House of Commons

Environmental Audit Committee

Oral evidence: Future of the Green Investment Bank, HC 536

Wednesday 28 October 2015

Ordered by the House of Commons to be published on 28 October 2015.

Watch the meeting

Members present: Huw Irranca-Davies (Chair); Peter Aldous; Caroline Ansell; Mary Creagh; Geraint Davies; Margaret Greenwood; Luke Hall; Carolyn Harris; Peter Heaton-Jones; Caroline Lucas; John Mc Nally

Questions 1-96

Witnesses: **Shaun Kingsbury**, Chief Executive, Green Investment Bank, and **Euan McVicar**, General Counsel, Green Investment Bank, gave evidence.

Q1 Chair: Good afternoon and welcome, everybody. This is the first public hearing in the Committee's inquiry into the future of the Green Investment Bank. We have with us this afternoon Shaun Kingsbury, the chief executive officer of the Green Investment Bank, and Euan McVicar, general counsel for the Green Investment Bank. Euan, is that the correct pronunciation?

Euan McVicar: Euan.

Chair: Iwan, as my son. My apologies—Euan; different spelling.

Euan McVicar: More Scottish than Welsh.

Chair: Indeed, but you are both very, very welcome. We are going to try to keep the session very tight and focussed, and if you can keep your answers as well very tight and focussed—because we know we are always up against time—I would appreciate that. Right at the outset, perhaps I could invite you just to make a few comments, Mr Kingsbury, on the business model of the Green Investment Bank as you see it, but keep it very tight.

Shaun Kingsbury: Thank you and good afternoon, everyone. Thank you for inviting us here today to speak. This is the second time we have been in front of you. The last time was in our offices in Edinburgh, and it is a great day to come and talk to you. It is the third anniversary of the creation of the Green Investment Bank today, so it is kind of our birthday.

Over that three years I think we have built a very successful business model. We have raised more money and invested more money in the green space than anyone else over that period of time. We have built a business model that is focussed on being green and profitable. There are many ways we could have started the Green Investment Bank. One of the ways that is frequently talked about was that the Green Investment Bank would channel cheap capital from the Government, use the low cost of capital of the Government to channel it into difficult projects that other people were not willing to invest in. They would take that low cost of capital to, in effect, subsidise by taking risks that others would not take for prices that others would not take, and then that would bring in more private capital and get projects built.

We did not do that. We took a very different approach. We wanted to invest in those difficult projects but always on commercial rates of return, so we always looked to get more returns, higher returns, rather than lower returns for taking higher risk. Why did we do that? The key to building out the clean green infrastructure that the country needs is private capital. We are never going to solve this with Government money solely; it has to be private capital. Private capital will not invest in this sector because it thinks it is green or it suddenly decides that that would be an interesting place. It will put it there because there are great risk-adjusted returns. At the Green Investment Bank we set out to prove you could find those great risk-adjusted returns. We have invested in 55 projects, committed £2.1 billion of our own money alongside over £6 billion of private capital, so over £8 billion has been invested. By the end of this week we will close two more projects that will take us to just shy of £10 billion of projects financed. They are being signed today and on Friday.

Chair: Brilliant. Thank you very much for that. Caroline, a birthday question?

Q2 Caroline Lucas: Thank you. Yes, happy birthday, and apologies as I have to leave because I have a meeting with a Minister, but I will be back. My question, following on from what you have just been saying, is that notwithstanding the fact that you were investing on commercial terms one of the key motivations for the bank was to address market failure in the low carbon economy. I wonder if you could say something about how you imagine that can happen once the bank moves into private ownership.

Shaun Kingsbury: That was a clear bid to focus on those areas that capital was not following into—the more difficult projects, the market failure, as we describe it. We think that will continue with private capital because we have built a track record of being one step ahead of the market, taking on those difficult projects, whether that is building the first cleaner, greener gasification waste to energy projects, or whether that is financing the world's first 6 megawatt offshore wind turbines. Because we have found a business model, we have built a track record that shows great risk-adjusted returns. If we had been following the other business model where we were investing in things that were difficult, taking higher risk for lower returns, I do not think anyone would be interested in giving us private capital and continuing with that programme—it just does not make sense.

The key to this is we think people will only be interested in investing in us because we do what we do. It is because we are green, because we take on those difficult projects, because we have built a team. There are 110 people in the bank, 70 of whom are specialist investors, with a 3-year track record. Our projected returns on all of those investments are over 10%. That is very attractive so they will invest in us to have us continue to do that because we have shown it is profitable.

Q3 Caroline Lucas: I know we are going to speak later about the greenness of the bank and how much that can continue, but on this issue of risk, is there not still a danger that a privatised Green Investment Bank will be more risk averse and therefore could contribute to market failures? I am thinking that basically if you are moving to profit maximisation—even if that is not your starting point that is much more likely to happen as a privatised bank—then how does that role of reducing risk in important sectors in order to crowd in the private sector money happen?

Shaun Kingsbury: Because we keep doing what we are doing. We will take those risks because we have the technical expertise to do it, not because we make low returns but because we make higher returns by taking those risks. We have worked on projects where people have come in and said, "We have agreed to buy 25% of this project. We would love you to take the other 25% of this project and we have agreed a return of X%". We will go in and look at that, and if we believe that is not the right market rate of return we will negotiate down the price and up the returns. Because only by proving that this is really commercial can we get more private capital to come into it. If we built a business model that says we will take cheaper capital from the Government and apply that so that other people can take less risk for higher returns, that business model would only work as long as the Government was willing to continue to fund it with that type of capital.

Q4 Caroline Lucas: The implication is that market failure does not exist any more then because you do not need to have that security that you get by having public money.

Shaun Kingsbury: It exists to a degree but it exists because of lack of knowledge and that is the gap that we plug. If I look at something that is new, the first 6 megawatt offshore wind turbine, and I am not an experienced investor, I will say, "Well, look, we have no idea how well this thing will perform. Because of that gap in knowledge to cover that additional risk I will need an additional above-market rate of return". The market failure in terms of knowledge still does exist, but where we plug it is because we have the knowledge. We do not do anything else; we focus on this stuff. Once we are in, then people feel comfortable that they can come alongside us because we are that specialist investor, but they would not come alongside us if we were making a less than market return. They would only do it if we are making an at market return.

Q5 Geraint Davies: That is very helpful. I can understand how the public sector can pioneer green projects at a commercial rate of return and attract private equity, but what I do not understand is if you are a privatised bank how can you continue to crowd in private sector investment rather than crowding it out? Once you become private, anybody could just start doing that with a bit of knowledge, as you have said.

Shaun Kingsbury: Well, anyone could have done it over the last 10 years but they did not. It took a group to put together a deep sector knowledge. We would not have been able to do this if I had gone out three years ago and said, "I would like to raise a fund". Someone might have given me £100 million or £200 million. I would not have been able to build the team on the back of that that we have built with that sector knowledge, so without the Government's support to make available the £3.8 billion, allowing me to go out and recruit all of the specialist knowledge and bring it together and create a business model around that, it just would not have worked.

What we will do is when we bring the private capital into the Green Investment Bank we are crowding it in. We do this in our fund, for example. We have an offshore wind fund where we targeted £1 billion. We have raised over £800 million of that, £600 million from private investors, and that fund will bid on assets. It will compete against private capital, but because we have crowded the private capital in at the beginning—so you can either keep the bank 100% Government owned and crowd it in project by project, or you can crowd the capital into the bank at the topco and work like that. Either way works.

Q6 Geraint Davies: I understand how you have been successful in the past, but the issue is if you do become a privatised institution why are you in a better place to unlock private sector capital than any other private institution with a raison d'être, which, as Caroline was saying, was based on a market failure? You have taken it forward in the creative way that you have suggested, I understand that, but once you take away that somebody else could do it, so why should they give you any money?

Shaun Kingsbury: Other people could do it if they were willing to build the team and had the financial commitments behind them to do it. It was one of the key questions that I was asked when I got here three years ago. I am sitting here between our offices in Edinburgh and in London in the best finance capital in the world, looking to bring in additional capital into a sector. It is well financed, but surely if you can find a way to finance it someone else would have done it. It is the old economist argument, "There must be £20 on the road; no, there isn't, someone else would have picked it up if it was £20". We did it and I believe we will continue to do it because we have been successful, and because of that track record people will put money into the bank and that is how we will crowd it in. We will crowd it in through the bank. We will also continue to work in a partnership approach with people. We do not have to take a majority stake in everything; we will continue to work in partnership, but people invite us in for what is now a good housekeeping seal of approval. We will have that whether we have Government backing now or Government and private backing in a combination. We can do either.

The key issue for me, with the business that we have we are investing about £700 million to £800 million a year. We did that last year; we are on track to do that this year. Very soon we will run out of Government-funded money on that and if I do not have the cash flow behind me I will not be able to hold the team and we will not be able to do the deals. I do not mind whether the bank has a minority or a majority of private capital, that is purely a Government decision, but I need to access private capital in order to sustain the investment rate that we have.

Q7 Geraint Davies: Can I ask a different question now? I understand how you might want to take forward your momentum with your brand and with your team, although someone else might do that, but how is the renewable investment sector different now from when GIB was launched and how has the nature of the funding gap in low carbon investment changed? Have market failures dissipated?

Shaun Kingsbury: I do not think market failures have dissipated completely at all and it is more—as I answered Caroline's question—around knowledge rather than access to capital. Some of the key changes when we started the Green Investment Bank three years ago, there were very limited amounts of long-dated debt capital. There was short—we could lend money for five or six years—but these are 25-year projects that need 20-year, 15-year debt. There were very limited amounts of that. In the first year that we started the bank, 60% of the investments we made were by way of debt. Last year it was about 25% because the debt markets are back as the financial crisis has lessened and people are willing to lend money.

Other areas that are showing improvement but not quite there yet are things like offshore wind. When we started we had to lend money in the form of debt to those projects because there was no debt and there also was no equity. What we have seen is the debt markets come back and there is now equity interested in buying operating projects, so we created a fund to crowd in that private capital on the front end.

