



# **Government response to Environmental Audit Committee report “The Future of the Green Investment Bank”**

Presented to Parliament  
by the Secretary of State for Business, Innovation & Skills  
by Command of Her Majesty

February 2016

Printed in the UK on behalf of the Controller of Her Majesty's Stationery Office



© Crown copyright 2016

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit [nationalarchives.gov.uk/doc/open-government-licence/version/3](http://nationalarchives.gov.uk/doc/open-government-licence/version/3) or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk).

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at [www.gov.uk/government/publications](http://www.gov.uk/government/publications)

Any enquiries regarding this publication should be sent to us at:

Department for Business, Innovation and Skills  
1 Victoria Street  
London SW1H 0ET  
Tel: 020 7215 5000  
Email: [enquiries@bis.gsi.gov.uk](mailto:enquiries@bis.gsi.gov.uk)

Print ISBN 9781474127776  
Web ISBN 9781474127783

ID 28011601          02/16

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

# Contents

Introduction.....	4
The Government and GIB’s case for privatisation .....	6
Evidence, consultation and alternatives .....	9
Preserving GIB’s green identity .....	18
The proposed sale and the future.....	24
Conclusion.....	26
Annex: National Audit Office recommendations on asset sales .....	27

# Introduction

1. The Government welcomes the Committee's work examining our plans for moving UK Green Investment Bank plc (GIB) into private ownership. We have considered the Committee's recommendations and our responses are set out in this document.
2. While the Committee's report identifies some concerns, there is in fact a great deal of common ground on this issue from all sides: we agree GIB has been a great success since it was set up in 2012 and we want it to continue its important role of attracting much needed additional investment into green sectors.
3. The Government is satisfied that the best way to secure this outcome is to bring private ownership into GIB. Private capital is essential if GIB is to grow in line with its ambitious business plan and achieve its planned investment rate of around £800 million per year. GIB fully supports this move and is working closely with the Government on this.
4. The policy aim behind GIB has always been about getting the market to work on achieving our environmental goals, recognising that Government funding alone would not deliver the investment needed. It was always envisaged that GIB could move into private ownership in due course: it was designed with this in mind. GIB was set up specifically to be an independent company operating at arm's length from Government and free to make its own decisions about how best to achieve its mandate of mobilising additional investment into green sectors. It is GIB's proven track record and pre-eminent team that makes the company what it is, not Government ownership.
5. GIB's success in demonstrating that green investment can be a profitable business - not just the preserve of government - means we now have private investors interested in acquiring a stake in the company. There is strong market interest from large scale and long term institutional investors such as UK pension funds, financial institutions, infrastructure funds and sovereign wealth funds. It makes sense to take advantage of that interest and secure the benefits of private ownership as soon as practicable.

6. Making this change will give GIB access to much more capital than if it remained in Government hands and enable it to continue doing what it does best – investing in green projects on fully commercial terms. And it will further help to demonstrate that green investment can be a profitable business: part of the mainstream, not just the preserve of government. Private ownership will enable GIB to increase its scope to more green sectors and types of green project, release it from state aid constraints and Government controls, and allow it to have a bigger impact in green sectors while reducing the need for funding by the taxpayer.
7. The Government sees little benefit in delaying this wholly positive move. There is strong market interest in GIB and its business model is now established and proven. To delay would simply extend the period in which 100% Government funding of GIB's business is required and prolong the period of uncertainty over its long-term funding beyond the life of the current Parliament.
8. We fully expect GIB to continue to invest in accordance with its clearly stated green values and focus. Investors are interested precisely because of its unique green specialism - green investment is where GIB's commercial value lies. It would make no business sense for an investor to spend large sums of money investing in the bank to then turn it away from where its commercial value lies. Furthermore, in response to concerns expressed in Parliament, the Government intends to approve the creation of a special share in GIB with the right to approve any change to the green purposes of GIB.
9. The Committee's report sets out a number of points of concern that have been raised both in parliament and elsewhere. The Government welcomes the opportunity to address these and provide reassurance that our proposals for GIB represent the best way to secure its future and ensure it continues to play its important role in helping to increase the scale and pace of private investment in green sectors and meet the UK's environmental objectives. This response should be read alongside our [November 2015 policy statement](#) which sets out the background to the Government's proposals.
10. The Government remains committed to the ambitious carbon reduction targets in the Climate Change Act and to the agreement reached in Paris. GIB remains part of our market based solution to these challenges.

