



LOCATION OF THE GREEN INVESTMENT BANK

Self assessment process

DECEMBER 2011

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Section 1: Purpose of this document

1. The Government is establishing a new financial institution, the Green Investment Bank (GIB), to accelerate investment in the UK's transition to a green economy.
2. The GIB will be an enduring financial institution with specialist expertise in green investment. It will be dedicated to mobilising additional private sector finance into green infrastructure projects. Further background on the GIB is set out in Section 2.
3. The Department for Business Innovation and Skills (BIS) welcomes the widespread interest in the question of the GIB's location. We are committed to ensuring that the process for reaching decisions on this matter is fair and transparent. The final decision on location of the GIB will be taken by the Secretary of State for Business.
4. This document sets out in Section 3 the criteria that will be taken into account in reaching a decision on the GIB's location. The key underlying consideration for the Government in determining the GIB's location will be the operational effectiveness of the GIB: ensuring it is capable of delivering its primary objective of increasing the speed and scale of commercial investment in the UK's green infrastructure.
5. Having a common set of criteria gives parties the opportunity to examine whether and to what extent the relevant location they propose would be an effective base for the GIB. Parties may submit their self-assessment, including evidence to demonstrate how their proposed location meets the criteria set out in Section 3, by 17:00 on Monday 30 January 2012. Further instructions on how to complete the self-assessment on the appropriateness of a location are provided at Section 4. Details of how to make submissions to BIS are provided at Section 5.
6. The Secretary of State for Business will publish his decision, setting out his reasons, in February.

Section 2: Background to the Green Investment Bank

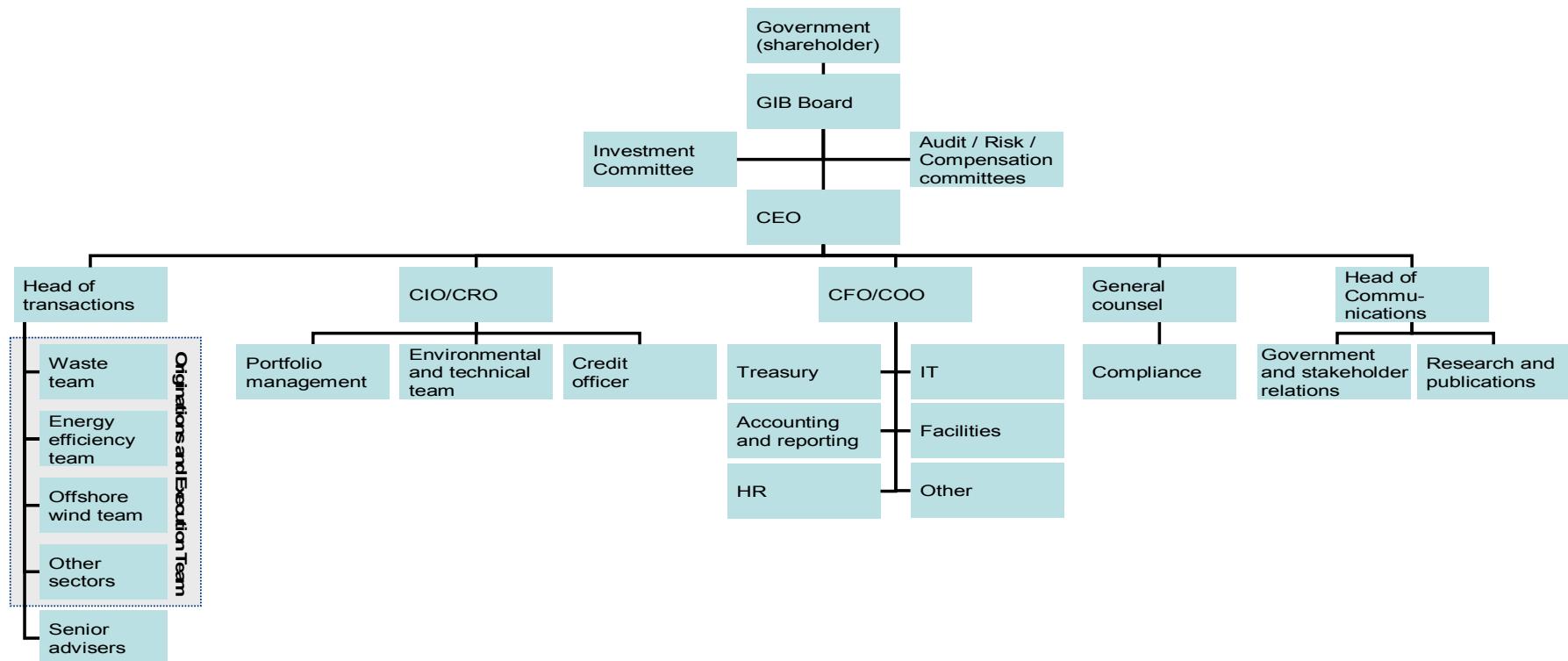
7. The GIB's mission will be to accelerate investment in the United Kingdom's transition to a green economy, with funding of £3 billion to 2015. It will be charged with operating to a double bottom line of delivering positive financial returns as well as green impact. Initial priority sectors for GIB investment will be offshore wind energy, waste recycling and energy from waste and non domestic energy efficiency.
8. The GIB will operate in a way that ensures:
 - Strategic alignment with Government green policy objectives;
 - Operational independence from Government;
 - Minimum necessary distortion of competition in markets.