Q8 Chair: Can I move on to what both Geraint and Caroline were asking, which is this question of crowding out? If somebody else moves into, let us say, the offshore wind investment area, do you then move out of that?

Shaun Kingsbury: What we will probably do is not invest our Government money, what we will do is we will—

Chair: But you will continue investing in it?

Shaun Kingsbury: We will continue investing using other people's money because we have the track record. Our fund is a classic example. We started off buying and investing in those operating projects ourselves to show that there was a secondary market. Having built a track record, we then went out and raised other people's money.

Q9 Chair: If we have time we might return to this again but I want to move on a bit. Otherwise you might want to write to us with this issue of the crowding out: if you are privatised, if this goes ahead and you extend your operations—not the crowding in, not the moving into investment that you have been doing—how do you avoid the crowding out where you take the place of other investment out there? Hold that thought for a moment. On the issue of borrowing powers, there was a very strong steer from this Committee previously that borrowing powers should be extended and it did not happen. Is one of the reasons why you are supportive of privatisation now and bringing other money in because you have not had those powers?

Shaun Kingsbury: We will need to access a variety of capital because we have this £700 million, £800 million a year investment momentum. What I said at the time when asked this question—I was asked it a lot—is eventually the bank will have to borrow but it is not key for the first couple of years for two reasons. First, we have plenty of capital already with the £3.8 billion that we have been allocated and we would not have invested all of that. Secondly, being a bank ourselves, I would not have lent us money until we started to turn a profit and could pay that back, which clearly we would not have been able to. We only started to turn a profit last year. Those are the two reasons I said. It is not an issue for us at the moment but we will need to borrow. We have had a look at a forward-looking plan and we think by 2018-2019 we could borrow several hundred million pounds and would need over the next stage to do that. But the key bit now—

Q10 Chair: So your lack of borrowing powers has not held you back to date, you are categoric?

Shaun Kingsbury: Not to date, but we—

Q11 Chair: It is not one of the reasons why you are expanding privatisation, bringing more private funding in?

Shaun Kingsbury: We need to access that equity capital next and then we get to the debt. That is typically how you will do it. The risk in the bank is still equity capital. Three years from now, with significant amounts of income, we will be able to borrow and we should borrow at that point.

Q12 Chair: You will need it then, okay, but not at the moment.

Shaun Kingsbury: We will need it.

Q13 Carolyn Harris: Is your support for privatisation due to a scepticism that you are not getting enough or want to get enough future Government support, be that financial or otherwise?

Shaun Kingsbury: It is a key part. We always set this up with a view that the purpose of the bank was to crowd in private capital, because only private capital can build out the clean green infrastructure. We were able to do that, as I said, because of the commitment of the £3.8 billion, but with the run rate we have today we realised—we read the newspapers, we see all the debates about how we cut spending in the UK—we wanted to be in a position where we could raise that money on the back of the track record so that we are not in the same situation that other places are where they have to decide to do something or not do something. What we have tried to create is a position where we can continue to build out £700 million or £800 million a year and raise the money from other sources. I think it is great if we can get more Government commitment and, of course, just like every other Department, we are talking to the Treasury about the spending review and about their commitments to finance the bank going forward. But we do not have the same difficult decision that other places have, which is to do something or not do something. We have the choice to be able to continue to do it and the bit that the Government is unable to finance we believe we can finance in the private sector.

Q14 Carolyn Harris: Are you categorically saying that even if you were assured of Government support going forward you would not choose to stay public?

Shaun Kingsbury: We would still raise private capital. We have done it before. We have done it in our offshore wind fund, so we have already been successful. There are different ways for businesses to raise money. We started with a fund; now we want to raise equity into the bank and eventually we will need debt. I am agnostic as to whether it is a minority share that someone invested or a majority share—that is entirely up to the Government—but I do believe we need private capital, yes, categorically we need private capital.

Chair: Good Lord, whenever anybody mentions the word “agnostic” it reminds me of Aneurin Bevan: at least believe in something; whatever it is, believe in something.

Q15 Peter Aldous: When the bank is privatised you will no longer be subject to European state aid restrictions. How will you make use of that flexibility? What new areas do you envisage investing in as a result?

Shaun Kingsbury: Do you want to talk about the state aid, Euan, and how it affects our business and then I can come back and answer a little bit about the areas?

Euan McVicar: Sure. Maybe if I just briefly explain how state aid does affect our business. First, it restricts us to investing in certain specified sectors only. Secondly, it requires us to be additional, which is the crowding in and not crowding out that we have talked about it, and it also requires us to invest on commercial terms that other commercial investors would invest on. Those restrictions on the sector have been particularly difficult for us. We have a very good relationship with the Commission, I would say first of all, and we have had a very constructive relationship with them, but when we identified a gap in the market for community-scale renewables it took us a period of over six months to be able to start to invest in that market from identifying a market failure, and everyone congratulated us on how quick a process that had been. In the green infrastructure space, which is very fast moving with new technologies emerging and different appetites for finance at different points in time, it is very important that we are able to be fleet of foot. If a "quick" six-month process is required every time we want to get into a new area, that is not going to allow us to be fleet of foot. Having freedom from those sector constraints is going to be very helpful in allowing us to have a much bigger impact and will take us into other areas that we see as being attractive.

Shaun Kingsbury: Those areas are things like electrification of transportation—low carbon transport, for example—rolling out charging points and things for electric vehicles. Things like smart grid would also fit in there, commercial interconnectors to the islands, for example, or even between France and the UK. All of those things we are not able to do. We reckon we target about 40% to 50% of the green infrastructure market in the UK and the removal of state aid through a process of bringing in private capital—and again it does not have to be full privatisation, it is just any private capital of significant size, whether a minority or a majority—would remove state aid.

Q16 Peter Aldous: When you got state aid approval to be able to cover community-scale renewables were there any other sectors or areas you would have been tempted to have invested in that you were not able to at that time?

Euan McVicar: At that time we did also get approval to use fund management as a tool to crowd in capital and that was something we had to go and ask the Commission to do. The successful offshore wind fund that Shaun has mentioned we were only able to do because the Commission agreed at the same time. That was something we did go and ask for at the same time as the community-scale renewables. At that time we felt there was nothing else that we were able to justify spending the considerable expense that is involved in gathering market evidence and the amount of time involved that we thought we would be successful in based on preliminary discussions with BIS and the Commission. So at that point, no, but as I say, it is a fast-moving market and the things that Shaun has mentioned now are things we would like to be able to get involved in, but there is a long process to be able to deliver those under state aid rules.

Q17 Peter Aldous: If the scope of the Green Investment Bank's investments widens is there a danger that you will be diluting the volume of investment going into each particular sector? I would just highlight that you have been very successful in the offshore wind sector. If you had had a wider scope you may not have been quite as successful in that sector.

Shaun Kingsbury: It is a great question. It is the challenge of being an inch deep and a mile wide. We are going to try to avoid that. We will put new people on to new areas, so we would not take people from our offshore wind team, which is very, very active at the moment, to put them on low carbon transport. What we would do is take people perhaps from one of the other areas. We have not been as successful, for example, in energy efficiency. It is still a very nascent market. We may take people from there or we may hire a couple of extra people who would be market sector experts who would have the network to go and originate the opportunities.

Q18 Peter Aldous: You do envisage moving away from being a niche specialist bank in a specialist area perhaps to be a broader bank?

Shaun Kingsbury: We are not going to be broader in the sense of just taking the green out of Green Investment Bank. We are definitely not going to do that. We are still going to focus on the green economy and the green infrastructure, but instead of being limited to 40% of the market we would now be able to target all of the market. In some of those areas we will find great opportunities. In some of those areas we may choose not to do anything; for example, energy storage. It has been the next big thing for about seven years. We may find that it becomes the next big thing next week, but it may be three or four years before it gets there. Will we have a team on it? Yes. Will we spread ourselves so thinly that we do not get through all the offshore wind? No, I promise you.

Q19 Caroline Ansell: Back to state aid, you spoke earlier about the restriction around specified sectors and the desire to look to invest in other attractive areas. I wonder then if you might answer some of the concerns that your focus might move from emerging sectors and it would be lost in the course of privatisation.

Shaun Kingsbury: I do not think it will because the business model we have created is to be one step ahead of the rest of the market, to provide offshore wind debt when no one wanted to do it, and now we are in construction equity where there is still a gap. Because we are constrained to look at the green infrastructure market—we are specialists; this is as exciting as we get, I promise you—we dig into the detail. We do not get distracted by other things and we seek out those great investment opportunities. If it is not a great investment opportunity we will not do it. We would not do it today, we would not do it with private capital, and I would argue that if we threw a whole load of money at something that showed it to be a bad return, all that we would prove to private capital is to stay away from that area.

There are not enough good news stories around the green infrastructure market. I believe we have created one, and we have done so by that rigorous commercial focus on finding a niche—and it is one step ahead of where the rest of the market is—fulfilling that for a great risk-adjusted return. That is why people are interested in investing in us, and that is why I believe the business model will continue pretty much as is post any private capital because we have shown you can make a great business out of it.

We have made 56 investments to date; it will be nearly 60 by the end of the week. We do not compete in those investments. Most other infrastructure funds have to show up to an asset and participate in an auction. We do not compete because there is no one else typically wishing to invest. Is it because the returns are terrible? No, it is because they do not understand it. They do not have the sector knowledge, they are worried about it, they are not focussed on it. We will remain focussed on it. That has been a very successful business model and we intend to continue it because it is successful, not because somebody is telling us what to do, whether they be private sector investors or a Government investor.

Q20 John Mc Nally: First of all, I have to declare an interest of a relative involved with the Green Investment Bank. That is just for noting. It has been announced that the public sector controls on GIB will be repealed from the Enterprise and Regulatory Reform Act. This removes the statutory requirements for the GIB to invest in green sectors. Can you explain further why this has to be repealed in order for the bank to be privatised?

Shaun Kingsbury: Euan, do you want to take that one?