# The Government and GIB's case for privatisation

**We accept in principle that increasing the volume of capital available to the Bank could be positive for its operations. The ability to borrow will also be important for GIB in the future. Our predecessor Committee called repeatedly for GIB to be given borrowing powers while in public ownership. Nonetheless, these potential benefits do not amount to a case for privatisation. The Government needs to demonstrate how the privatisation of the Bank will contribute to the balance of public and private sector initiatives required to meet the ambitions of the Paris climate change agreement. Accordingly, we have not assessed the underlying case for privatisation. Rather, we have focussed our attention and recommendations on the process surrounding the decision, the actions required to ensure GIB's unique position in the green economy, and the Government's future involvement in the Bank.**

## The case for private ownership of GIB

11. The Government's [May 2011 update document](#) on the design of GIB made clear the company was being designed to operate as an investment bank, providing finance on fully commercial terms to achieve both green impact and strong profits. That document also made clear that GIB was being designed with a view to a possible transfer to the private sector in due course.
12. In line with this, and in accordance with the terms of its state aid approval which requires GIB to invest on the same terms as a private investor so as not to pass on state aid, GIB invests on fully commercial terms.

13. It is only by being successful and delivering strong commercial returns from such investments that GIB can achieve its primary purpose of demonstrating that green investment is good business, and attract the additional private capital needed. As GIB Chief Executive [Shaun Kingsbury told the Committee](#), private investors are interested in green investment with GIB because they believe they can get good risk-adjusted returns on their investment. GIB complements other Government measures aimed at promoting green investment and the development and deployment of green technologies by helping to prove to the wider market that such strong returns are possible.
14. As we have made clear, the Government wants to move GIB into private ownership so it can carry on doing what it does best – but funded by the private sector, rather than using public funds and free to borrow from the capital markets as necessary without this affecting public sector debt. We see no benefit in trying to restructure and redirect GIB so that it remains in the public sector and operates on an entirely different basis. Seeking to make GIB offer concessionary finance or change its risk appetite would reduce its ability to achieve its primary aims – demonstrating that you can be green and profitable, helping to make green investment mainstream.
15. There are other Government measures in place designed to help promote development of earlier stage green technology through venture capital and state aid approved concessionary finance. For example, British Business Bank operates three venture capital programmes and InnovateUK funds early stage technology development. As part of the recent Spending Review, it was announced that DECC will double its innovation program to £500 million over the next five years.
16. It makes sense to use these existing mechanisms to achieve policy goals in this space, rather than attempt to re-direct GIB to operate in it as well. GIB can be more effective in helping to achieve UK policy aims by continuing to operate as it currently does. It will be best able to continue doing this in private ownership.

17. GIB's management fully support the move into the private sector. They fully recognise that Government funding for GIB cannot continue indefinitely – it is a commercial company and it has to start raising its capital from the private sector. Now that GIB has proved itself a successful commercial investor and is making a profit, it is able to stand on its own. If there is no longer a need for Government to own the company, it makes sense to move it into the private hands. It is not the Government's business to own commercial enterprises unnecessarily.



# Evidence, consultation and alternatives

**We regret that the Government has taken the decision to privatise GIB without due transparency, publication of relevant evidence, consultation, and proper consideration of alternatives. The Government’s case could have been strengthened if it had provided evidence that this is the right time to privatise the Green Investment Bank. The absence of this, coupled with the Government’s reliance on its view that this is merely the “natural next step” for the Bank, is likely to lead to the suspicion that the move and its timing are not evidence-based policy.**

**We are disappointed that the Government appears not to have considered a wider range of options for recapitalising the GIB such as citizen finance and the European Fund for Strategic Investments. We are surprised that the Government has apparently undertaken little or no external consultation around the move, especially since the inception of GIB was marked by a laudably high degree of consultation.**

***Before proceeding with the sale of GIB, the Government must publish a robust businesses case and impact assessment in support of the decision to sell and the timing of the sale, in accordance with the “lessons” identified by the Comptroller and Auditor General of the National Audit Office from the sale of Eurostar. As part of these publications, the Government must also indicate whether the full range of options for the Bank’s future, including innovative recapitalisation options, were considered before the announcement of the intention to privatise - and if they were not, it must explain why.***

***The Government should evaluate whether a “phased approach” involving recapitalisation options such as the European Fund for Strategic Investments would be possible. This could allow for greater consultation, transparency and market testing on the form of any eventual privatisation***