The activities of the GIB

9. The primary role of the GIB will be to undertake investment activities aimed at delivering its agreed strategic priorities. The GIB's investment activities will involve the following:
 - Pre-transaction: the GIB will be involved in screening the market in order to identify potential deals and partnerships with other investment institutions;
 - Transaction execution: the GIB will be involved in structuring deals, conducting due diligence, and negotiating final terms and conditions;
 - Post transaction: the GIB will close deals and perform monitoring and reporting, including the management of its investments.
10. As an expert body deeply involved in mobilising finance for green infrastructure, the GIB will be in a unique position to comment on matters relevant to the UK's transition to a green economy. In view of this we would expect the GIB to make an important contribution to the development of thinking in this area, sharing its experience of financing green infrastructure projects to stimulate further private financing of the green economy. It is also likely to undertake and publish relevant research and provide advice direct to HM Government on matters of policy.

Structure and organisation of the GIB

11. It will be for the GIB's senior management to make decisions about the organisation's structure and the specifications for individual roles. However, we set out below a likely structure of the GIB organisation.

**Figure 1. Likely Structure of the GIB**

12. The GIB senior management will take decisions about the particular skills and experience required of its staff members. However, we envisage GIB staff will need to undertake a number of functions to originate and deliver investment activity including:
- Formulating the GIB's overarching strategy;
 - Developing detailed investment strategies and investment criteria;
 - Originating a pipeline of potential investment opportunities;
 - Assessing those opportunities (financial modelling, risk assessment, portfolio impact, etc);
 - Investing alongside existing financial institutions and funds;
 - Legal structuring and analysis of transactions ;
 - Negotiating deals and preparing investment cases;
 - Achieving approval from the Investment Committee to proceed
 - Closing investments
 - Managing post-investment risks and activities;
 - Managing exits from investments;
 - Reporting on market insights through publication of research papers, including analysis of evolving technologies, policy landscape and financial mechanisms.

13. The GIB's staff will need the appropriate skills to handle these various activities, working with advisers and technical experts as appropriate. A preliminary assessment of staffing levels estimates that over the period to 2015, the GIB will consist of 50–70 full time equivalent (FTE) staff, including the transaction team and support activities, though the headcount may rise over time.

Timing

14. Recruitment of directors and senior staff for the GIB will start in early 2012. No appointments will be made until the decision on the location of the GIB has been taken and announced.