Euan McVicar: Yes, sure. Perhaps the first point to make is that the legislation is part of a matrix of things that makes us do green investment; it is not the only thing. The legislation prevents a clause in our articles from being changed that restricts our activities to investing in things that have a positive green impact. As a company governed by normal company law we can only do those things that our articles allow us to do anyway, so the articles keep us green. The legislation puts a further lock on that. In addition, we have a document called the shareholder framework document, which is the equivalent to a shareholders' agreement in a commercial arrangement. That puts a positive requirement on us to go out and invest in specific green sectors and I would envisage something very similar to that being in place in the future. Lastly, our board has committed to a number of policies that commit us to invest in green. The legislation is not the only thing that is there, but it is quite clearly a useful safeguard on changes to the articles.

Q21 John Mc Nally: A supplementary to that: do you agree with the view that the retention of the statutory controls on the Green Investment Bank's mandate is inconsistent with the Government releasing its controls?

Euan McVicar: It is a matter that is not one that we are able to influence. As we understand it, it is a question between Government and the Office for National Statistics as to how that is delivered. What we do understand is that the ONS would regard anything where the Government is able to have a direct control over what is effectively the investment mandate of the bank, and by controlling the articles and what it can do that is tantamount to a degree of influence and control that would be likely to end in the bank being classified as a public sector organisation if that was retained.

Shaun Kingsbury: If we were a public sector organisation then we would be on balance sheet for the Government, and then if we wanted to borrow money in a few years' time, as I said we would like to, that debt would go against the Government. Like I say, I agree with where the Treasury is in this. If I was going to sell a majority of a business—the target is circa 70%—and that business when I had lost control of it, as I would when I released 70%, was still consolidated on my balance sheet, I became responsible for its debts, I would not accept that either. It is a great shame that that is where we are. We are all committed to the greenness of the bank and the statutory lock we have today is better than a contractual lock, but a contractual lock is I fear where we will end up having to go because if I was sitting in Government I would not sell 70% of the bank. I would still have it on balance sheet, so I agree with the Treasury on this.

Q22 Margaret Greenwood: Following on from this, how can we be confident that the bank will not just end up being another investment bank?

Shaun Kingsbury: How do we keep the "green" in the Green Investment Bank?

Margaret Greenwood: I know this is your personal view, but yes.

Shaun Kingsbury: It is incredibly important that the people we select to invest in the bank are good shareholders. When we think about this process, we have been out talking to people to make sure there was an interest. We would not have come this far if we thought it would be an embarrassment: we say that people can invest in the bank and no one shows up. We have been out having chats with sovereign wealth funds, long-dated institutional investors, UK pension funds, those type of long-dated investors who like what we do and like the returns that we generate from the assets that we invest in.

What I believe we are going to do, and it is exactly what we want to do, is put something into the information memorandum when we send it out saying, "Please make some proposals to us on bidding to buy a portion of the bank" a requirement for them to make a commitment to the greenness of the bank, to commit to keeping the articles, to commit to keeping it focussed. When we assess those offers—and it will be the Government assessing them, not the Green Investment Bank team as the shares belong to the Government—they will factor that in. It is all about finding good investors. As I said earlier, I do not think anyone is interested in the bank to do something other than green. There are plenty of companies out there who they could put their money with who would build airports or whatever else they might do.

Q23 Chair: Mr Kingsbury, they are very reassuring, your responses to John and to Margaret as well, but can I just draw your attention to an article you wrote—and it was a very eloquent article—back on 7 July in businessGreen—

Shaun Kingsbury: Somebody else must have written it.

Chair: It is a good article and it is well written. I happen to concur and I think Committee members would as well when you said, "Some of our stakeholders will be concerned that our green purpose and impact will be diluted through the sale process. That's understandable and exactly the right concern for them to have. I would say two things in response. First, our green purpose is written into—"

Shaun Kingsbury: Law.

Chair: Thank you, "Secondly, and to my mind more importantly, our green mission is what makes us special" and I agree with that. It is written into—you completed my sentence—law. I think you are doing your very best, but reading between the lines I think you would prefer it to be still written into law.

Shaun Kingsbury: When we wrote that article we had not come up with the advice from the Office for National Statistics that said to our shareholder, "If you retain that, we believe that gives you control over the bank, which then means that you are on balance sheet". I agree, it is regrettable that we cannot retain that, but I have to say that, having said that, if I owned a business and I was selling 70% I would not want it still consolidated on to my accounts. Where we are as a result of that ONS advice, which we did not have at that point, I agree with you, it is regrettable. I would prefer that it remained in statute but begrudgingly have to agree that that is an uncomfortable position for the Government.

Q24 Chair: I am going to bring Margaret back in, but do you think that advice should be challenged?

Shaun Kingsbury: We have challenged it and we know our shareholder has.

Q25 Chair: Do you think it should be challenged again?

Shaun Kingsbury: Yes, by all means have a go.

Q26 Chair: But you have challenged it so you clearly—

Shaun Kingsbury: We have and our shareholder has challenged it.

Chair: —think it would be better that this was not taken off the legal lock?

Shaun Kingsbury: We like the statutory lock because it ensures the greenness of the bank.

Chair: That is great.

Shaun Kingsbury: There is no question, we are committed to being green. We have gone back, we have looked at the advice, and it is the advice between two parts of Government. We are outside of that, but we have pushed on it and we have had our shareholder push on it and they believe that that advice, however unfortunate, is correct.

Chair: Ah, legal opinions.

Q27 Margaret Greenwood: Following on from that, shares can be sold. Could new shareholders not change the mandate of the bank?

Shaun Kingsbury: They could. We have some ideas on that, how to create a new green lock that would substitute for the statutory lock. Maybe now is the time, Euan, you should talk through some of those ideas.

Euan McVicar: As Shaun said, when we go out to the market the intention will be to ask people to demonstrate their commitment to preserving the green mission of the bank. We will be asking them also to sign up to a set of proposals whereby the current articles of association that we have with the objects clause that is protected by statute at the moment would be committed to not on a statutory basis but on a contractual basis. People would be making a commitment to keep that objects clause in place and they would also be agreeing in the shareholders' agreement, which will govern the relationship between the various shareholders among themselves and with the company and give a commitment to the company that they will not do anything that would force us to invest outwith of that mandate to be investing in green projects. More than that, also to keep in place the green reporting that we currently do on our activities. The legislation, as well as putting a control on our activities, requires us to publish in our annual report every year a description of the impact that we have had in terms of improving the green situation. We would like to see that protected contractually as well.

One observation I would make, just going back to my days as a corporate lawyer before I joined the bank, I would expect our investors to want to see a commitment from us to stay focused on the sector in which they are investing in us for. People will want to see that focus from a commercial perspective, I am quite sure.

Q28 Margaret Greenwood: Do you feel, as a former lawyer, that such an arrangement would be as strong as the current statutory arrangement?

Euan McVicar: It is as strong for so long as there is someone there that is willing to enforce those rights.

Q29 Margaret Greenwood: Right, and who would be that person?

Euan McVicar: The company, with a board that is committed to the green purpose and a management team that is committed to that green purpose, would be there to enforce it. For as long as the current shareholder continues to be a shareholder they would be in a position to enforce that, as indeed would any other shareholder who felt strongly about maintaining that in the face of opposition from other shareholders.

Q30 Chair: You are sending a worrying signal to the Committee because we have no doubt from the words you have said today that both of you are fully committed. We have no doubt looking back at Ministers' words on record when the Bill went through that they were very committed at the time. But you are sending worrying signals that as long as the shareholders are keen that the green purpose should be there and those five articles underpinning your overall mission then that is fine, but it could change.

Shaun Kingsbury: There is no doubt that a statutory lock is better than a contractual lock, so that is exactly what we want.

Chair: That is great.

Q31 John Mc Nally: It is great to hear that you are a corporate lawyer, Euan—you should never have mentioned that. I just want to drag you back a wee bit and come back to that which is close to my heart: Scotland. It has been reported that the UK Government may have to obtain legislative consent from the Scottish Government in order to remove public sector controls on the bank. Do you believe that to be accurate?

Euan McVicar: I am very clear that as a corporate lawyer I know very little about constitutional law and I know very little about this particular issue.

Q32 John Mc Nally: I thought you guys knew everything.

Euan McVicar: Well, no, we do not. I do not know the answer to that question. It is clearly a matter for constitutional experts to determine.

Q33 John Mc Nally: You must have a clue, surely.

Chair: I can feel a parliamentary question coming on there, John.

John Mc Nally: We will just leave it at the moment, I think.

Q34 Chair: You clearly have not sought opinion on that, as to whether that is indeed what—

Euan McVicar: No, it is not a matter we have sought legal advice on.

Shaun Kingsbury: We are aware of the exchange but we haven't an opinion.

John Mc Nally: Does that apply to the devolved Parliaments in general?

Chair: It is a good point. I think it may be something that we will have to pursue directly with the Ministers, John.

Q35 Peter Heaton-Jones: I want to explore a bit more the privatisation model, if I may. I do not think the Government has absolutely said it in words of one syllable, but the report suggests that it is looking to sell off probably 70% of the stake. Do you think it is necessary for the Government to retain a stake, be it 30% or whatever, because there are some commentators—the Policy Exchange, for instance—saying the Government should get rid of the whole lot. What do you think?

Shaun Kingsbury: It is our preference that the Government retains a significant minority—25%, 30%, in and around that number. That is preferable for a couple of reasons. First, they have been a very good shareholder, let me be clear, and I would like their continued presence in the shareholding of the company to bring that continuity as we move through from being purely publicly owned to being publicly and privately owned.

The second reason I think that is important is it demonstrates a commitment to the bank, and with that commitment you will get much more interest in the people wishing to buy the reciprocal 70%-ish, 75%, whatever that number is. That is important in terms of driving the competitive tension in the process to get the best possible price, to get the best possible commitment to the greenness of the bank going forward, and to make sure that we have an enduring institution here that is around in five years' time, in 10 years' time building the clean, green infrastructure the country will still need.