## Transparency in the process

18. The Government disagrees with the Committee's suggestion that the Government has not engaged adequately on the case for moving GIB into private ownership to secure support for the proposals. We have been as transparent as possible about our plans for the future of GIB. We have engaged fully with Parliament and the Devolved Administrations on the proposals and have published a detailed statement of our policy and the reasoning behind it.
19. Having stated in the May 2011 policy document that GIB was being designed with a view to a possible transfer to the private sector in due course, the Government first announced it was taking forward work to explore options for bringing private capital into GIB in the [Autumn Statement 2013](#). It was subsequently confirmed in both the 2014 Autumn Statement and March 2015 Budget debate that work was progressing on this matter. It follows that people have had considerable time to raise any concerns they may have had about the merits of such a move.
20. By June 2015, work on examining the options with our advisers and the company had progressed to the point where the Secretary of State was able to set out firm proposals to move GIB into private ownership which he did in his [Written Ministerial Statement of 25 June 2015](#).
21. This announcement was followed up by substantial engagement with stakeholders and the media to explain the case for making this change and address concerns that may be raised about it. The majority of that engagement was undertaken by GIB management rather than the Government in view of its strong existing relationships with relevant stakeholders and interest groups. GIB and the Government have at all times been working closely together on this matter.
22. On 15 October 2015, the Secretary of State made a [further Written Ministerial Statement](#) in order to provide an update on work to implement the proposals. In particular, in the course of developing the proposals, it had become clear that to ensure GIB could be reclassified to the private sector following a sale, the specific statutory controls on GIB provided for in the Enterprise and Regulatory Reform Act 2013 would need to be removed. The Secretary of State explained that in view of this, the Government proposed to repeal the relevant legislation through the Enterprise Bill, currently before Parliament.

23. On 18 November 2015, the Government published a detailed [policy statement](#) on the future of GIB setting out the case for moving the company into private ownership and seeking to address a number of concerns that had been expressed about this. This policy statement was submitted to the Committee as written evidence for their inquiry.
24. Separately, the detailed case for the Government's proposals has been further set out in speeches, debates in Parliament and in a series of written and oral Parliamentary Questions. The detailed proposals are being examined thoroughly by Parliament in the context of the relevant clauses in the Enterprise Bill. Those provisions include the requirement to provide a report to Parliament setting out the Government's plans for a sale, and a further report after a sale, or any subsequent sale, has taken place. Both these reports must also be sent to Ministers in the Devolved Administrations.

### **Evidence base for moving GIB into the private sector**

25. The May 2011 update document on the design of GIB stated that "GIB will be initially owned by Government" and its governance model was being designed to allow for a possible eventual transfer into private ownership in due course.
26. Over the past two years the Government has explored the scope to achieve such a transfer, including extensive market testing. We are satisfied that a sale is now possible, and that this is likely to achieve value for money and deliver a number of significant benefits. We have sought to set out those benefits as fully as possible. As the Committee heard in its evidence sessions, GIB itself fully supports this move.
27. We see no practical benefit in any delay that will mean waiting to achieve the benefits of a sale: the opportunity to move the company into private ownership is available now. We have a strong company with high quality management team and robust portfolio of investments. We have strong interest in acquiring a stake in GIB from a range of large scale and long term institutional investors like pension funds, financial institutions, infrastructure funds and sovereign wealth funds. It makes sense to proceed to a sale now and achieve all the benefits that brings. Continuing to hold GIB in public ownership unnecessarily would simply hold it back & prevent it from achieving its ambitions, while meaning it must continue to rely on taxpayers' money to go about its business.

28. GIB can best contribute to UK green policy objectives by doing what it does best – achieving the demonstration effect and mobilising much needed private capital into green sectors. GIB will continue to perform that role in private ownership - getting more investment into green sectors that are relatively mature but nevertheless suffer from a lack of investment.
29. Moving GIB into the private sector is also the best way to secure GIB's future, giving it the freedom it needs to grow its business and borrow without affecting public sector debt. This means GIB will have access to a much larger pool of capital from a wider range of sources than if it remained in Government hands and will not be reliant on Government spending decisions. GIB will further achieve the demonstration effect by proving investment in green sectors is not just the preserve of government.
30. This is the right approach for GIB and will enable the company to have a bigger impact on total levels of green investment while minimising the need for Government investment.

## **Consideration of alternative approaches to recapitalisation of GIB**

31. The Committee asks the Government to consider a number of specific propositions, particularly some alternative propositions that were raised with the committee by E3G, which the Committee suggest could represent a credible alternative to the Government's proposals.
32. The Government is aware of the various suggestions put forward by E3G; we are grateful for their input and have considered the suggestions carefully. However it is clear that these would not achieve the key benefits of bringing private ownership into GIB.
33. Whilst reducing the need for Government funding is a relevant factor in moving GIB into private sector, the underlying policy objective continues to be about helping to get the private sector to make the large scale investment needed in green sectors if the UK is to meet its environmental targets and commitments. GIB's role as part of that market-based response is to help demonstrate that green investment can be part of the mainstream and is not dependent on Government funding, which will never be sufficient to meet the financing challenge.