Section 3: Assessment criteria

15. Any proposed location must satisfy the basic needs of the GIB as an organisation to have (a) good national and international transport and communication links and (b) appropriate available office accommodation with good energy efficiency and environmental performance ratings. Assuming these basic requirements are met, locations will be considered against three criteria that are specific to meeting the particular needs of the GIB and ensuring it is a highly effective institution capable of delivering its mission.
16. The criteria are set out below in descending order of importance:
- (i) The ability to recruit and retain staff with the necessary specialist expertise and experience over the long term;
 - (ii) The quality of the transaction 'ecosystem' in the locality;
 - (iii) Cost effectiveness considerations.
17. If the conclusion is that several locations could act as an effective base for the GIB after consideration of these three primary criteria, consideration will be given to the wider economic benefits that the GIB would deliver to the local economies in question in line with HMT Green Book guidance (http://www.hm-treasury.gov.uk/data_greenbook_index.htm).
18. The three primary criteria are explored in further detail below.

Criterion 1: The ability to recruit and retain staff with the necessary specialist expertise and experience over the long term

19. The GIB will be an enduring expert financial institution making investments in green infrastructure projects. The GIB's location must, therefore, meet the need, over the long term, to recruit and retain high quality staff with specialist skill sets to carry out its various functions (see preliminary organisation chart at Figure 1). A sufficiently large pool of relevant talent will be a key consideration in deciding on the GIB's location.
20. We believe the GIB will need to draw talent from a range of professional sectors to fulfill the roles set out in section 2. Recruitment can be broadly divided into three areas:
- Financial services experts;
 - Green economy experts;
 - Other professional experts.
21. Given the GIB's role in making investments, recruitment from within the **financial services** industry will be especially important. Within this area, there are four main categories of skills the GIB will need to access, though each has a strong relationship and overlap with the others.
- Project Finance is the structuring of a transaction that relies on the underlying assets as its principal form of repayment, and requires a deep understanding of the relevant industrial sector, as well as financial and legal structuring skills.

- Structured finance, including credit enhancement, is the provision of "first loss" debt instruments, designed to reduce the risks attaching to higher ranking debt, thereby allowing the company's debt instruments to achieve a superior credit rating. The skill set required to undertake this activity includes strong credit experience and knowledge (from running large, specialist debt and bond funds) as well as structured financing skills, for example collateralised loan obligations (CLO's).
- Advisory is a function required to fully understand industry and financial risks and rewards when structuring products. This will require deep experience and understanding of the relevant sector and the requirements of potential investors (both debt and equity providers, and industry players). For the GIB, the most relevant pools of talent will be those familiar with comparatively complex and large scale transactions, and particularly of relevant sectors (green technologies, energy infrastructure etc).
- Investment Management of green investments requires a deep understanding of the industry sectors, and how the risks and rewards can be structured to properly reflect the long term nature of the assets. The most relevant pool of primary investment managers are within Private Equity funds and Infrastructure Funds. Infrastructure is a specific and unique asset class (with distinct elements of risk and return).

22. Recruitment of **Green Economy experts** will also be important, in order to develop the GIB's overarching strategy and report on trends in the market place as part of its published research. In addition, deep technical and engineering skills will be required to appraise the technical features of green infrastructure and confirm investments are robust from a technology perspective and meet the GIB's green investment criteria.

23. The GIB will also need to recruit a set of **other professional experts** with experience in key functions such as risk management and finance (including treasury and accounts), other support functions such as human resources, facilities management, information technology, legal expertise and corporate compliance and communications experts including media and stakeholder relations.

24. The self assessment will need to demonstrate that a sufficient number of experienced professionals within the above categories would be available to the GIB if based in the location. Where a location does not currently have the necessary pool of talent living within commuting distance, it will need to demonstrate credibly that it would be feasible for such specialist staff to be recruited and retained by the GIB if it was based in that location. This could include evidence of a track record of attracting and retaining other specialist professional staff to the locality at a similar or larger scale.

Criterion 2: The quality of the transaction 'ecosystem' in the locality

25. Specialist businesses have a natural tendency to form clusters in particular locations to optimise their performance. A number of related factors combine to make it rational to locate a business in close physical proximity to other similar types of business, both for the purposes of business processes and recruiting relevant staff.