Q36 Peter Heaton-Jones: If, as you say, it is your preference for the Government to retain a stake, do you see that being a Government stake that it retains for the foreseeable future or do you see that perhaps that is a transitional phase and it could eventually sell that off, too?

Shaun Kingsbury: I guess you would need to ask them.

Q37 Peter Heaton-Jones: What is your preference?

Shaun Kingsbury: My preference is they remain a shareholder in the bank for as long as possible, for all the reasons I have said.

Q38 Peter Heaton-Jones: If I could ask one more, Mr Chairman, what is your feeling on the timescale of this? The Secretary of State for BIS announced I think in June that it was his intention to privatise. We had a report in Sky News I am looking at now in September in which they said that it was their belief that bankers advising the Government had been starting to speak to foreign investors—they list particularly investors in Canada, the Middle East and Asia—to gauge some sort of appetite. Is it your sense that things are moving rather too quickly, rather too slowly, or just about right?

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

Peter Heaton-Jones: I appreciate the reference. Thank you very much.

Q39 Luke Hall: Does this move to privatise Green Investment Bank come at the wrong time given that there is some wider concern about the Government's commitment to renewables?

Shaun Kingsbury: I think not. If we were trying to bring private capital into the equity of the bank a year and a half ago when we had a very short track record—because it takes a year and a half to two years to build these assets out, so now we are starting to see after three years a good track record—it would have been too early 18 months ago or a year ago to do this. I think the timing is right. It is the right time to raise equity. I do not think it is the right time to raise debt. We need to have much stronger earnings coming through as the projects get built out, which will be in two or three years' time.

If I look at that continuum of different types of capital, first we raise money in a fund. We have successfully done that and I hope we will close out the full £1 billion on that by the end of March. Next I would like to raise equity into the bank because I do not think I can raise debt yet. Again, I am agnostic whether it is a minority or a majority share, but I want to do that. Then, two or three years' from now, with a much stronger income line, we will be well positioned to raise debt. Then I have accessed all the different pools of capital that a successful business would normally access—a financial services business at least—to be able to give me the firepower to commit to doing the £700 million or £800 million a year that we think we can do year in, year out.

Q40 Luke Hall: Is it your opinion that any of the Government's policies pose any risk to the Green Investment Bank's future prospects if it is privatised?

Shaun Kingsbury: I know there is a focus by the Government to try to balance the trilemma, and you are always trying to balance security of supply, decarbonisation and cost, so that is an ongoing balancing act. You need to ask members of the Government what their plans are. We sit there and we finance the projects that are short of capital, again usually one step ahead. For example, there is very strong support for offshore wind that has been continuing for some time. We are well positioned. If the support for offshore wind—or onshore wind, I should say—falls away there will not be any opportunity for us to invest in that, and that is fine. We are on a path where we can see from the sectors that continue to see support this £700 million or £800 million. We have looked into the future and now we are very comfortable with the next couple of years because we can see real projects. Of course, it gets more difficult as you look into your crystal ball from years three, four and five, but we see plenty of opportunity to invest and plenty of areas that will need to see the type of capital we provide. Mostly equity, mostly taking construction risk, much less debt required because the market is back.

Q41 Luke Hall: Just to clarify, is your answer that in the next couple of years, no, you have no concerns about Government policy posing any risks to the future of the bank?

Shaun Kingsbury: We see a good supply of projects, and those are real projects from the bottom up over the next couple of years. I am very comfortable with the numbers we have on our business plan and that those are supported and will be supported going forward.

Chair: Mary, did you want to come in on this?

Q42 Mary Creagh: I did. Thanks, and apologies for arriving late. I have three questions but they are quite dense; well, two are simple and one is dense. Perhaps I can start with a first simple one. You talked about electrification of transportation. Are you talking about motor vehicles or are you talking about getting involved in rail infrastructure projects?

Shaun Kingsbury: It is a generic title that covers all of those things. There is certainly capital required for electrification of the railways.

Mary Creagh: I know, but have you seen the way that the project has gone up from £1.5 billion to £2 billion in the space of a year? In terms of your investment portfolio, if I can give you a piece of advice: Network Rail, their numbers are perhaps to be treated with caution, particularly on the Great Western electrification. That is a bit of investment advice if I can give you that.

Shaun Kingsbury: Thank you.

Q43 Mary Creagh: The second thing is: have you looked at successful part-privatisation public-private partnership models that happened under the Labour Government? I am thinking in particular of National Air Traffic Services where there was a part-privatisation. The Government kept a 49% share, so you are off the books, but kept a golden share because the air above the country is very important. What that enabled them to do was to move into the Spanish air traffic control market in a way that they could not before. Have you done any work to look at other types of public-private partnerships?

Shaun Kingsbury: We have looked at a variety of different structures that could work. I cannot speak specifically to the NATS one. I am vaguely aware of it, but I do not know whether the golden share that they have in NATS brings it on balance sheet or off balance sheet. I do not know the answer to that, which is potentially the key difference between where they are and where we are. We have looked at a variety of models, and that is why I said I am agnostic whether it is a minority stake that is sold or a majority stake. I just want to make sure I can access all those pots of capital to allow us to continue to invest in the green infrastructure.

Q44 Mary Creagh: Thank you. You said that, but the point about the golden share is that you then have some sort of statutory obligation to Government going forward, which is what you said you wanted. That might be a solution for you.

Shaun Kingsbury: It might and it is all about this ONS—

Mary Creagh: Because I am pretty certain it is off balance sheet. I am pretty certain that is why it was done. The third question I had was about this—

Q45 Chair: Can I just ask if you were able to do a golden share model and we were also able to overcome this problem with this—sorry, not the problem, the desirability of having a statutory lock, you would be okay with that?

Shaun Kingsbury: We are absolutely okay with that.

Q46 Chair: That would bring in the investment?

Shaun Kingsbury: We have looked at that model. I have not looked at the NATS model, so I do not know whether it is on balance sheet or off balance sheet, but we have looked at the golden share model. The feedback we got was that that would put us firmly on balance sheet. But I do not know what the situation is with NATS and, if it is off balance sheet, why it was treated differently.

Q47 Chair: You do not have a legal opinion on that yet, do you?

Shaun Kingsbury: I cannot remember whether it is a legal opinion or a shareholder who has taken the legal opinion.

Euan McVicar: It is not a legal opinion. It is the view of the Office for National Statistics on a classification issue, but the advice that we understand Government have had is that that golden share would firmly put us on public sector balance sheet.

Chair: Mary, I think your line of questioning is right because if what we are hearing is that the Green Investment Bank would be content if those things could be squared, then clearly it gives the lock and so on. Sorry, I did not want to interrupt you, but it is a very pertinent line of questioning. Carry on, then.

Q48 Mary Creagh: I thought the Government had a minority stake, but a golden share. I think that model might be something that could work so I just shared that with you. I wanted to move on to your investment basket if I could. I notice that the number of projects was smaller in 2012/13; it was seven. I noticed the leverage was 4:1, and I noticed the leverage ratios had fallen to 3:1 this year, so I wanted to ask about how you see that going forward and what the reasons for that are. The second question I had was that the total fund investments, your investment versus the total transaction size, was about 1:4 ratio in 2012/13 and that has gone down to a 1:2 ratio so far in 2015/16. I wondered if you could explain that as well.

Shaun Kingsbury: Yes, sure. On average across all of those years when you add them up it is about 1:3, so one part from us, three parts from private. About 25% of the project money comes from us. The first year that you are looking at the results was a part-year; it was a stub-year. We had five months in there, so it has really moved by one very large project, which I think we had a 10:1—I am guessing the number but it was one where there was an awful lot of extra capital in and that is what moved that number. It has been fairly steady at about 1:2.8, 1:3.2 over the rest of the year, so 1:3 seems about right.

If you think about it, if you were having to provide half of the money so it was 1:1, you would feel like you were really pushing water uphill, but equally if you are only producing 5% of the capital, 1:20, it would feel like you were not really needed, you were trying to elbow yourself in there where you were not really needed. Something around 1:3, 1:4, feels like you are making a key contribution but you are crowding in as much private capital. The first year, five months, one large transaction out of only two or three in that period of time, which sort of skews the results; every other year pretty average 1:3.

Q49 Mary Creagh: What about the total investments, then, where it is now your investment versus the total transaction size that has gone down from a 4:1 ratio to a 2:1 ratio? That is just this year, so your investments are £34 million this year and the total transactions are £79 million, so it is exactly 2:1 this year. Is that going to change?

Shaun Kingsbury: It is going to go back up to north of three. We have two transactions, as I said, this week, one of which we are providing about £125 million against a £1.7 billion to £1.8 billion total transaction, so ask me on Friday and I will give you a better number.

Mary Creagh: Great, okay.

Q50 Peter Aldous: My question follows neatly on from that. Right back at the beginning you said you were looking at that ratio of 1:3. Compared to the German and the Dutch models, which I think I was getting the impression was a long-term aspiration to move towards, that looks—I do not have their precise figures in front of me—relatively puny. I would just be interested in knowing how you would be differing from the German and Dutch models by going down this route?

Shaun Kingsbury: Peter, when you say the German and Dutch models, there is not a German or a Dutch Green Investment Bank so what—

Peter Aldous: There is a German business model, which was started just after the war, which does—

Shaun Kingsbury: KfW you mean?

Peter Aldous: Yes, which leverages in a very high ratio.

Shaun Kingsbury: Yes. We know KfW and they are quite active in this space. I have not looked at the breakout for this space, but they invest across a number of different sectors from housing to industrials to infrastructure and it could be just the mix of those. I am sorry I cannot give you a very simplistic answer to that because I have not studied them in detail.

Q51 Carolyn Harris: To go back to Luke's point, nine onshore wind farm projects have been cancelled this year. There is Tidal Lagoon in Swansea Bay, my own constituency—the contract for difference. Does that not make investors twitchy that maybe it is not the place where they want to put their money?