34. Our position on the various specific propositions highlighted by the Committee is set out below.

### **European Fund for Strategic Investments**

The Government is aware of the €21 billion of European funding available under the European Fund for Strategic Investments (EFSI), and indeed, GIB is a member of the cross-Government group that is looking at how to make best use of the opportunities provided by the EFSI to increase investment in jobs and growth in the UK. However, this is primarily debt-focused at a time when GIB is increasingly investing equity into construction projects, and this facility could not be used for investing in GIB itself. The EFSI is used to invest alongside others in specific projects, as is GIB, with the aim of mobilising up to €300 billion of additional finance from the private sector. There is no reason why GIB could not invest alongside the EFSI, whether GIB is in public or private hands, as it seeks to gather the range of financing necessary to sponsor projects.

### **UK based institutional investors**

Interest in acquiring a stake in GIB is indeed likely to come from sophisticated, large scale and long term institutional investors such as UK pension funds as well as from sovereign wealth funds. GIB has already successfully attracted such investors into its managed fund for investment in Offshore Wind and other investments, many of whom are investing in green projects for the first time. Many institutional investors will not invest in individual projects and can only invest in companies. A sale of GIB therefore opens up a new pool of capital to invest in green infrastructure, including UK institutions such as private and local authority pension funds.

### **Citizen finance through green ISAs**

At present, GIB has insufficient track record for the retail market. Most of its portfolio is in relatively high risk construction projects that will not provide steady returns in the short term. More importantly, GIB's current focus is growth, for which it will need to make regular cash calls on investors, which would be hard to meet in the public markets. However there is no reason why a privatised GIB could not raise capital through green ISAs or other forms of citizen finance in the longer term.

### **Devolved Administrations shareholding**

The Government's policy is to move GIB into private ownership so it can be funded by private capital and hence reduce the need for public funding. We need to get GIB off Government's balance sheet so it can borrow and raise capital freely and achieve its ambitious plans for growth. Co-funding GIB with the Devolved Administrations would simply be another form of public sector funding when our aim is to increase private sector investment into green infrastructure.

### **Direct investment in GIB by the European Investment Bank**

The EIB's focus is on providing debt products rather than equity investment which is where GIB expects to concentrate. It is unlikely that the EIB would make an investment in GIB itself; it generally co-finances projects. However, GIB is already partnering with EIB as a co-investor (such as the recent Galloper offshore wind investment) and there is no reason it would not to continue doing so in future.

## **Publishing impact assessments**

35. The Committee recommends that the Government should publish an impact assessment in support of the decision to sell and timing of the sale. As we have indicated, the Government believes GIB can best contribute to UK green policy objectives by continuing to do what it does best – achieving the demonstration effect and mobilising much needed private capital into green sectors. GIB will continue to perform that role in private ownership and will better achieve the demonstration effect as it will be achieving this impact with private capital, further proving to the wider market that green investment is a commercially viable business and not just the preserve of government.
36. Many investors interested in acquiring a stake in GIB will not invest in individual green infrastructure projects - they will be investing in GIB in order to obtain a vehicle through which they can enter green sectors. Private ownership will, therefore, bring in significant new capital into green sectors from investors that would otherwise not have invested in this area. This minimises the need for taxpayers to finance such investment. This is exactly the policy impact GIB was designed to have and fits fully with our policy aim of getting the market to work on green policy challenges.

37. The Government has made it clear that any sale is subject to a value for money assessment. Value for money is more than just price – it encompasses a range of relevant factors. As there are no regulatory or significant cost impacts of a sale of GIB, or changes to pre-existing policy goals for GIB, a specific impact assessment has not been prepared.