26. To fulfil its role effectively and participate fully in the specialist business of financing green infrastructure projects, the GIB will need to be in a position to access high quality legal, technical and transaction advice as well as professional services and to interact effectively with other relevant market participants, particularly investors, project and infrastructure developers and green technology providers.
27. Second to the GIB's capacity to recruit high quality staff, we consider the most important factor to take into account when considering a particular location's appropriateness is how it will facilitate this necessary inter-action with those other parties that will be part of the process of accelerating investment and enabling the transition to a green economy. Physical proximity to the relevant market participants involved in a transaction is highly valuable, in particular given the amount of sustained direct, face to face contact required to identify, negotiate and close transactions.
28. It will also be important for GIB staff to have access to other parties involved in developing thinking on the green economy (including relevant non-governmental organisations) as well as those generating research and formulating investment policy at other institutions investing in Green infrastructure.

Criterion 3: Cost effectiveness considerations

29. In considering the appropriateness of a location for the GIB's offices, the Secretary of State for Business will have regard to how that location is likely to affect the overall cost effectiveness and affordability of the GIB. A significant element of the costs of operating the GIB will relate to the cost of employing the necessary specialist professional staff. BIS is carrying out its own analysis of the likely costs of employing the necessary staff for the GIB with the help of specialist executive search consultants, Odgers Berndtson, who will draw on their wide knowledge of the national market for executive appointments. **We do not require any separate analysis of the cost of employing specialist financial services staff in different locations. Any such analysis that is submitted will not be considered.**
30. BIS will consider representations about how a particular location may affect other types of costs connected with operating the GIB. Given the nature of the GIB's business, much of its costs will relate to its work in identifying, evaluating and negotiating investments, including the associated costs of engaging and utilising necessary advisers and professional services. Other costs associated with operating the GIB will include the cost of office accommodation, employing support staff and procuring necessary associated ancillary services. Our expectation is that these costs will represent a relatively small proportion of the GIB's total operating costs.

Section 4: Approach to undertaking self assessment

31. This document is designed to ensure that all parties have the opportunity to present information against a single set of criteria to demonstrate why a particular location should be considered an appropriate site for the GIB. However, we are concerned to keep this process manageable and to avoid it absorbing undue time and resource for interested parties.
32. Section 3 of this document specifies the criteria BIS considers to be material in reaching a decision on this matter. Interested parties considering the merits of a particular location in supporting the effective operation of the GIB should concentrate on how it addresses these criteria.
33. BIS does not wish to be prescriptive about who should undertake self assessments and make submissions. A range of interested bodies may wish to do so. Submissions should be structured to address the criteria set out in Section 3. It is important to emphasise that decisions about the location of the GIB will be taken on the basis of the evidence, not the relative sophistication of presentations.
34. Particular points parties should keep in mind when approaching self assessment are:
 - Submissions should be no more than 25 pages in total including any annexes;
 - A simple electronic pdf document containing the relevant information is all that is required;
 - Publicly available sources of information should be used as far as possible;
 - Bespoke research and analysis should either be avoided altogether or kept to a minimum;
 - BIS is not seeking detailed, fully costed proposals or assessments of specific identified premises;
 - All submissions received will be published once the decision is announced;
 - Neither Ministers, officials nor members of the GIB Advisory Group will accept any requests for meetings or otherwise interact with interested parties on this matter during the self assessment period. If BIS requires any further information or clarification from parties, we will ask for it.

Section 5: Details of how to respond

35. Anyone wishing to provide information about the merits of a location should submit self assessments in accordance with the guidance in section 4 above by 17:00 on 30 January 2012.
36. Self assessments should be submitted by email to the following address:
GIBlocation@bis.gsi.gov.uk.
37. Submissions should include details of a person who can be contacted if necessary in relation to this process.
38. Any self assessments received will be reviewed by BIS in consultation with Odgers Berndtson (on recruitment issues) and the Government Property Unit (on property issues).
39. The Secretary of State will publish his decision, with accompanying reasons, in February.
40. All submissions received from interested parties will also be published.

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