Shaun Kingsbury: Well, we will see when we issue the investment memorandum who shows up. All I can tell you is that we are able to close today. We reached the second close on our offshore wind fund two weeks ago, which took us to £833 million: £200 million is from us; £633 million is from sovereign wealth funds, UK pension funds and overseas pension funds. I see that and it is still working. I see the interest we have in investing in the bank, so I can say that today I absolutely see the interest but sometimes talk is cheap. Let us see who shows up when we issue the information memorandum. But genuinely we continue to close projects, bring in money, close funding and bring in money, and see a lot of interest here.

Q52 John Mc Nally: This is quite a parochial question. Would the privatisation of the bank be likely to move from Edinburgh with a loss of staff? That is my first question. The reason I am asking this is in Scotland we have a clean and green image that we are trying to develop, which we are doing quite well. I met last night with the Scottish Futures Trust and they are investing in infrastructure projects. They were mentioning schools and hospitals and you mentioned earlier on about charging points. Would the privatisation of the bank, or any possibility of the headquarters take away with investors, would that become even more doubtful?

Shaun Kingsbury: I do not believe so. Let me be very, very clear: we are absolutely committed to our Edinburgh office. We have had it since the very beginning of the bank. It is a key part. We have 45 out of our 110 staff there. It is where all the head office functions are. The bank cannot function without its head office functions. Edinburgh is a great city to hire the type of people that we need. Edinburgh also has a cheaper cost base than doing it out of London; it is one of the great advantages. There is a depth of pool of talent there. Edinburgh stands up on its own two feet as the best place to put our head office. That is why it was selected as the city. In other words, it is a purely business decision and Edinburgh is the best place for us.

We have also built the bank right from the very beginning with two offices. We have half the leadership team in London, half the leadership team in Edinburgh. The board and the chairman sit in Edinburgh. Edinburgh is a core part. We couldn't separate the two and Edinburgh stands on its own two feet as a great place to find the talent we need at a lower cost than London. We are committed to Edinburgh.

Q53 John Mc Nally: The second part of the question is about the Scottish Futures Trust. Do you have links with them? Is that okay or am I taking up too much time?

Chair: No.

Shaun Kingsbury: We have looked at a number of projects from Scottish universities to parts of the health service with Scottish Futures Trust. They are fabulous at finding those opportunities and we will continue to work with them because they find good projects. We are always looking for good projects and we are always looking for developers who can put those together. They have the expertise and the knowledge and the local contacts to put together a bankable, financeable opportunity. Jonathan Guthrie and his team up there are fantastic.

Q54 Chair: Could I just ask as we draw to a close, further to Luke's very astute question earlier on to do with investor certainty, would it be right in saying that some of the reason why it has not shaken investor certainty for you is because the areas that you are investing in have not been significantly affected by some of the decisions? You are not in onshore, you are not in solar, et cetera. I could list them all.

Shaun Kingsbury: It is entirely possible that the areas that we are focussed on have not been affected by any other recent policy announcements. That is entirely possible.

Q55 Chair: Let me do the follow on from that. If we do get to the point, whichever structural reforms there may be, where you were allowed to widen your investment portfolio, would you have concerns over the current investment climate?

Shaun Kingsbury: I think it is a question for the Government. It is a question for the Government about how they balance those three elements of the trilemma and it is not a question for us. What we do is we find projects that are short of capital, green and profitable—

Chair: Where you can see the certainty?

Shaun Kingsbury: —and where we can see the certainty.

Q56 Chair: There would be some areas where you would be saying, "Let's not go and invest for now"?

Shaun Kingsbury: One of the key things that I think is really important to get on the record is I do not see there being any risk in any of those areas around anything that is retrospective. We always invest at financial close and there is nothing retrospective. When we make an investment it has already received a support mechanism and we are very comfortable that that will stay the life of the project.

Q57 Chair: That is very good. Just one final thing I wanted to ask: way back when the Bill was originally announced Mr Cridland of the CBI went on record and he said of the Green Investment Bank, "The Green Investment Bank certainly won't work if it needs the Treasury's permission to blow its nose. The bank needs to be able to get into the markets itself and do what it is intended to do". I think you would agree with that, yes?

Shaun Kingsbury: I think we have done that, yes.

Q58 Chair: Yes, indeed. Would you also agree with the very next sentence, "And it won't give investors certainty if it's not enshrined in law"?

Shaun Kingsbury: I think the UK has a long commitment to not doing anything retrospective and because we always invest when a project has already received its support mechanism, whether that is a contract for difference—

Chair: Yes, sorry, I am not talking about future investment. I am talking about the fundamental issue of your principles being enshrined in law. Mr Cridland made two points: one is you need the freedom to be able to draw in that investment and get on with it and multiply your scale of investment; the second one is those investors will not have certainty unless those green principles are enshrined in law.

Shaun Kingsbury: I do not agree with that because I think we can do it contractually. I do not think that is as good as statute, as I said before, but I think we can make it work and I think people will only invest in us because of what we do and they won't try to change it.

Q59 Chair: Thank you. Could I quickly look around just to see whether we do have any other questions? No, we do not. Thank you for coming in. Thank you very much as well for giving your evidence. As I always say, if there is anything that you think that we have not covered that you want to write to us immediately on, please do. Thank you, you have been very open, very frank with us. We are certainly very intent as a Committee to make sure that you continue doing good work but that in doing that good work you continue to do the right sort of good work. We are the Environmental Audit Committee, not just the investment bank committee. Thank you both very much.

Shaun Kingsbury: Thank you all very much.

Euan McVicar: Thank you.

Examination of Witnesses

Witnesses: **Richard Howard**, Head of Environment and Energy, Policy Exchange, and **Ingrid Holmes**, Director, E3G, gave evidence.

Q60 Chair: Good afternoon and welcome to our second panel in this evidence session. We welcome Ingrid Holmes, director of E3G, and Richard Howard, head of environment and energy from Policy Exchange. Thank you both very much for joining us. **Are you happy if we go straight into our inquiry questions?**

Richard Howard: Yes.

Chair: In that case can I turn to Margaret, if you would like to kick off?

Q61 Margaret Greenwood: Ingrid Holmes to begin with: in its first three years of operation, how well do you think the Green Investment Bank has done in fulfilling its goals and its purpose?

Ingrid Holmes: I think it has done a great job. The first thing to say is the GIB is a huge success story. It had wide cross-party support. NGOs were behind it. The private sector, importantly, was behind it. I know there was some nervousness in the first instance of the institution being created that it would be crowding out rather than crowding in capital, so I think the fact that that support remains demonstrates it has been doing a great job. There is more to be done, for sure.

Margaret Greenwood: Would you like to add anything, Mr Howard?

Richard Howard: I would reiterate the same position. I think they have done a good job. As well as doing deals in the sectors that they have been active in, I think they have also done a lot of strategic work to understand those sectors and also to move understanding of those sectors along more generally in other organisations. I agree, they have done a good job.

Chair: Good. That is a good start on their third birthday. They are doing a good job, excellent.

Q62 Peter Aldous: The Green Investment Bank believe that privatisation will lead to a number of key benefits to them. Two of these are, first, unlocking new equity capital to finance their growth and, secondly, giving the bank the ability to borrow. What are both your views on those two points?

Richard Howard: On the capital side, the capital raising, I think one thing that we should not forget is the Government has basically agreed to invest up to £3.8 billion in the bank and the GIB has allocated a lot of that capital already. Including the deals that we have heard about today, that takes them up to—I think the number is—£3 billion. So a lot of that money has already been allocated to projects.

The other thing is that this £3.8 billion was to be committed by the end of next March. I think we need to remember the counterfactual to any privatisation. What is the counterfactual that GIB's allocation of capital will have been spent or used by the end of this financial year? The bank does need to do something, and clearly there is one option for Government to put in more money. There is also the option to bring in external equity or debt, but the bank needs to find some money from somewhere. As Shaun said in the previous session, the bank is allocating £800 million to £1 billion per year so there is a need to find that scale of money from somewhere. That is where I think we have got into this debate about the future of the bank.

Ingrid Holmes: I will pick up on that as well. I think there are other potential solutions and where we are in this discussion, there is an increasingly compelling case to take a breath and pause and think about what we are trying to achieve in terms of the Government's aims and what is the best route to doing that. We have a thing called the EFSI, the European Fund for Strategic Investment. This is off balance sheet capital that has been put together in Brussels that is available to the UK Government. We have, I think, pitched around 600 billion in off balance sheet investment, but we do not actually have an intermediary to get that to the market. Many other member states are using their public finance institution to do that, so there is a clear opportunity for the GIB.

Similarly, we could be thinking about engaging with some of the devolved Administrations about a potential equity stake, given this is a UK-wide institution with UK-wide benefits. Those are both routes that we, in the haste to move this agenda forward, really have not properly explored.

Finally, on borrowing, I would say when we were engaging with institutional investors at the beginning of the discussion about creation of the GIB, there was a huge amount of excitement at the idea that the GIB could be created and be issuing bonds to the market. As you may be aware, the green bond market has been growing, but we need a larger pipeline of good quality bond issuances. The GIB with its ability to source that pipeline of transformational projects and to achieve scale was a big part of the selling point. The idea that we now wouldn't really use that facility and go to the capital markets I think will be disappointing for many of our large institutional investors in the UK that were looking to the UK Government to facilitate that.

Q63 Peter Aldous: Thank you for that. A risk of remaining in Government ownership is the uncertainty of medium to long-term financial and political support. In light of that, do you think that privatisation could increase the bank's stability and durability?

Richard Howard: I would go back to my previous comment. The bank wants to do a certain number of deals per annum to which it has allocated £1 billion a year, just in simple terms. That money has come from Government to date. If there was an uncertainty about where that money is coming from in the future or any future investment by the Government, that would make it difficult for the bank to do business. That may be one of the drivers from the bank's perspective of why they would like to diversify their sources of funding. You can see from their point of view why that would make a lot of sense.

I would agree with Ingrid's point that there are lots of potential pots of money that we could be looking at. It is not a case that the only option here is to put the money fully into private hands. I think there are lots of shades of grey between where we are and that position and it could be about other public bodies investing or other European sources of funds. There are all sorts of possibilities that could be looked at further, but I do not think we need to paint this as black and white.