## **Publishing the business case**

38. The Committee similarly recommends that the Government publish its business case on the proposals, in which it should set out what alternatives were considered. The Committee is also concerned that the Government should follow the “lessons” identified by the National Audit Office (NAO) in its report on the sale of Eurostar.
39. The Government is indeed following best practice to ensure a sale of GIB achieves value for money, including following the recommendations set out in the NAO report on the sale of Eurostar. [Annex A](#) sets out the NAO recommendations and the actions the Government is taking to meet them. We are also consulting with the NAO about the approach we are taking. The Government is satisfied that in taking forward a sale of shares in GIB, we are fully reflecting all the NAO recommendations on how to approach such asset sales
40. This approach includes preparing a full business case and undertaking a robust valuation process in consultation with our financial advisers. The business case itself contains commercially sensitive information and publishing it would be contrary to the Government’s interest of achieving best value from a sale. However, details of the objectives and the options examined in the business case are summarised below.
41. The Government’s objectives for a sale are to achieve value for money for the UK taxpayer and reclassification of GIB to the private sector. GIB continuing to deliver policy benefits by continuing to mobilise investment into the green economy is another government objective.
42. We will continue to assess whether we are achieving value for money for the taxpayer through all stages of this process.
43. Value for money is more than just price, encompassing a range of relevant factors covering both the quantifiable financial value of an option as well as policy impacts such as continuing to achieve the demonstration effect in relation to other investors and governments.

## Alternative options

44. The Government considered a number of options for GIB's future but none were deemed to be as effective in meeting the Government's objectives as our current proposals of moving GIB into majority private ownership. Alternative options included:

### **Recycling of funds**

This would force GIB to sell investments to fund future investments and is therefore sub optimal. GIB would be required to sell at the wrong time, and could have difficulties in finding a buyer. This option was not therefore considered value for money, nor a practical option.

### **Sourcing capital through a third party fund management approach**

GIB has demonstrated that it has the ability to source third party institutional capital through its managed Offshore Wind Fund and it may go on to raise further funds in new sectors and asset classes. However, the investors that typically invest through this type of fund structure are different from those direct investors which would invest in GIB as a going concern corporate – e.g. a fund has a finite life at the end of which all the capital is returned to the investor and the fund is closed. In addition, typically a fund approach would take longer with numerous smaller scale investors and is unlikely to raise the required amount of capital in time to meet GIB's funding needs. Thus the option to privatise as a direct sale is opening up a different set of investors which better suit GIB's long term requirements.

### **Continued Government funding**

GIB was established to demonstrate that investing in green could be a profitable business and encourage the market to increasingly view green investment as mainstream, not the sole preserve of Government. Furthermore, retaining GIB in public ownership would prevent Government from reducing the burden on the taxpayer, whilst allowing GIB to increase the scale of its investment by allowing it to access the capital markets. This option did not therefore meet our objectives of value for money for the taxpayer.



45. The Government does not consider that there is any benefit in the Committee's proposed "phased approach" to bringing private capital into GIB. Investors are not likely to be attracted to commit finance to a company that remains under majority Government ownership and control. Majority Government ownership would mean GIB would remain on the Government's balance sheet, meaning we would fail to achieve a number of the key benefits from a sale, such as giving GIB the freedom to borrow and raise the capital it needs to fund its ambitious forward business plan without affecting public debt, and releasing GIB from state aid constraints.

# Preserving GIB's green identity

The ongoing protection of GIB's green identity should be regarded as the most important objective for any sale. While we are convinced of the present management's commitment to the green identity of GIB, we do not believe that the Government's proposed protections are sufficient to ensure GIB's green purposes in the long term. Consequently, we support attempts to find a stronger mechanism. However, the risk to GIB's unique identity cannot be eliminated simply by protecting the green purposes as they stand, and this should not be seen as a panacea. A privatised GIB could still gradually move its focus away from novel and complex projects which struggle to find funding, in favour of easier and less complex projects. In doing so, it would lose its crucial role of offering leadership in emerging green markets. Even strict adherence to the Bank's green purposes could not rule out this risk. This concern is exacerbated by the probable removal of State Aid restrictions requiring additionality in GIB's investments.

Furthermore, we are concerned that a privatised GIB would be free to invest in questionably green sectors such as fracking and energy-efficient coal while adhering to its green purposes. Whether or not one believes that fracking should be considered green, such projects are not in line with a Green Investment Bank focused on "taking on the more difficult infrastructure projects, de-risking new sectors and helping to lower the cost of capital for green projects," as the Bank describes themselves

If GIB can invest in such projects, this could pose a risk not only to the green economy, but also to the reputation of the Bank. We were surprised by the Minister's apparent support for a privatised GIB's freedom to invest in fracking.

