end.

Q255 Chair: Very briefly, what was the main barrier that resulted in the low take-up of the scheme, from your perspective?

Shaun Kingsbury: It is quite difficult to answer that. There is a number of things. First, the company was not set up to market and it depended on the utilities and local installers. That programme did not work very well and there was not the demand. There is clearly a question about the product they offer: is it simple? The sign-up and the customer experience need some work. Then there have been questions—I heard one asked earlier—about the cost of capital. We pitched that cost of capital so that it sits somewhere between a secured loan and an unsecured loan, so it is not as cheap as your mortgage, as I heard in one of the answers earlier, but then your mortgage is secured by your property. This is unsecured; you cannot go and uninstall someone's cavity wall insulation. It sits in and around the right area. It is a similar cost if you wanted an unsecured loan, for example to buy a car, so we think that it is around the right level. Of course if you make it cheaper, you will enhance the take-up, but it is not as simple, as I have heard suggested, as if we drop the price of the capital, and it will fly off the shelves.

Q256 Nadhim Zahawi: The What Works Centre for Local Economic Growth reported that while most programmes appear to improve access to finance, there is much weaker evidence that this leads to improved performance. We heard from Keith about the collaboration with the university in terms of measuring performance. Is that the only way—certainly for the British Business Bank—to assess the impact quantitatively? How did the Green Investment Bank assess that impact? Finally, from both of you, I would like to know, how in five years' time will we know if your work has been successful?

Shaun Kingsbury: On the first question, how we measure it, first of all we have to be additional in all our projects. We always ask anyone coming to us with an investment idea, "Have you gone out and tried to raise the money?", and if they say, "Well, not really", we say, "Why don't you go try and do that first?" Then we fill the gap. So we are always very clear that any projects we have invested in are projects that were previously stuck. That is part of our investment process. Over the past three years—we have been operating for two years, but that fell over three financial years—we have been involved in about half of the transactions in our markets by value. We provide somewhere between 10% and 14% of the total capital outlays, but it is about half of the market. So we know the impact, because we can say what the market size would be with us and without us, and it is about a 50% increase.

How do we measure our impact aside from that? We talk about having a green and profitable business model, so we look at the green impacts that we have as well. If you go and

look at our annual report—it is there on the web and you can download it—you will see that it is a financial P&L, the sort of stuff you would expect to see, with a financial balance sheet, but we also have a green P&L and a green balance sheet. It is an early concept—it is not perfect—but it looks at the three metrics that we measure: avoided waste to landfill, which is about 1.6 million tonnes a year; green power produced and, to give you an idea, when all the projects that we have invested in to date are built, there will be enough power for 3.1 million homes, which is all the residential demand in Scotland or here in London, so it is quite a big impact in two years; and, finally, avoided carbon emissions, which again, on the balance sheet side when all our projects are built and operating, will be equivalent to taking about 1.7 million cars off the road, or two thirds of the cars registered in Scotland. So we look at financial returns and green impact.

Keith Morgan: From my point of view, the simple answer is that in five years' time we want to see small businesses saying that we are doing a good job—if they say, “Thank goodness the British Business Bank is here”—but to get into the detail, then the three things that we are aiming for are: clearly, a more diverse marketplace, with more choice, rather than just the big four or five banks, and we have played a role in sponsoring such organisations; more awareness, and we survey every year what the awareness of these different ranges of finance options are, so we will track and see whether small businesses do know the difference between crowd funding, invoice discounting and these kinds of things; and, thirdly, in five years' time we will, as we have said, have had a £10 billion impact in terms of the multiplier effect of our business, and we will measure that in tracking.

Chair: Thank you. That concludes our questions. I am sorry that we had to rush you on one or two. Again, if there is anything that you feel that you should have said, but did not have the opportunity to say, please submit it in written evidence. I have asked you to submit one or two further pieces of evidence after this meeting, which we will be grateful to receive. Similarly, we might contact you if we feel that we ought to have asked a question, but failed to do so. I thank you very much.