Ingrid Holmes: I would add to that that the institution may endure but will its original purposes and objectives endure? Again, going back to the beginning, this institution was created as a means to risk-share between the public and private sectors, focus on addressing market failures, accelerate investment into the low carbon economy, and it has been doing that. It has been doing a lot of innovative deals, new technologies, new business models that without that handholding by a public bank that was explicitly backed by the UK Government may well have not happened. I think it is that, really, that it puts in jeopardy in terms of fulfilling that function if we go down this rushed privatisation route and that that we need to look at again.

Q64 Peter Aldous: Finally, and you have both touched on this, if not privatisation what would each of your preferred models be so as to allow the Green Investment Bank to both expand and also to have a secure long-term future? Both of you, your ideal.

Ingrid Holmes: I do not think there is one specific answer to this question, but there are lots of routes that we can explore. I think it is probably too late, unfortunately, to turn back the clock on this aspiration to privatise, so the question is how do we get to the same outcome. Absolutely exploring equity injections from devolved Administrations should be part of that. Another option could be an investment by the European Investment Bank; direct investment there. That has happened elsewhere. We could be looking at citizens' finance. Something that people got very excited about a few years ago was the idea of green ISAs. Could we have a GIB green ISA? Then, of course, we could look at, with that broader continued public backing, borrowing from the capital markets with an implicit guarantee. Finally, we have a debate right now about amalgamating local pension funds. That could be a good source of capital—patient capital that would work with the bank in its intended way.

Richard Howard: As I said, I think there are lots of grey areas on a sliding scale from where we are to a full privatisation with no Government involvement. If you take baby steps from where we are and say, "What if we had some other public sector investors, some other private sector investors?" whether that is insurance funds, pension funds, infrastructure funds, I think that would be a helpful addition. You are bringing new money into the institution, allowing it to continue to grow. The tipping point comes, and a lot of the discussion that was already had today, around what point does Government cease to have a control over the green mission of the bank and are there ways of safeguarding that while allowing Government to reduce its share.

Chair: We will come to that in a moment.

Richard Howard: Absolutely.

Chair: If you have further thoughts, by the way, on those additional models, we would be grateful if you communicated with the Committee subsequently, both of you. Peter, you wanted to come in on a supplementary.

Q65 Peter Heaton-Jones: Ingrid, you used the phrase just now about this being a rushed privatisation, but I want to be absolutely clear. E3G think there should be no privatisation at all whether it is rushed or not rushed, is that right?

Ingrid Holmes: That would be our preferred option, because it is about confidence building; it is public-private risk sharing; it is skin in the game. That explicit public ownership is a key part of that but there are other ways we could look at achieving the same outcome.

Q66 Peter Heaton-Jones: Okay, so when you describe it as, "Rushed privatisation" it would not help if it was slowed down? You just do not want any privatisation at all.

Ingrid Holmes: No, I am saying that the Government has a long-term objective to move to a minority ownership structure. There are other forms of patient, publicly focussed capital out there that we could look at constructing a new shared ownership structure from, but if we are going to move forward to closing this deal in the next three, four, five months there is going to be no time to have that dialogue to put that constructive deal together. I think it is just about slowing it down now and considering options.

Peter Heaton-Jones: Thank you.

Q67 Caroline Ansell: One of the benefits that has been identified by the GIB around privatisation is freedom from state aid restrictions and then the ability to invest in a wider green sector environment. Do you believe this could be a positive reason to privatise given that you are against privatisation?

Ingrid Holmes: I think it is a complete red herring in actual fact. State aid is there to ensure that public money is not given an undue advantage over private sector organisations where private capital could perfectly adequately undertake the financing operations. The GIB is not working in those spaces. Every single state aid application it has put in it has got through. It is an irritation to have to go through that process, but what

I would argue for is a more aggressive stance on state aid, so going into DG Competition and arguing for a broader framework exemption for the institution given that it does specifically have this mandate to invest in areas with market failures. That is exactly what some of the sister banks in Europe do. KfW and CDC in France would not mess around in this stuff, so we just need a more aggressive stance.

Q68 Caroline Ansell: I do not think their concern was around time inefficiencies around application, it was restriction to sector, so that requirement on the GIB to make 80% of its investments in three key sectors then, do you not see that that might have undermined its capabilities and then its longer term sustainability?

Ingrid Holmes: Again, I just go back to I do not think it has been refused any application it made. As I understood, the political—

Q69 Caroline Ansell: Is it not restricted in the applications it can make by virtue of state aid restrictions to specified sectors?

Ingrid Holmes: But it would only not be applying for state aid clearance for two reasons. One is it was not given a mandate to look at those areas and another is because there is no need for a public bank to be deploying its capital there.

Q70 Caroline Ansell: Is its mandate too narrow perhaps then for longer term viability?

Ingrid Holmes: I do not think so. It does not have that much money under management given the broad range of things we need to do and the scale of capital needed, so I think it makes sense to focus on a few key areas. It was given a steer specifically by the Government to look to offshore wind and energy efficiency and so on because that was where it was felt there was a market need. A lot of that direction of travel has been provided by Government rather than from the bank itself.

Q71 Caroline Ansell: Do you see there are any other sectors where there might be a market need for them to invest in or do you think it is—

Ingrid Holmes: I think there are lots of other very interesting areas the GIB could be moving into, not least carbon capture and storage. It would be much more effective to see GIB engaged in dialogue with industry to see how public funds could be deployed to support that area. I think the other area that is in desperate need of support is the technical assistance piece to build city-level decentralised energy and energy efficiency projects. That is something that is missing at the moment.

Q72 Chair: Do you have a view on this?

Richard Howard: I kind of disagree with a lot of what has just been said. I think the state aid probably has been quite restrictive on GIB. The way I have understood this process, GIB had to put together an enormous amount of information and evidence to go to the Commission at the point where the Government wanted to put in £3 billion. The way this works, the state aid clearance was granted and it relates to the money that Government put into GIB, but then restricts what GIB can do. It is not that GIB went to the Commission and asked if they could do offshore wind. The process was more, “Can Government put in £3 billion?” “Yes, but only if you invest in certain sectors in certain ways.” They may not have been turned down for anything, but that may be because they have not asked the question because it is so much hassle. Which other banks have to go through this sort of rigmarole to decide to invest in a sector? As Shaun said, it has not exactly been fleet of foot and these sectors move quickly. GIB has itself given some examples of sectors it would like to invest in, which it is probably not allowed to at the moment, and that I guess is indicative of what would change if the state aid thing went away.

Q73 John Mc Nally: Thank you; very interesting answers. Probably building on from them, the Government plans to remove the public sector controls from the legislation governing the bank in order to ensure that it is no longer classified as a public sector body. Do you believe that the bank will be able to maintain its green purposes when they are no longer laid out in statute?

Ingrid Holmes: I think it is going to be not necessarily a challenge under the current management. We all heard Shaun’s answer to that question earlier. Going forward, we are going to have different people involved at the senior level of the bank. We are going to have a potentially different shareholder structure and that will inevitably put the green measures at risk.

This is one area we do need to dig down into and explore a bit more. Is the current proposal to just completely repeal all of the GIB legislation really necessary or could we look at some kind of hybrid response where we kept a lock on the green purposes and there is the parliamentary scrutiny of, after all, what will still be public money in the bank?

Q74 John Mc Nally: What mechanism do you think the bank should use to ensure the green focus does not change in any way?

Ingrid Holmes: We need to retain the statutory requirement for the green purposes, the overall ones in legislation now. We need to retain the parliamentary reporting, oversight and scrutiny, and maybe we could introduce, in addition, some kind of external advisory body that provides strategic long-term advice on where to focus the bank’s activities as an alternative to the current shareholder relationship and arrangement.

Richard Howard: With all this, let us remember why we are talking about this. If the Government wants to sell a minority stake and keep GIB on balance sheet, then none of this is relevant. A part privatisation, bringing in some capital, could be achieved without unwinding any of this. The place where this has got difficult is if the Government wants GIB to be off balance sheet completely it has to take its share down to 30%.

Chair: That is what the speculation is, yes.

Richard Howard: That is what the speculation is. Let us assume that that is the case, and also has to meet these other ONS requirements. The issue that you raised earlier around challenging those requirements could be one way forward. Also, GIB’s suggestions of trying to maintain those green credentials in other ways, contractually, those sorts of things could be explored if the Government wishes to take its stake down that low, to 30%. It is a case of saying what does the Government want to achieve here? Does it wish to divest a minority stake or a majority stake? If so, then there is a whole set of questions that trickle down from that.

One other thing to think about is who would want to invest in GIB and what would they want to do to it once they are involved? I think Shaun put it quite well. They already have some partnerships with various different funds, whether that is pension funds, infrastructure funds or sovereign wealth funds. Those funds have got involved with GIB precisely because GIB has a track record in these areas. You are not going to get someone come along and invest in the Green Investment Bank and then ask it to invest in something completely different. I cannot imagine why someone would want to do that because what they are buying into is a pool of expertise in investing in green projects.

Q75 John Mc Nally: Are you saying that the legislation does pose a risk to its purpose?

Richard Howard: What I am saying is the legislation may not be needed to maintain that green focus because the person investing—

Q76 John Mc Nally: Wait, it may? You have to be a bit more precise than "may".

Richard Howard: Okay. I guess what I am saying is if you remove that legislation—this is a scenario—and you allowed someone to invest in the bank, I think that investor would come along and invest because they were interested in what GIB is doing.

Q77 John Mc Nally: It could compromise their goals or purpose.

Richard Howard: Sorry?

John Mc Nally: It could compromise the bank's purpose and aims.

Richard Howard: No. I am saying it probably would not. Let's say a pension fund or infrastructure fund invested in GIB, they would probably want GIB to continue doing what they are doing anyway. Otherwise, why would they invest in GIB?

Q78 Chair: Ms Holmes, do you have a view? It seems to me what we are not dancing about on, because it is quite a fundamental thing, at least in law you have the phrase that we are used to as parliamentarians seeing in legislation, "You shall do". Here we are talking about, "They may do" with a few locks in the corporate mission that they have and so on, and I can see all of that, but it is the difference between "shall" and "may". Ms Holmes, do you have a view?