*The Government must implement stronger protections for the green purposes of GIB than those set out in its policy paper. We recommend that the Government adopt a plan to establish a special share, owned in a way which does not prevent re-classification to the private sector, to protect the green purposes. If the protection of the green purposes cannot be ensured then the sale should not go ahead.*

***However, in order to ensure that GIB retains its unique role in the UK's green economy, the Government must also strengthen the green purposes of the Bank. For instance, in establishing a special share, owned in a way that does not compromise re-classification to the private sector, to ensure the longevity of the green purposes, the Government should investigate defining the share's purpose in a way that addresses this problem. The Government should examine and report on the possibility of including under the share's protection: (a) a nominated set of priority sectors, which would be much wider than that allowed under the State Aid rules and could establish GIB's focus on specific Sustainable Development Goals in which the UK already excels, such as Affordable and Clean Energy, Industry Innovation and Infrastructure, and Responsible Consumption and Production; and (b) an explicit statement of GIB's focus on projects which lack sufficient funding. If such protections via the special share are not practicable, the Government must say how it intends, through the sale, to preclude the possibility of "mission creep" even if the green purposes are protected.***

***We welcome the Government's assurance that it will ask bidders to agree to continue GIB's standards of green reporting. This should conform to UN sustainability reporting standards in being high-frequency, outcome-focused and science-based. This Committee will be keen to hear from GIB on an annual basis on its green purposes and investments.***

## **Special share and stronger protection of the green purposes**

46. The Committee recommends that the Government should protect GIB's green purposes by establishing a special share, which it suggests could be designed in a way that provides for considerably broader controls over GIB (and not just over its green objective) than are presently in place – requiring the company to invest in priority sectors and to focus on projects which lack sufficient funding. The Committee suggests this should be achieved while still meeting the Government's objective of enabling GIB to be reclassified to the private sector.
47. The proposition that the Government could impose binding requirements and restrictions of this kind on the company without this resulting in it continuing to be classified as a public sector body is evidently wrong.

48. The Government has made clear that we have tested thoroughly with the Office for National Statistics (ONS) the types of state control which would keep GIB classified to the public sector and on the Government's balance sheet. Our November 2015 policy document set out the helpful engagement we have had with ONS in understanding how the European classification regulations would apply in the case of GIB, following a sale. The applicable regulations that ONS draw on in reaching its decisions are publicly available. They are set out principally in the European System of Accounts 2010 (ESA 2010) and supplemented by guidance in the accompanying "Manual on government deficit and debt" (MGDD).
49. Paragraphs 1.2.11–1.2.14 of MGDD sets out how Government control is determined, explaining that control over an entity is defined in ESA 2010 as "the ability to determine the general policy or programme of that entity". If Government has a right of veto over appointments or a "last say" as regards key policy decisions, either is likely to be sufficient alone to represent control. Control could also be established through the presence of a combination of other indicators including specific provisions in statute and excessive regulation. Government imposing similar constraints that are left behind after a sale (e.g. by putting conditions in to the transaction process that will result in legacy controls post-sale) are viewed similarly by the ONS.
50. In making an assessment of GIB's status following a sale, ONS will look at the indicators of government control as set out in European regulation, including any legislation specific to the organisation and any other special rights the public sector has which would similarly have the result of enabling the Government to exert control over the organisation (e.g. special shareholder rights or vetoes that exercise "excessive regulation", etc.). The guidance states that a single indicator, such as "provisions in statute" may be sufficient to indicate control.
51. It is important to understand that it is not the form of the control, but its effect, which is the key issue. It is very clear that any specific Government control over GIB that was enshrined in legislation, including special shares, would represent continued state control over GIB and will prevent GIB from being re-classified to the private sector.

52. The Government has, however, explored with ONS whether a special share arrangement that provided the desired protection of GIB's green values could be put in place on a non-legislative basis without this amounting to continued state control over GIB and preventing the company's re-classification to the private sector. We are doing this in response to concerns expressed in Parliament, not because we think such an arrangement is necessary or preferable.
53. The Government intends, as part of the sale process, to approve the creation of a special share in GIB, with the right to approve any change to the green purposes of GIB, as set out in the objects clause of GIB's Articles of Association. The special share will be held by a separate company, independent of both GIB and Government, created specifically to hold this special share. The Government will provide further detail on this arrangement as part of our reporting on the sale process at the appropriate time.

### **In the absence of such firm controls, Government should explain how it will prevent GIB from moving into non green sectors**

54. While the Government intends to put in place the arrangements detailed above, it remains our position that these measures are not necessary, because investors in GIB will have sound commercial reasons to maintain the company's clear focus on green investment and its robust green values and principles. Green investment is what GIB does and is where its value lies.
55. It is clear that potential investors are interested in GIB precisely because of its unique green specialism. They will be buying into the company's existing forward business plan and pipeline of green projects which demonstrates exactly how GIB expects to generate returns for investors. They will be seeking to acquire the reputational benefits that arise from owning a company with GIB's clearly stated green principles and highly transparent and robust green reporting practices.

56. As a key part of any sale discussions, the Government will be asking potential investors to confirm their commitment to GIB's green values and investment principles and to set out how they propose to protect them. We envisage this would involve new shareholders agreeing to ensure GIB continues to invest in a way that achieves a positive green impact, and to maintain GIB's existing standards for reporting on its green investment performance and provide independent assurance of this.
57. The precise form of commitments cannot be specified in advance. We need the flexibility to explore the matter fully with investors, as part of a transaction process.

### **What is to prevent a privately owned GIB from investing in questionably green projects?**

58. The Committee recommends that the Government **strengthen** the green purposes of GIB, suggesting that GIB's current green purposes are sufficiently broad to encompass investment in projects that may be deemed controversial or insufficiently green, and seeking assurance that once in the private sector, GIB will somehow be required to stay within a more narrow range of sectors. As explained above, it is not possible for Government to place such controls over GIB while achieving our aim of reclassifying the company to the private sector.
59. However, GIB's business plan does make clear exactly the established green sectors it will operate in over the coming years and the type of green projects it will invest in. The business plan makes no mention of a move into novel sectors that may be deemed controversial. GIB does not necessarily have the relevant skill set for some of those other non-green sectors.
60. There are plenty of other alternative investments investors could make if they were interested in the type of sectors the Committee mentions. Investors interested in GIB will incur significant costs on due diligence of GIB's green business plan and specialist green investment team. They would not be doing that if they were not looking to invest specifically in a specialist in the green sectors in which GIB operates.

## **Will GIB no longer invest in more novel and complex projects and be additional?**

61. As indicated above and at paragraphs 31 – 36 of our November 2015 policy statement, GIB's primary aim is to mobilise additional private capital into green sectors. To achieve this, it invests on fully commercial terms in green sectors that are investment ready and relatively established but still suffer from under-investment.
62. While it is innovative in its approach to getting projects financed, it necessarily invests in projects that are capable of attracting additional private sector investment. That approach generally involves projects that make use of relatively well established technologies rather than earlier stage novel technologies.
63. The Government continues to believe this is the right role for GIB and is how it can most effectively contribute to the achievement of UK green policy objectives. Once in private ownership, we expect GIB to continue investing in the same way it does now. As indicated earlier in this response, there are other Government measures in place aimed at promoting development of more novel, early stage technologies.
64. As to GIB continuing to be additional, there are sound commercial reasons why GIB may be expected to continue investing in projects that other mainstream finance providers might not consider. A key part of the company's strategic approach is to invest successfully where others may not see opportunities. GIB uses its green specialism to properly assess risks and identify attractive commercial opportunities in green projects where other investors might not have the necessary capabilities or willingness to explore fully and undertake the necessary due diligence.
65. This is where GIB's particular commercial value lies and how it makes its money. Investors are interested in GIB specifically because of this capability to make good returns from more challenging projects and stay one step ahead of mainstream investors, who tend to invest in more developed (and therefore competitive) markets, with lower returns. Investors in GIB will be buying into the company's specialist sector investment teams and its forward business plan which clearly identifies the green sectors in which GIB expects to operate over the coming years. There is no reason to believe they would wish to change GIB's strategic approach.

# The proposed sale and the future

The Government is right to look for a good deal for the taxpayer if GIB is sold. However, both the price obtained and the form of the sale have consequences for the taxpayer. The wrong kind of sale could undermine GIB's future growth and role in the green economy and prove more costly to the taxpayer in the long term. We welcome the Minister's assurance that the Government intends to sell GIB as a going concern. *If the Government goes ahead with plans to sell GIB, it must abide by its aim to sell it as a going concern, in a way that allows it to grow and flourish in the long-term, and with a view to maximising the strength of the green economy.*

The Government's intention to exit entirely from GIB could send the wrong signals about the Government's commitment to the green economy. We are surprised that the Government's position on this matter was not previously made clear and only specified by the Minister in oral evidence.

*If GIB is privatised, then the Government must retain a minority in stake in order to ensure the Bank's long-term strength and to demonstrate the Government's commitment to the green economy. Any future sale of Government shares in GIB must be preceded by a period of consultation and evidence-gathering, and accompanied by a report on the success and impact of the initial majority sale.*

## Size of stake to be sold

66. The Government has made clear that we intend to sell GIB as a going concern and that we want it to continue operating as it does now, only in private ownership. We have also made clear that we intend to sell a majority stake in GIB and explained that this is necessary to achieve one of our key objectives from a sale: that GIB can be re-classified to the private sector.
67. We do not agree that a continued Government shareholding in GIB is essential to GIB's future success, such that retaining a minority stake should be a matter of policy. Decisions on the size of stake to be sold will depend on the outcome of commercial discussions with investors and will be driven by what is in the best interest of the taxpayer. In this context, sale of 100% of the company is an option we will consider.