Ingrid Holmes: I think it all hinges on the definition of green, which is a fluxing thing. In some countries green would be doing energy-efficient coal-fired power stations, for example. That is not a great use of public money. That is something we would ideally not like to see at all and, if it were to happen, it should be a private sector-led initiative.

Given this is a multi-decade transition, with lots of different technologies and business models, we need to keep a tight focus on how the bank is interpreting that. It is going to constantly change. It is going to be a constant tension between just simply getting money out there quickly and doing this more innovative, difficult-to-do kind of deal, which I would put the energy efficiency bit of the GIB's remit into that. We need scrutiny, we need oversight, and we need a legislative lock on that and proper structures in place to enable that conversation to unfold over the decade.

The final thing to say, just to back up and support that point, is one of the early investments that the GIB made was in the conversion of the Drax power station into a biomass unit. I understand why the GIB may have done that. They needed to get money out of the door quickly. There were not a huge number of things available for it to do, so it was good for upticks, but long term is that really the kind of transformational financing we want the GIB to be doing? That needs to be watched.

Chair: Mr Howard, you are itching to come in on that.

Richard Howard: There is a really interesting thing here. These green credentials that we are talking about, it is worth looking at what those are. There is a list of five things. The bank must invest in things that tick one of a number of boxes. One is reduce greenhouse gas emissions, one is protect biodiversity, and so on. They are very, very broad statements. You could do just about anything that is vaguely green and tick one of those boxes and that would be allowed. You are challenging a project there that met the credentials but you still do not like it.

Q79 Chair: Could investment in unconventional gas be part of that as the gas transition to a decarbonised future?

Richard Howard: Yes, that would tick one of the boxes. Could an energy-efficient coal power station? Yes, it would tick one of the boxes. I think we have to remember what these credentials are.

Q80 Peter Heaton-Jones: I asked Shaun Kingsbury in the last session about the timing of the privatisation process, and whether in his view it was too fast or too slow or about right. He coined the wonderful phrase that he thinks it is a Goldilocks. It is just about right, he said. Do you agree, Mr Howard?

Richard Howard: So this is about the timing of the—

Peter Heaton-Jones: The timing of the process of the privatisation, yes, the speed and the timing of it.

Richard Howard: Shaun's observation, could they have done it earlier, I would probably agree that they could not have done it much earlier because the bank was not mature enough. It did not have flow of deals. It has now got to a mature size of institution that would allow it to privatise. I do not think it could have been any earlier.

Could it be left until later? I guess the thing you are butting up against there is, as I said before, the need to bring in some money from somewhere soon, as in for the next financial year the bank needs to know where its capital is coming from. I think the timing is probably about right in terms of the Green Investment Bank. There would probably be questions around the wider policy environment around that and whether it is the right timing in that respect, but from GIB's point of view, it is probably about the right timing.

Q81 Peter Heaton-Jones: You are not surprised to hear Mr Kingsbury say it is about right?

Richard Howard: No, I am not surprised at that.

Ingrid Holmes: I would say, if I was working for the GIB right now, I would want us to move fast. Just on a personal level, there is real uncertainty about what some of the staff members will be doing next year if no new money is coming through. That affects morale and it also affects the credibility around the institution. There are concerns if this process drags out for too long it will not be seen as a credible going concern. That will impede its prospects for a sell-off and we could end up with a fire sale, which would be the worst of all worlds.

I used to work in financing, in a fund manager. I know how long deals take to put together. They take time. This is a fantastic institution with real value and we do need to pause it now. We need to create some time and space for a conversation about how we can achieve the Government's objectives. That will require some strong leadership in saying there is a plan. We have bridging opportunities, as I said, through drawing down on European funding, through the EFSI and various others. Rushing now is just going to get us not necessarily to the place we want to, either from the GIB's perspective or from the public's.

Q82 Peter Heaton-Jones: You used the word "rushed" earlier—rushed privatisation. Your view now is that there should be a pause—the whole process should be paused.

Ingrid Holmes: Absolutely, with a clear plan for how we are going to unravel some of these complex issues around legislation, doing the proper consultation among a wide range of different potential owners, thinking about the green ISA offer and so on, but putting in place clear steps for a plan going forward, maybe revisiting this in 12 months or so.

Q83 Peter Heaton-Jones: Far be it for me ever to seek to create difficulties; I will try to resist the temptation, Mr Chairman. Mr Kingsbury is simply wrong, in your view, when he says that the timing is about right, is he?

Ingrid Holmes: I can understand why he is saying that, but I have to disagree.

Peter Heaton-Jones: That is a very interesting answer. Thank you.

Chair: One of the answers you touched on earlier it might be a good idea to try to get a fairly direct answer on, so I am going to pass to Carolyn here, who has a very specific question.

Q84 Carolyn Harris: Mr Kingsbury shared with us in the earlier session that if privatised GIB would welcome the Government as a stakeholder. I suspect I am going to get two completely different answers here, but what I would like to add to that is from wherever you come on this, do you feel the uniqueness of the kinds of investment they make would benefit or not from a Government safety net?

Ingrid Holmes: Okay. I am going to try to unpick what I think this question is about. Why do we want majority public ownership—51% or more—which is not what the Government is after? It is about skin in the game at the end of the day. We have seen a lot of unnerving changes in policy support for the green economy. That is affecting investor confidence. We have heard about job losses and investments that have been shelved. To then privatise the institution that was created as a risk-sharing structure with the private sector does further damage to that. That is one piece to this.

The other piece to this is the GIB has done a lot of fairly easy-to-finance deals—I put Drax in that bucket; that is fine—but it has also spent a lot of time putting together some much harder-to-do investments, particularly around non-domestic energy efficiency, complex projects that, quite frankly, any private sector investor would just say, “Too hard, I am going to move on to something that is easier to do, something it is easier to get through my credit committee”. My fear is that with a majority private share ownership, the shift will be on getting money out the door as quickly as possible for the highest rates of return possible, and that will mean inevitably doing the stuff that is easier to do and perhaps lower value than the stuff that is really transformative. I think we need a mixture of both and having that majority public ownership structure is our best chance of achieving that.

Richard Howard: I guess I have mixed views on this one. I think having some Government involvement is probably helpful. Does it need to be 100%? No, I do not think so. There is benefit in bringing in other investors into this vehicle. GIB does do some innovative, unique deals. It has done the first money into construction-stage offshore wind in the UK, and so on. It has done some unique things. Would it continue to do some unique things? I think it would, precisely because it has the expertise to do so and nobody else does. I do not think you would necessarily lose that uniqueness or skill or expertise, because private money is coming in. It would continue to do good work either way. Is it helpful to have some sort of skin in the game? Probably yes. But does the Government need to control it through legislation? Probably not.

That is not a very direct answer, is it, but I am just talking around the issues. Irrespective of where this ends up, whether it is fully Government or fully privatised or somewhere in between, I think GIB has the capability to do good work and continue to do that just purely because of the team it has, basically, and the expertise. It is unparalleled. I do not think Shaun probably stressed that enough. There is nobody else doing this work in the UK, so I think if the institution continues it will carry on doing really good projects regardless of who is funding it.

It is helpful for the Government to retain some ownership. As we get used to the idea of other money coming into this institution, we might relax about that. Imagine a set-up where we have UK pension funds investing in it, local authorities investing in it, maybe the public investing in it, having a much more pluralised investment in this vehicle. We might all get quite comfortable with that as a way of funding this body to carry on doing what it is doing. I do not see the bringing in of private money as a bad thing. I see it as a good thing, essentially.

Q85 Carolyn Harris: Are you concerned that with legislation—and I mentioned this to Mr Kingsbury—where we see legislation stalling or temporarily putting projects on hold, do that that would not encourage private investors to put their money into the Green Investment Bank?

Richard Howard: Which legislation are you referring to?

Carolyn Harris: Onshore wind farms, contracts for difference, the kinds of big projects that may no longer be or will be on hold.

Richard Howard: For where GIB is right now, it is involved in a huge number of offshore wind projects that are coming to that point where they need finance. I think there are about 10, which is an absolutely enormous funding requirement, and GIB is very well placed to deal with those projects precisely because it has done a load already. It is in a fantastically good place with a huge potential pipeline of projects to work through over the next two to three years. It is the renewables obligation projects, contract for difference projects, and so on. Those projects are all happening right now in terms of their funding, so it is in a good place to do that. Beyond that, there is perhaps a lack of clarity about exactly what GIB would be funding, say, in three to five years' time, and that is partly due to some of the changes in policy that have taken place. It is also partly because of the lead time of projects that are going on and it is also because of what GIB is involved in. It is not involved in offshore wind or solar PV at all. Onshore wind, sorry; it is involved in the community-scale stuff, so just to correct that, but it is not involved in solar PV at all. Those changes that you are referring to will not have impacted on GIB at all.

Q86 Caroline Lucas: Many apologies for missing your earlier presentations and so forth; I had a meeting I could not miss. I wanted to go back to the question that I put to Shaun Kingsbury about market failure. Do you believe that a privatised Green Investment Bank will be able to retain its capability to address market failure in a low carbon economy?

Ingrid Holmes: The market failures have not gone away. We created a public bank because the private sector was not working in areas where there was market failure. With a largely privatised institution, if that is what we end up with, I am left wondering what is the point. If you are going to do that, maybe you just get rid of the whole thing.

Q87 Caroline Lucas: Shaun Kingsbury referred to market failure. He was redefining it in terms of a knowledge gap rather than a risk issue. Would you agree with him on that?

Ingrid Holmes: I would say it is knowledge. Some of it definitely is knowledge, so that plays into a debate about patient capital and the fact that the GIB is prepared to put the time into constructing the deals that they can then move into finance, which other private sector players will not do. Again, the issue around that is will a private owner allow them that space to do those deals to address those market failures?