68. The Government will provide a report to Parliament on our plans before a sale, and will make further reports after the sale has taken place, and any subsequent sales should Government initially retain a minority stake in GIB, setting out the details.

# Conclusion

69. The Government's policy is to get the market working on climate change. Government funding alone will not provide for the level of investment needed if we are to achieve our goals.
70. GIB's success means we now have private investors interested in acquiring a stake in the company. They are interested in GIB precisely because of its green specialism and will see value in protecting its green values and investment principles. The special share arrangements which the Government intends to put in place will also ensure GIB's green objects remain established in its Articles of Association.
71. In private hands, GIB will continue doing what it does now and further demonstrate green investment is not just the preserve of Government. The company will have access to a much larger pool of capital from a wider range of sources, will be free of European Commission state aid controls and will no longer be reliant on Government spending decisions to secure its funding. This is the right approach and the best way to secure GIB's future. And it has the full backing of GIB's management team.
72. To achieve the benefits of private ownership, we must release GIB from state controls, not impose even more substantive constraints on the company. A sale of GIB that involved the sort of state controls the Committee envisages would mean GIB remained classified to the public sector even if the Government no longer held any shares in the company. The Government would not proceed with a sale on such a basis.
73. The UK led the world in the establishment of GIB. We are at the vanguard again by moving GIB into the private sector having proved its green business plan represents a sound commercial proposition.

# Annex: National Audit Office recommendations on asset sales

The National Audit Office's (NAO) report on the sale of the Government's shares in Eurostar made a number of recommendations on future asset sales by Government. The NAO recommendations and the Government's actions in meeting these in relation to a sale of shares in GIB, are set out below.

Recommendation	Government Actions
<b>Sale preparation</b>	
<p><b>Consider how they can encourage the widest possible number of credible bidders for all assets they are selling</b></p>	<p>Government, GIB, and their respective advisers have met a significant number of potential investors, and types of investors, over the last 12-18 months, to assess and encourage market interest.</p>
<p><b>Give due prominence, in business cases for asset sales, to the relationship between the timing of the sale and the marketability to investors (including a consideration of the track record and future prospects)</b></p>	<p>Government agrees with the importance of this recommendation and is accordingly maintaining a watching brief on the levels of demand in the market. Demand is currently high due to the market and GIB's successful track record over the last three years. Government's preparation to date is allowing it to move quickly to respond to such demand.</p>
<b>Sale process</b>	
<p><b>Use sale processes that exhibit the right balance of rigour and discipline, but sufficient flexibility</b></p>	<p>Government intends to conduct a sale process over two rounds, with preliminary bids being assessed in round one before taking the more favourable bidders through to a more detailed process in round two. Using our advisers and the Shareholder Executive, Government will rigorously assess investor proposals whilst maintaining a degree of flexibility to accommodate differences in their proposals.</p>

Recommendation	Government Actions
<p><b>Ensure deal teams contain the right balance of internal staff and external advisers. Where external advisers are appointed, continue to place downward pressure on all costs, while acknowledging that the lowest price will not always provide best value</b></p>	<p>The deal is being led by the Shareholder Executive, with support from Bank of America Merrill Lynch (BAML) and Herbert Smith Freehills, both of whom were appointed using a competitive process. GIB and their advisers (UBS and Slaughter and May) are also providing significant and closely coordinated support.</p>
<p><b>Valuation</b></p>	
<p><b>Apply a range of valuation methods, and use market-based assumptions, as a rigorous cross-check alongside the Green Book methodology to ensure that ‘hold’ valuations are informed by the prices that may be achieved in competitive and negotiated deals in the prevailing market conditions</b></p>	<p>Our advisers BAML have provided a number of valuations for the company and the Government’s business case has considered a number of options, including the “hold” scenario, as part of value for money considerations. Government intends to use competitive tension to achieve a good price for our shares in GIB, which will be helped by the current strong demand in the market.</p>
<p><b>Consider whether the additional assurance on valuation that may be provided by an independent valuation expert would be strengthened if this expert had no prior knowledge of existing valuations</b></p>	<p>Our advisers BAML, the Shareholder Executive’s own experience, and the use of competitive tension during the transaction process will provide significant assurance over the valuation of GIB. Government is keenly aware of its obligations to achieve appropriate value for money and the likelihood of external assessment of the transaction after it has been completed, and will consider any additional assurance in due course should it prove necessary.</p>

ISBN 978-1-4741-2777-6



9 781474 127776