A lot of innovation around the offshore wind sector will be around new technology. The GIB was a key player in financing of DONG Energy's latest offshore wind project using new wind turbines. That technology risk may not have been taken by other financiers without the public sector player in there. It is questionable whether those kinds of deals might go ahead and, if so, at what cost. I am just not sure that we will see the volume of capital continue to flow to some of these more innovative projects in the way we have if the GIB is majority privatised.

Richard Howard: I would differ slightly on that. GIB is involved in some of those projects not because it is Government backed but because it has a better understanding. I would agree entirely with Shaun's point that it is about knowledge and capability.

If you think why would a pension fund or infrastructure fund not do it themselves, get involved in a construction stage offshore wind farm, it is probably because they have a handful of people who do these sorts of deals in total in their fund. They just do not have the capability to get inside these deals. The Green Investment Bank has 100 people and it has real specialists in all of the different areas around these deals, including the technology, including all sorts of aspects. GIB is a good channel through which to put money. There are still market failures. For example, in offshore wind construction projects, a normal bank or fund will not touch them, but GIB will, not because it is Government backed but because it has the expertise to do it.

Q88 Caroline Lucas: Are we confident that it will retain that expertise once its legal requirement to put investment into certain green areas has been ripped up?

Ingrid Holmes: Exactly.

Richard Howard: This is probably going over some of the ground again but—

Caroline Lucas: I am sorry.

Richard Howard: No, no, absolutely. Shaun was clear that that is their intention, is to continue doing those things.

Caroline Lucas: Intentions are 10 a penny, aren't they?

Richard Howard: But the unique selling point if someone has come along and invested in the Green Investment Bank is because it has that expertise.

Q89 Caroline Lucas: I am sorry, I am using the word "risk" too many times. Is there a risk that it would be more risk averse? Would you at least concede that?

Richard Howard: I do not think it is the opposite of risk averse at the moment, whatever that would be.

Caroline Lucas: Reckless?

Richard Howard: Well, reckless, yes. It is not reckless at the moment, so I do not think it becomes—

Caroline Lucas: No, but it takes different judgments, doesn't it?

Richard Howard: I don't think so. Remember it has to lend on purely commercial terms at the moment, so it is almost by definition—

Q90 Caroline Lucas: But there is a difference even between commercial and profit maximising, surely. There is more of a spectrum here than you are making it sound. It is not like it is either reckless or it is risk averse. There is the amount of time that Ingrid was talking about in terms of how long it might take you to put together a sustainable—

Richard Howard: I think Green Investment Bank has always been one step ahead of a lot of other people. It has built up expertise on offshore wind before other people were doing it and now a lot of other people are involved. For operational offshore wind projects there are loads of other banks getting involved in those deals. The Green Investment Bank was doing that a few years ago. There are still some market failures around big construction-stage projects. Would the Green Investment Bank carry on doing that? I am sure they would because they are one of the few who really understand how to do those projects.

Q91 Caroline Lucas: In your model of what the Green Investment Bank might become, do you think there is a risk of it crowding out other investment?

Richard Howard: No, I think the opposite. It will be a vehicle to put private money into the sector that may not have otherwise come there, so it is probably the opposite. It is bringing in money.

Caroline Lucas: What do you think?

Ingrid Holmes: I am just thinking about the European Investment Bank, which has 2,000 people in there, and pre-financial crisis it was criticised as being slow and laborious and not needed in the market, there was so much money available. Post-financial crisis, everyone loves it because they have done their due diligence, they are in those projects. If the

EIB is in there, it brings in a load of other private sector investors, but it is an expensive institution. It has a lot of people. That is not the private sector model.

The GIB is a similar kind of institution. It is a UK-dedicated entity that will dig around in these deals, do the technical due diligence, and it is almost like a stamp of quality assurance that other private sector investors can come in. You look at how many people there are in that institution, it is multiples of what you would see in a private sector entity managing the same volume of funding. I think it is deeply questionable that it would continue in the same way.

Q92 Luke Hall: We have touched on this a little bit in other questions so I apologise, but I wonder if you could perhaps just tell us whether you foresee this decision to sell a majority stake, potentially up to 70%, in the GIB impacting on investor confidence in the low carbon economy. The decision to sell this bank, privatising this bank by up to 70%, is that going to impact, do you think, on investor confidence generally in the low carbon economy?

Ingrid Holmes: It does not help. How likely is it we are going to see money flow into the sectors that the GIB invests in? We have seen withdrawing of funds from onshore wind and solar and job losses in the solar and energy efficiency businesses. The GIB is not operating in those spaces. We are still okay for the areas it does focus on, like onshore wind, so fingers crossed, investor sentiment and support for these sectors will continue. I think removing that public risk-sharing partner in the space will not help in this. One other thing, just a point of information. The only British bank investing in offshore wind at the moment in the UK is the GIB. There are no private sector banks operating in this space.

Chair: Mr Howard?

Richard Howard: In response to that question?

Chair: Yes.

Richard Howard: If you look at what GIB does, it gets involved in projects when they are about to get to financial close, so at that point a lot of the policy risk has effectively been taken away. You know what the project is going to look like at that stage. Will GIB continue to be able to do these sorts of projects? I would have thought so because—Shaun gave very much the same response—that is the stage of work that they are doing, so I do not think it will impact on them. As I said, some of the other changes that have been going on in policy are in sectors they are not even involved in, like solar.

I think the perception in the media of this policy to privatise the Green Investment Bank has been conflated with 10 other things. You can go and find articles in the papers that give you a list of all the different policy changes that have been made, so it has been conflated with those other policy changes, which is not helpful. But in itself, I do not see it as such a major issue.

Q93 Chair: In the couple of minutes remaining, I just want to give you the opportunity to say any other points that you think we might not have covered. We very much focused on the structural and potentially statutory changes that the Government are proposing. Anything else that you want to add that we might not have covered so far?

Richard Howard: One other point I would make is around the scope of GIB. At the moment, GIB is involved in I think 50% of the deals in its sectors, which suggests to me it is not saturating the market but it is not—could it do much more in its narrowly defined sectors? Maybe not. By broadening it out, there might be benefit, as was said before, in tapping into other parts of the green economy that do not have a GIB at the moment. I think there is a benefit in that that we should not overlook.

Chair: Thank you for that. Ms Holmes?

Ingrid Holmes: I would just reiterate my point that there was broad support for this institution when it was created. The value case for it has not changed. It is needed more than ever. I do not believe there has been a sufficient debate around the need for doing it, the route to achieving it. A lot of it is driven by Treasury ideology, which stems right back to the creation of the bank and the idea that by having a public bank that could borrow from the capital markets we would create a second hub for capital markets raising for the UK. We have seen lots of other attempts at trying to connect capital to the real economy. Pensions infrastructure platform guarantees, for example, have not been a huge success. The GIB, on the other hand, has. If we look forward at our infrastructure investment over the next couple of decades, 70% of that is green or green enabling. If we want to accelerate capital market interest in the UK we have an institution standing ready to do that, so we need to let the constraints off and enable it to expand its activities, not just shift to privatising it and hoping for the best.

Q94 Chair: I do not want to prolong this, and I want to bring Caroline back in, but on that point can I bring you back to an earlier comment that you made and perhaps invite Mr Howard to respond as well? In response to Peter's earlier point, you suggested we should pause, look at that entirety of how we should be getting this level of investment through different mechanisms, perhaps some overlapping, some complementary as well. But you also said that we are in a position where the Government has made clear its intentions. If this does proceed at a pace, both in terms of privatisation in whatever share but also in terms of statutory unwinding, then—perhaps I can put this question to you, Mr Howard—those points that Ms Holmes made about the wider investment portfolio, including perhaps tying in with the Government's devolution agenda as well and releasing powers but also funding through devolution, devolution in cities and regions as well as nations and so on, would you agree that we are missing a trick in that wide portfolio of investment opportunities that go beyond shareholder and investor communities and pension funds?

Richard Howard: I will make a couple of points. One point is I do not think we can do nothing. If you do nothing and do not look at privatisation or other sources of funding at all, then the GIB grinds to a halt in March because it does not have any more Government money to allocate and it stops functioning. That is the worst. That is not helpful to anyone. The Government does need to do something. I do not think it can pause for six months or 12 months because you are at the end of the financial year at that point. It does need to get on with something. I do not think it needs to move to a 30% stake overnight, so you could take some more baby steps towards that, bring in some external money, look at some of the other public sources and private sources. You can do all of that, but you do need to make some progress. You cannot just stop and wait for six months.

Chair: Interesting.

Q95 Caroline Lucas: You may well have covered this already, but I was just going to go back to fundamentals because you were reminding me about the original vision for the bank. Given that the Treasury's concern has always been not to have its figures on the balance sheet, it has to be off balance sheet, can you remind us are there examples in other EU countries where they have publicly owned banks that are development banks that are real players in not necessarily the green area but in similar kinds of areas? Are we getting overly fixated about the balance sheet?

Ingrid Holmes: I think pretty much all the other ones are off balance sheet, so we are exceptional in being very rigorous in applying these rules.

Q96 Caroline Lucas: Is there scope to do it differently if we wanted to?

Ingrid Holmes: Yes, absolutely. It is a political discussion between the ONS and the Treasury and possibly the OBR about what figures on and off balance sheet. The infrastructure guarantees that the Government are providing or trying to provide are all off balance sheet, so there is absolutely no reason why the GIB cannot be, too.

Caroline Lucas: I just thought I would remind us. Thank you.

Chair: Do you want to add to that?

Richard Howard: I do not know any more, but there are lots of other examples of public institutions that do similar things to GIB, like KfW in Germany, which is a massive institution. Some people look to KfW and think, "Wouldn't it be nice if GIB was like that?" but we are talking a different order of magnitude of size of institution and that is not realistically where we are going. The points about on balance sheet, off balance sheet and all this classification stuff with ONS, are probably a good area for the Committee to look into further.

Chair: Very good. Thank you very much. Can I thank you both and extend to you the invitation I say to all people who give evidence to us? If there are other thoughts that come to you after leaving today, please write to us immediately with them. Thank you very much for your time and your thoughts in a very interesting session. We will now close the session. Thank you.